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Research Report

SME taxation in Europe: An empirical study of applied corporate income taxation for SMEs compared to large enterprises. CIP Programme 186/PP/ENT/CIP/12/F/S01C24

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Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

CIP Programme 186/PP/ENT/CIP/12/F/S01C24

Written by Valdani Vicari & Associati SRL
May – 2015

CIP PROGRAMME

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Annex 1

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– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Glossary

CIP Programme 186/PP/ENT/CIP/12/F/S01C24

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Annex 1

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1 GLOSSARY

ACE: Allowance for Corporate Equity

AG: Aktiengesellschaft. German corporation limited by shares

BGN: Bulgarian Lev

CAD: Canadian dollar

CBIT: Corporate Business Income Tax

CCPC: Canadian-Controlled Private Corporation

CEF: Confederation Fiscale Europeenne

CEO: Chief Executive Officer

CET: Contribution Economique Territoriale

CFE: Contribution Foncière des Entreprises

CIT: Corporate Income Tax

CNY: Renminbi Yuan

Corporation:
a legal entity that is separate and distinct from its owners who are subject to limited liability, i.e. they participate in the profits through dividends and/or appreciation of their stock but are not held personally liable for the company's debts.

CVAE: Contribution sur la Valeur Ajoutée des Entreprises

EATR, Effective Average Tax Rate (Devereux-Griffith):
effective tax burden on a profitable investment

EBIT: Earnings Before Interest, Tax.

EBITDA: Earnings Before Interest, Tax, Depreciation, Amortization.

EBT: Earnings Before Tax.

EEA: European Economic Area

EFAA: European Federation of Accountants and Auditors

Effective tax burden (European Tax Analyzer):
the difference between pre-tax and post-tax values of a corporation after a specified period of time. The effective tax burden is a multi-period measure to assure that effects that only arise in the long term are considered as well.

Effective tax rate:
the ratio of tax liability divided by pre-tax income.

EFTA: European Free Trade Association

Equity threshold:
maximum amount of equity allowed in order to be eligible for a tax incentive, i.e. only if the equity of a corporation is below the value, it can apply the incentive.

EU: European Union

EUR: Euro

EVCA: European Venture Capital Association

Exemption method:
Foreign source income is tax exempt. If the exemption method is applied this means that the tax burden on foreign dividends at the level of the domestic parent corporation in principle equals the taxes paid by the foreign subsidiary on the underlying profits (if withholding taxes on dividends are disregarded). It does not matter where the parent is located as long as it is located in an exemption country. See Russo (2007) for more detailed explanations.

FEE: Federation of European accountants

GBP: British Pound

GmbH: Gesellschaft mit beschränkter Haftung. German limited liability company.

HNTE: High and New Technology Enterprise in Czech Republic.

IAE: Impuesto sobre Actividades Economicas. Spanish tax on business activities.

IFAC: International Federation of Accountants

Income threshold:
maximum amount of income allowed in order to be eligible for a tax incentive, i.e. only if the income of a corporation is below the value, it can apply the incentive.

IP: Intellectual property

IRAP: Imposta Regionale sulle Attività Produttive. Italian regional tax on all business activities

IT: Information Technology

KATA: Small taxpayers' itemized lump sum tax in Hungary.

KIVA: Small business tax in Hungary

LLC: Limited Liability Company

Loss carry-back:
amount of current year's losses that can be deducted from previous years' profits to reduce past tax bases, i.e. leads to a tax reimbursement due to retroactive tax reductions for previous years.

Loss carry-forward:
amount of previous or current year's losses that can be deducted from future years' profits to reduce future tax bases.

LSE: Large-sized enterprise

LTL: Lithuanian Litas

M&A: Merger and Acquisitions

Notional interest:
fictitious interest on equity capital. The deduction of such notional interest for tax purposes aims at reducing the tax advantage of debt relating to the deductibility of interest payments.

NV: Naamloze vennootschap. Public company in the Netherlands.

OECD: Organisation for Economic Co-operation and Development

PE: Private Equity

PIT: Personal Income Tax

PLC: Public Limited Company

PLN: Polish Zloty

R&D: Research and Development

SA: Société Anonyme

SARL: Société à responsabilité limitée.

SBA: Small Business Act

SME: Small and medium-sized enterprise

SPRL: Société de Personnes à Responsabilité Limitée

Tax base: amount of taxable income in a year, i.e. the basis of the computation of the tax liability.

Tax burden:
total amount of taxes paid by a corporation in a certain period.

Tax code: a country's set of rules governing the determination of the tax liability.

Tax credit:
an allowable deduction that can be subtracted from the tax liability. The amount of the credit usually depends on the level of certain expenses and/or investments during the year.

Tax deduction:
an allowable deduction reduces the taxable income and can be subtracted from the tax base. The amount of the deduction usually depends on the level of certain expenses and/or investments during the year.

Tax liability:
the amount of tax due. It is determined by computing the product of tax base and tax rate.

Tax rate: percentage figure by which the tax base is multiplied to arrive at the tax liability.

TAX: Income tax

Tax: payments (ongoing or singular) imposed by a public body for the primary purpose of generating revenue.

USD: The United States Dollar

VAT: Value added tax

WBSO: Wet Bevordering Speur- en Ontwikkelingswerk. Ducth R&D tax credit

WHT: Withholding tax

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Additionally, the following websites were used:

www.eip.com/downloads/eip_patent_box_2011.pdf

www.eip.com/downloads/TAX_patentbox_feb12.pdf

english.rvo.nl/subsidies-programmes/wbso-rd-tax-credit-and-rda-research-and-development-allowance

www.entreprises.cci-paris-idf.fr/web/reglementation/creation-entreprise/fiscalite-entreprise

www.eugo.gov.hu/doing-business-hungary/taxation

www.gov.uk/government/policies/making-corporate-taxes-more-competitive/supporting-pages/innovation-and-investment

www.investinflanders.be/EN/Sector/ICT/chapter/Setting-up-your-business/page/Business-incentives

www.irs.gov/publications/p946/ch02.html

www.luxembourg.public.lu/fr/investir/propriete-intellectuelle/index.html

www.oecd.org/tax/tax-policy/tax-database.htm

www.pkf.com/media/1954368/finland%20pkf%20tax%20guide%202013.pdf

www.srlaccountants.nl/english/services/tax/corporate%20tax.html

3 OVERVIEW OF DATA COLLECTION METHODOLOGY AND QUALITY ASSURANCE

From a methodological point of view, this study was composed of several key data collection strands. These are:

1. Desk research to feed into the analysis of SME-specific provisions and R&D incentives in national tax codes
2. Desk research to feed into the financial ratio analysis
3. Desk research to feed into the case studies
4. An interview programme to collect primary information from companies
5. An online survey to collect primary information from tax advisers

This section describes the methodology for each of these in turn.

3.1 Desk research to feed into the analysis of SME-specific provisions and R&D incentives in national tax codes

As set out in section 5 and annex 10.5 of the final report, the qualitative analysis of SME-specific provisions and R&D incentives in national tax codes covers 25 countries. Moreover, the report informs about other tax provisions that might benefit or discriminate against SMEs in particular. The research covers the following 20 Member States:

Austria	Estonia	Greece	Luxembourg	Spain
Belgium	Finland	Ireland	Poland	Sweden
Bulgaria	France	Italy	Romania	The Netherlands
Croatia	Germany	Lithuania	Slovenia	The United Kingdom

In addition, the following 5 Non-Member States are covered:

Canada	China	Japan	Switzerland	USA

The information has been gathered from various sources. Comprehensive country analyses provided by the international bureau of fiscal documentation (IBFD) were the basic research tool. These analyses are annually updated by local tax experts and provide a high degree of reliability. In addition to that, the ZEW possesses an extensive data base on national tax codes in Europe from numerous previous studies. If necessary, further country-specific sources were drawn upon (e.g. National tax codes, government announcements, scientific and practitioners' journals).

In terms of quality assurance ZEW additionally keeps a network of local tax experts - in cooperation with PricewaterhouseCoopers (PwC) - who regularly deliver updates on recent changes in tax laws in all Member States and confirm or correct information which has been collected by ZEW. With respect to the study at hand, the tax information has additionally been cross-checked during

different stages of the study. Firstly, the gathered information was presented in September 2013 in a progress report to the expert group of Member State representatives created by the European Commission. Comments made by the tax experts on the gathered information were taken into account. In a next step, the information was implemented into the tax models by different researchers at which instance we cross-checked the tax information again. These results were presented in June 2014 in a second progress report to the expert group and the European Commission. Again, feedback from the national experts has then been incorporated**.**

10.3.1 Desk research to feed into the financial ratio analysis

As set out in section 4 of the final report, the Financial Ratio analysis is focused on a number of key tax and structural ratios for companies across Europe. The analysis covers 20 Member States:

Austria	Estonia	Greece	Luxembourg	Spain
Belgium	Finland	Ireland	Poland	Sweden
Bulgaria	France	Italy	Romania	The Netherlands
Croatia	Germany	Lithuania	Slovenia	The United Kingdom

The ratios evaluated in this report are:

- TAX over EBITDA;
- TAX over EBIT;
- TAX over EBT;
- Cash ratio;
- Quick ratio;
- Debt ratio.

Furthermore, the study focuses on five economic sectors:

- Commerce;
- Construction;
- Manufacturing;
- Hotels & restaurants;
- Energy.

The analysis is based on an extraction from the Amadeus database produced by Bureau Van Dijk, which provides updated information on the financial statements of almost 19m enterprises. The dataset[1] covers 5 years of data from the Amadeus database (2009-2013) and it includes nearly 4m observations, corresponding to enterprises operating between 2009 and 2013.

[1] The final dataset is not included in the report and in Annex 1 due to the confidential nature of the information

The Data were extracted from Amadeus and transferred into an Excel format for analysis following the adjustments described above.

Following extraction and to ensure reliable results and to reduce the impact of outliers, a number of observations were dropped from the dataset. In particular the final dataset does not include:

- Observations with a negative debt ratio, negative value of total assets or negative total liabilities.
- Observations where tax over EBT is negative.

The dataset was also adjusted for outliers. Values above the 75th percentile + 1.5 times the absolute value of the interquartile range within their group OR values lower than the 25th percentile - 1.5 times the absolute value of the interquartile range within their group are considered outliers. Adjusting for outliers reduces bias in reporting average results across different groups of observations.

In terms of quality assurance, the downloaded data were cross-checked by ZEW and VVA research team members and a number of internal meetings were held (by telephone) to discuss specific data points. In addition, the entire extraction process was repeated twice times over the course of the project to ensure that any corrections and updates to the data are fully taken into account. These updates account for slight differences in results between the progress report (submitted in December 2013) and the final report (this report).

Preliminary results were presented in September 2013 in a progress report to the expert group of Member State representatives created by the European Commission and comments on this preliminary analysis were taken into account in the final analysis presented to the same expert group in November 2014. At the September 2013 progress meeting country handouts with a summary of results per country were provided to each delegate to facilitate comments and feedback from the national experts. The present report includes the revised version of the ratio analysis presented to the expert group in 2014 and which takes into account any comments received at this stage.

3.2 Desk research to feed into the case studies

In addition to the financial ratio desk research, the research team also conducted a literature search, the results of which were written up in a set of 10 case study reports which ultimately fed into the final report. The case studies included the following topics agreed with the Commission and presented to the expert group for validation in the expert meeting in September 2013:

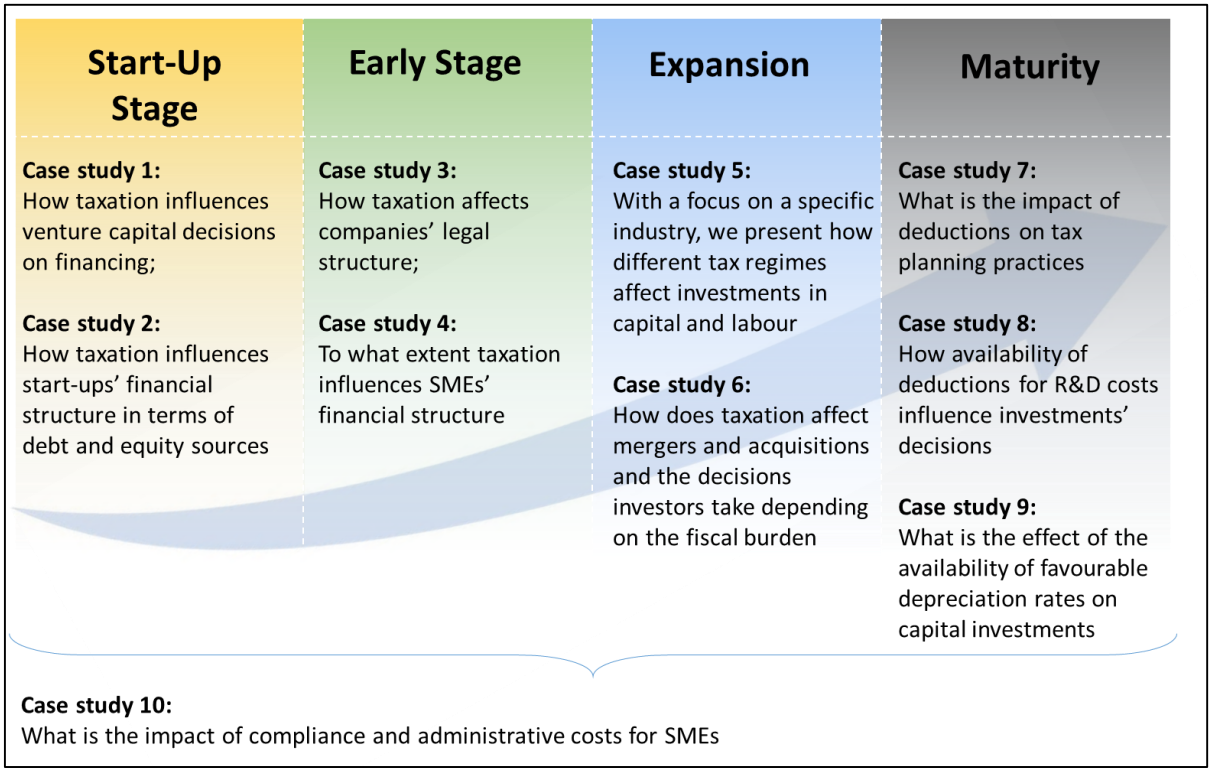


Figure 3.1 Case study topics

While each case study focused on particular countries, the nature of the available literature led to a cross-country coverage in most of the cases. However, specific results of the desk research were provided for a set of focus countries for each case study for which brief country profiles were included in the case study reports (see separate annex). Given its relevance in all Member States, the case study on administrative burdens of CIT compliance has country profiles for all 20 countries covered by the study. The focus countries were agreed with the Commission in the inception phase of the project.

The desk research covered both academic / scientific and grey literature and it was carried out in three stages:

1. Consultation of our in-house experts to collect initial documentation and define search terms. Searches were carried out using electronic databases that are publicly available as well as electronic library collections.
2. Web-scan of international and European organisations including the Commission, OECD, Business Europe, UEAPME, trade associations and others. The focus of this search was to gather documents covering a number of the case study countries.
3. Web-scan of national authorities and national organisations in the case study countries including ministries of economics and finance, business, enterprise and industry. Information collected through this channel was used to develop the country profiles in each case study report

In terms of quality assurance, the results of the above desk research were written up by the research team in the case study report template. This was then reviewed internally by the project manager with written comments provided to the research team. As soon as comments had been addressed by the research team, this was then cross checked by the project manager before submission to the European Commission.

To ensure that case studies correspond to the objectives of the Commission and contribute to the project, a pilot case study was carried out in 2013 and submitted to the Commission together with the interim report. Comments on this pilot case study were taken into account in developing the remaining cases studies.

Interview programme

Over the course of the study, an extensive interview programme was carried out. The following tables summarises the number of interviews conducted. Write-ups of all company interviews are provided in a separate annex. However it should be noted that names of individual companies interviewed as part of the research cannot be made public for confidentiality reasons.

Table 3.1. Breakdown of interviews by country

Country	Number of interviews
Austria	9
Belgium	13
Bulgaria	1
Estonia	3
Finland	3
France	5
Germany	12
Ireland	8
Italy	5
Lithuania	1
Luxembourg	7
Netherlands	5
Poland	3
Romania	6
Slovenia	3
Spain	6
UK	5
Total	**95**

Table 3.2 Breakdown of interviews by company size

Size	Number of interviews
Micro	16
Small	40
Medium	33
Large	6
Total	**95**

Table 3.3 reports the questions asked during the interviews. Interviewers have adapted their questions to the specific interviewee, aiming at obtaining the highest quality information possible. The questions were designed in English, but the language of each specific interview was adapted based on the requirements of the interviewee.

Table 3.3 Questions used during the case studies interviews

List of interview questions
What are the main industries in which you operate?
What is the size of your enterprise in terms of number of employees?
What is the annual turnover of your enterprise?
What financing mix has your company chosen during the start-up phase?
Are you aware of any favourable tax schemes to support companies like yours?
Do you think that the level of capital raised by your company has been affected by the presence of such schemes?
Have these affected your preferences between debt and equity?
Are you aware of tax incentives for venture capitalists and business angels who want to invest in an enterprise like yours?
If yes, have such incentives impacted the financial sustainability of your enterprise in a significant way?If you had to take on scale, would eligibility for preferential CIT rates be a criterion for setting your growth targets?
Do you believe that deductions and allowance schemes play a role in determining the financial structure of your company? If so, how?What aspect of corporate taxation should be prioritises at the nat
When started up your company, did you consider locating in any other member state as a result of this?
Do you believe that your sector would benefit from any particular tax incentives or deductions?
Do you believe that differences in CIT across the EU affect the competitiveness of your enterprise? If so, how?
Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?
What type of taxation policies would best ease the liquidity constraints that enterprises like yours face?

Do you feel that the sector in which your company operates is subject to any particular favourable or unfavourable tax schemes?
If so, have these ever affected your investment decisions?
Do you think that the benefits of the policies you envisaged in would outweigh the administration costs of managing them?
If yes, what policies do you suggest to lower the costs of administering tax payments?
In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?
Does your company have any experience in using special start-up provisions in corporate income tax?
When you started up your company, did you consider locating in another member state due to better corporate income tax rates?
Do you believe that differences in CIT across the EU affect the competitiveness of your enterprise? If yes, in what way?
Do you feel that, within your sector, preferential tax rates give you a competitive edge compared to larger enterprises?
If you had to take on scale, would eligibility for preferential CIT rates be a criterion for setting your growth targets?
What aspect of corporate taxation should be prioritises at the national level? What policies would you recommend?
Do you feel that the sector in which your company operates is subject to any particularly favourable or unfavourable tax schemes?
Is yes, has this ever affected your investment decisions?
Do you think that the benefits of tax policy reforms you envisaged would outweigh the administration costs of managing them?
Do you have any policy recommendations to make on corporate income tax-related practices?
What have been the main determinants of your decision concerning the legal form of your enterprise?
Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?
Have these affected your preferences between establishing a company and a partnership?
What role has the CIT had on your decision to choose the present legal entity?
Do you believe that deductions and allowance schemes have played a role in determining the legal structure of your company? If so, how?
Do you believe that country specific differences in the range of legal entities that the CIT is imposed on affect the competitiveness of your enterprise? If yes, in what way?
What modification in the legal set up of your country would best ease the liquidity constraints of enterprises like yours?
Do you feel that the sector in which your company operates is subject to any particularly complex procedure for registering a company?
Is yes, has this ever affected your decisions to establish a company?
Do you believe that your sector would benefit from any particular policy affecting the range/type of legal forms available for entrepreneurs?

Could you provide an estimate of the time and monetary costs of tax compliance?
Do you think that the benefits of the favourable policies you envisaged would increase administration costs by affecting legal complexity?
If yes, what policies do you suggest to lower the costs associated with choosing the legal form?
In your opinion, what should the top three priorities be for policies addressing company registration procedures at the European level?
Are you aware of any government taxation policies to support companies like yours?
Is your enterprise currently benefitting from any favourable tax schemes?
In the past, have such schemes affected your preferences between increasing the equity base or requesting a bank loan?
What role has the CIT had on your financing decisions?
Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?
Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?
Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?
What financing related policy do you think can successfully ease the liquidity constraints of enterprises like yours?
Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?
Do you believe that your sector would benefit from any tailor made policy on the financing side?
What tax policies currently in place are affecting your growth strategy?
Do you think that your growth strategy is currently being affected by the existence of such schemes?
What were the considerations made when deciding to cross the threshold or the reasons why was more beneficial not to?
Do you believe that without such provisions you would pursue a more aggressive growth strategy?
How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?
Do you have any experience suggesting that country specific differences in CIT have an impact in the growth strategies pursued by enterprises?
What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?
Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?
What industry specific tax policies would you recommend for growing companies in your sector?
Has your company recently pursued M&A or partnership opportunities? Please explain.

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

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How would you assess the relevance of CIT rates (both the favourable scheme- if any- and the normal CIT rate) on the decision on whether to acquire or merge with other companies?
(If M&A in the past) Do you think that CIT has affected the number of deals and values of the acquisitions with your partners?
Do you believe that deductions and allowance schemes have played a role in determining whether to expand your business? If so, how?
Do you have any experience suggesting that differences in CIT between Member States affect/distort the development of cross country M&A projects? If yes, in what way?
Do you feel that, within your sector, there exist fiscal legislation that directly facilitates/complicates M&A activities?
What industry specific tax policies would you recommend/advice with a view to favouring growing companies in your sector?
Could you provide an estimate of the time and monetary costs of tax compliance for your business?
Are you aware of any favourable CIT deduction or allowances schemes to support companies like yours?
Do you believe that deductions and allowance schemes have played a role in determining whether to expand your business? Please explain how.
Do you feel that, given that CIT deductions and allowances are targeted at specific sectors (see e.g. IP, patented inventions), your investment decisions have been affected significantly by them?
In your opinion, should CIT deduction and allowance schemes be designed differently? If yes, how?
Do you think that the existence of allowances/deductions affect the time of monetary costs of income tax compliance for your business?
Do you think that the benefits of the favourable policies you envisaged would outweigh the costs due to legal complexity?
Are you aware of any favourable CIT deduction or allowances schemes to support R&D for companies like yours?
Do you believe that deductions and allowance schemes have played a role in determining whether to invest more in R&D? If so, how?
Do you think that the existence of allowances/deductions for R&D affect significantly the time or monetary costs of income tax compliance for your business?
What policies currently in place are affecting your growth strategies?
What role, if any, have special depreciation rates played on capital acquisition plans (e.g. machinery etc.)?
Do you believe that special depreciation schemes have ever had an impact on the financial structure of your company? If so, how?
Have you ever considered relocating your company to any other member state to benefit from special depreciation rates elsewhere?
Do you have any experience suggesting that cross country differences in depreciation rates have an impact on the growth strategies pursued by enterprises?

Do you feel that, within your sector, large and small companies are subject to similar depreciation rates? If there are any differences, how does this affect small enterprises' competitiveness versus large enterprises'?
[For small enterprises] Have you ever decided not to pursue growth plans in order to remain eligible for special depreciation rates?
Do you have any experience suggesting that industry sector choice can be affected by special depreciation rates?
Do you believe that your sector would benefit from any (other) special depreciation rates? What should this and related policies address?
What financing mix (debt versus equity) has your company chosen during the start- up phase?
Do you believe that your sector would benefit from any particular tax incentives or deductions?
Please provide an estimate and an assessment of the time and monetary costs of tax compliance.
Do you think that the benefits of the favourable policies you envisaged would outweigh the administration costs of managing them?
In your view, what policies could be put in place to lower the costs of administering tax payments?
Do you feel that EU legislation has increased significantly the costs of tax compliance? If so, do you believe that its benefits outweigh the costs?

Given the low number of enterprises interviewed, the interviews should not be seen as representative of the wider enterprise population but as illustrative.

In addition to the company interviews above we also carried out scoping interviews with European level associations (UEAPME, CFE, FEE, IFAC). These scoping interviews were carried out in the inception phase of the project to scope out the main issues, help design research tools and disseminate information about the study. In addition the interviews were used to collect relevant background information for the study. Eurochambres and Business Europe were also approached but they declined to participate in the scoping interviews as they did not consider that they could add value to the study.

The target person for company interviews was the person in charge of company finances, e.g. the Chief Financial Officer (CFO). In micro-enterprises it is likely that there is no separate CFO role and in those cases we will target the CEO or managing director of the enterprise. In total we expect to carry out up to 100 interviews across the case study countries.

All interviews were conducted by telephone and they followed a semi-structured topic guide agreed with the Commission before deployment. The table below has an outline of the topics covered in the company interviews.

Table 3.4. Detail of interview topics

Research Topic	Objective	Interview topic
Impact of CIT on supply of finance to	Overall objective is to understand how	• Drivers of investment decisions

SMEs by type of financing source	venture capitalists make their decisions on where to invest and if these are affected by the CIT.	by VC funds • Importance of CIT in VC investment decisions • Importance of deductions and incentives for VCs on level of activity and investment decisions • Importance of special CIT provisions for start-ups on creation of VC funded enterprises.
Impact of CIT provisions affecting the start-up phase	From the perspective of the enterprises, our objective is to understand what is the impact of CIT provisions meant to support the establishment of new enterprises	• Experience of using special start-up provision in CIT • Impact of special CIT provisions on enterprise sustainability • Impact of special CIT provisions on financial structure at the start-up stage
Impact of CIT on legal structure	The aim is to understand if CIT rates are a barrier or an incentive to establish a company instead of preferring a partnership.	• Relevance of CIT in the decision to establish the enterprise • Relevance of Incentives (tax schemes, allowances, deductions etc.) in the decision to establish the enterprise
Impact of CIT on financial structure	The objective is to understand what is the impact of CIT on the decisional process of financing the enterprise through debt or equity	• Drivers affecting the establishment of the financial structure to adopt between debt and equity • Influence of CIT on the decisional process • Relevance of CIT on capital investments' decisions • Relevance of CIT on financial investments' decisions
Impact of CIT on organic growth decisions	The aim is to understand the relevance of SME specific tax schemes	• Impact of favourable tax schemes for SMEs • Impact of such tax schemes on

	and if these are an obstacle to growth	enterprises' growth strategies • Incentives/disincentives to exit the favourable tax schemes
Impact of CIT on external growth decisions	The aim is to understand to what extent CIT influences M&A volume and value.	• Relevance of CIT on M&As strategies • Effect of high CIT rates on the value and the volume of M&A deals • Effect of CIT on the growth strategy
Impact of CIT deductions/allowances on SMEs	The aim is to highlight the influence of CIT allowances/deductions on the capital investment decisions adopted by enterprises.	• Relevance of deductions and allowances in the fiscal plan of the enterprise • Impact of deductions and allowances on investment decisions made by the enterprise (not R&D related)
Impact of R&D incentives on SMEs	The objective is to understand the impact of allowances and deductions on R&D investment decisions adopted by enterprises.	• Relevance of R&D deductions and allowances in the fiscal plan of the enterprise • Impact of R&D deductions and allowances on investment decisions made by the enterprise
Impact of depreciation on SMEs	The aim is to assess the impact of special depreciation rates on the decision process adopted by enterprises in investing in particular assets.	• Impact of special depreciation rates in the fiscal plan of the enterprise • Impact of special depreciation rates on investment decisions made by the enterprise
Impact of CIT compliance and administrative costs for SMEs	The objective is to provide an overview on compliance and administrative burdens for SMEs	• Perceived burden in terms of effort (in FTE hours) needed to comply with the CIT • Perceived complexity of the procedure and eventual simplified solutions that reduce the cost of compliance

The topic guide was designed as a flexible tool to be adapted to a) the knowledge and background of the interviewee and b) the key issues of the study and, in particular, the case studies described above. As a result, the focus of each interview varied.

However, all interviews were equally considered in the development of case study report and in the findings of the study, irrespective of sector, size or country of establishment of the interviewee.

It should be noted that a significant share of resources were expended in identifying interviewees, contacting them, agreeing interviews and carrying them out. Due to the fact that corporate income tax is not a key issue for many companies, and the focus of the study on SMEs carrying out interviews was significantly more difficult than had been anticipated. The following routes were used to identify companies for interview:

1. European level umbrella and sector specific associations (only few interviews could be arranged in this way)
2. National level umbrella and sector associations (national associations were not willing to share contact details and only few companies could be identified through them)
3. European Enterprise Network (the EEN was very cooperative and a number of interviewees were identified in this way)
4. Direct "cold calling" (though very resource intensive due to an extremely low response rate, this method was found to be most successful in identifying companies and arranging interviews)

3.3 Online survey of tax advisers

Finally, the last data collection element of the study consisted of an online survey of tax advisers. A survey questionnaire was developed and agreed with the European Commission in 2013 in the inception phase of the study. The questionnaire was piloted with European level sector associations and all feedback received from the associations was taken into account in the final questionnaire.

This revised questionnaire was then made available online and disseminated across the EU-28. Though the study formally only covers 20 Member States the research team agreed with the Commission that the online survey could be distributed to all Member States.

The dissemination strategy for the survey questionnaire was as follows:

1. European level associations of tax advisers (CFE, FEE, IFAC)
2. National level associations (national associations were not willing to share contact details of individual members)
3. Marketing through social media (LinkedIn and Twitter)
4. Direct emails to individual tax advisers in countries where the minimum number of responses agreed with the Commission (10) had not been reached. As part of this manual identification of potential respondents, our research team contacted more than 600 tax advisory companies across Europe in specific countries where there were gaps in responses. The survey questionnaire was online and available from 20 April 2013,

with several rounds of reminders. The survey was closed in September 2014.

In terms of quality assurance, the following points are worth noting:

- Significant resources were deployed in developing the questionnaire and agreeing in with the Commission including several iterations of comments and feedback
- This internal work was complemented by feedback from tax adviser associations and piloting of the survey with these associations
- Results of the survey were presented to the Member State expert group on two occasions. In the first workshop (September 2013) a very preliminary set of results was made available and discussed. In the second workshop (November 2014), final results were presented for discussion and feedback. In addition an informal review meeting was held with the Commission to discuss progress on 4 June 2013.

In the survey, 487 responses were received (a response is only counted if at least two questions were answered). Because not all respondents answered all questions, the total number of responses varies by question. This also means that confidence intervals cannot be calculated for the overall survey. However, it should be noted that the number of responses can be considered sufficient to draw conclusions at EU level, but it is not sufficient for more disaggregated analysis.

Table 3.5. Breakdown per country of survey responses

Country	Number of valid responses
Austria	75
Belgium	18
Bulgaria	14
Croatia	9
Estonia	7
Finland	8
France	11
Germany	35
Greece	9
Ireland	75
Italy	18
Lithuania	16
Luxembourg	5
Netherlands	25
Poland	12
Romania	75
Slovenia	33
Spain	10

Sweden	7
UK	25
Total	**487**

The table below has the survey questionnaire that was made available online.

Table 3.6. Survey questionnaire

1) In which county is the majority of your clients established?

2) When was your enterprise established?

3) What is the size of your enterprise in terms of number of employees?
- Less than 10
- Between 10 and 49
- Between 50 and 249
- More than 250

4) What is the annual turnover of your enterprise?
- Less than 2m
- Between 2m and 10m
- Between 10m and 50m
- More than 50m

5) What is the size of the majority of the enterprises you work with?
- Micro enterprises (<10 employees)
- Small enterprises (10-49 employees)
- Medium enterprises (50-250 employees)
- Large enterprises (>250 employees)

6) What are the main industries your clients operate in?
- Agriculture, forestry and fishing
- Mining and quarrying
- Manufacturing
- Electricity, gas, steam and air conditioning supply
- Water supply; sewerage, waste management and remediation activities
- Construction
- Wholesale and retail trade; repair of motor vehicles and motorcycles
- Transportation and storage
- Accommodation and food service activities
- Information and communication
- Financial and insurance activities
- Real estate activities
- Professional, scientific and technical activities
- Administrative and support service activities
- Public administration and defence; compulsory social security
- Education
- Human health and social work activities
- Arts, entertainment and recreation
- Other service activities
- Other (Please Specify):

7) Are you a certified public accountant in your country?
- Yes
- No
- What is the title of your certification? (In the original language)

8) How many years do you have in providing tax advice?
- Less than 2 years

- Between 2 and 5 years
- Between 5 and 10 years
- More than 10 years

9) Does the fiscal system in your country provide a specific CIT rate different for SMEs and larger enterprises?
- Yes
- No

10) On the whole, how do CIT levels compare between SMEs and larger enterprises in your country?
- Higher for SMEs
- Same
- Lower for SMEs
- Please explain:

11) Do these drivers affect the overall behaviour of enterprises depending on their size? (Yes, No, Don't Know, Please explain why and for which type of enterprise☺
- Special tax rate for SMEs
- Specific SME incentives
- Tax planning opportunities
- Accounting provisions
- Investments in start-ups

12) In your opinion, do you believe that these drivers influence the overall behaviour of SMEs differently depending on which sector they operate in? (Yes, No, Don't know, Please explain:)
- Special tax rate
- Specific SME incentives
- Tax planning opportunities
- Accounting provisions
- Investment in start-ups

13) Please include any further comment on the differences between SMEs and larger enterprises related to CIT

- 14) Do you believe that CIT provisions regarding profits, retained earnings and dividends affect SMEs behaviour?
- Yes
- No
- Don't Know

15) If yes, which of the following aspects are influenced by CIT provisions on profits, retained earnings and dividends? (Large Impact, Medium Impact, Small Impact, Please explain:)
- The financial structure of SMEs (i.e. debt/equity ratio)

- Investment by SMEs
- Investments in Start-ups
- SMEs' growth
- Start-ups' success rates
- Other

16) Do you believe that provisions regarding profits, retained earnings and dividends might affect SMEs differently to larger enterprises?
- Yes
- No
- Don't Know

17) If yes, how?
- Increases tax paid by SMEs relative to larger enterprises
- Reduces tax paid by SMEs relative to larger enterprises
- Please explain:
- Profits
- Retained earnings
- Dividends

18) To what extent enterprises of different sizes benefit from (make use of) CIT deductions on investments (e.g. R&D or other investment) in practice? (Low, Medium, High, Don't Know, Please explain)
- Micro
- Small
- Medium
- Large

19) What is your perception of the impact of CIT deductions for investments (e.g. R&D or other investment) on the effective tax rate for SMEs?
- Significant increase tax paid by SMEs relative to larger enterprises
- Small increase tax paid by SMEs relative to larger enterprises
- No impact
- Small reduction on tax paid by SMEs relative to larger enterprises
- Significant reduction on tax paid by SMEs relative to larger enterprises
- Don't Know
- Please explain:

20) Does the fiscal system in your country include accelerated depreciation rates for particular assets?
- Yes
- No
- Don't Know

21) If yes, which are the enterprises that in your opinion are able to benefit more from these CIT provisions? (Low, Medium, High, Don't Know, Please explain)
- Micro
- Small
- Medium
- Large

22) What is your perception of the impact of accelerated depreciation on the effective tax rate for SMEs?
- Significant increase tax paid by SMEs relative to larger enterprises
- Small increase tax paid by SMEs relative to larger enterprises
- No impact
- Small reduction on tax paid by SMEs relative to larger enterprises
- Significant reduction on tax paid by SMEs relative to larger enterprises
- Don't Know

- Please explain:

23) Does the fiscal system in your country include carry forward/backward provisions?
- Yes
- No
- Don't Know

24) If yes, to what extent enterprises make use of carry forward/backward provisions in practice? (Low, Medium, High, Don’t Know, Please explain)
- Micro
- Small
- Medium
- Large

25) What is your perception of the impact of carry forward/back provisions on the effective tax rate for SMEs?
- Significant increase tax paid by SMEs relative to larger enterprises
- Small increase tax paid by SMEs relative to larger enterprises
- No impact
- Small reduction on tax paid by SMEs relative to larger enterprises
- Significant reduction on tax paid by SMEs relative to larger enterprises
- Don't Know
- Please explain:

26) What is your perception of the extent to which SMEs use the following tax planning opportunities? (none, Less than 1%, Less than 5%, More than 5%, Please explain:)
- Transfer pricing and income shifting practices
- Offshore financing and tax heavens
- Cross border transactions
- Other

27) What is your perception of the impact of tax planning opportunities on the effective tax rate for SMEs?
- Significant increase tax paid by SMEs relative to larger enterprises
- Small increase tax paid by SMEs relative to larger enterprises
- No impact
- Small reduction on tax paid by SMEs relative to larger enterprises
- Significant reduction on tax paid by SMEs relative to larger enterprises
- Don't Know
- Please explain:

28) Does the fiscal system in your country have special CIT provisions for start-ups?
- Yes
- No
- Don't Know

29) What is your perception of the impact of CIT provisions regarding investment in start-ups using different financing vehicles (venture capitals, mezzanine funding, equity investment, loan investment, others) on (No Impact, Small impact, Medium impact, Large impact, Don’t Know, Please explain:)

- Access to finance for start-ups
- Financial structure of start-ups (debt/equity ratio)

- Start-up rates
- Success rates
- Other

30) What is your perception of the impact of CIT provisions regarding investment in start-ups on the effective tax rate for start-ups?

- Significant increase tax paid by start-ups relative to other enterprises
- Small increases tax paid by start-ups relative to other enterprises
- No impact
- Small reduction of tax paid by start-ups relative to larger enterprises
- Significant reduction of tax paid by start-ups relative to larger enterprises
- Don’t know
- Please explain:

31) Please include any further comment on the impact of the CIT regime on SMEs behaviour and effective tax burden

32) Please include any further comment in relation to the topics of the questionnaire. If you are interested in receiving the results of the survey, please indicate your e-mail address here.

4 SUMMARY TABLES AND COUNTRY REPORTS OF SME-SPECIFIC PROVISIONS IN NATIONAL TAX CODES

4.1 Summary Tables

Table 4.1 Types of SME incentives during the observation period (2009-2013)

Area	Absolute number of regimes					Number of applying countries				
	Acc. Depr.	Inv. Ded.	Credit	Exemp.	Tax rate	Acc. Depr.	Inv. Ded.	Credit	Exemp.	Tax rate
EU	6	7	9	5	14	5	6	3	4	9
Non-EU	1	0	3	0	4	1	0	1	0	3
Overall	7	7	12	5	18	6	6	4	4	12

Table 4.2 Targeting of SME incentives in 2013

Area	Incentives aimed at…				
	all SME	small & micro	micro	extended SME	unclear
EU	11	16	9	1	1
Non-EU	3	5	0	0	0
Overall	14	21	9	1	1

Table 4.3 Types of R&D incentives in the observation period (2009-2013)

Area	Absolute number of regimes					Number of applying countries				
	Acc. Depr.	Inv. Ded.	Credit	Exemp.	Tax rate	Acc. Depr.	Inv. Ded.	Credit	Exemp.	Tax rate
EU	11	16	7	7	3	11	12	7	6	3
Non-EU	1	1	3	4	1	1	1	3	3	1
Overall	12	17	10	11	4	11	13	10	9	4

Table 4.4 Targeting of R&D incentives in 2013

Area	Incentives aimed at…			
	certain R&D activities only	certain enterprise sizes only	certain regions only	certain types of entities only
EU	4	2	0	3
Non-EU	4	3	1	2
Overall	8	5	1	5

Table 4.5 Dispersion of incentives for R&D and SME incentives in the observation period (2009-2013)

Country	SME	R&D	Country	SME	R&D
Austria		x	Netherlands	x	x
Belgium	x	x	Poland	x	x
Bulgaria			Romania	x	x
Croatia	x	x	Slovenia		x
Estonia			Spain	x	x
Finland	x	x	Sweden		
France	x	x	UK	x	x
Germany	x		Canada	x	x
Greece	x	x	China	x	x
Ireland	x	x	Japan	x	x
Italy		x	Switzerland		x
Lithuania	x	x	USA	x	x
Luxembourg	x	x	**Overall**	**18**	**21**

Table 4.6 Design of allowances and tax credits in 2013

Feature		SME	R&D
Relevant expenditure	Capital Expenditure	8/18 (44%)	12/38 (29%)
	Revenue expenditure	4/18 (22%)	26/38 (68%)
	Contract research	-	25/38 (66%)
	Personnel costs/hiring	5/18 (28%)	4/38 (11%)
	Other	2/18 (11%)	1/38 (3%)
Calculation base	Volume-based	18/18 (100%)	28/38 (74%)
	Incremental	0/18 (0%)	10/38 (26%)
Average deductible rate*	Allowances/deductions	38%**	76%***
	Credits	23%**	19%***

* - The calculations include only those allowances/credits that are volume-based and that refer to capital expenditure, revenue expenditure or expenditure on contract research, in order to make the percentages comparable.

** - For SME the additional deductible amount compared to large companies is taken into account, if an equivalent provision for large companies exists.

*** - For R&D incentives, the calculation is based on rates for large companies without considering increased/decreased rates beyond certain thresholds.

Table 4.7 Design of accelerated depreciation schemes in 2013

Feature		SME	R&D
Assets Included	Machinery & equipment	5/5 (100%)	12/13 (92%)
	Buildings	2/5 (40%)	4/13 (31%)
	Land	0/5 (0%)	1/13 (8%)
	Intangibles	1/5 (20%)	8/13 (62%)
Depreciation rate (compared to ordinary rates)	≤ 150%	2/5 (40%)	3/13 (23%)
	≤ 200%	1/5 (20%)	5/13 (38%)
	Immediate depreciation	2/5 (40%)	3/13 (23%)
	Free depreciation	0/5 (0%)	2/13 (15%)

4.2 Country Reports

In the following, the special tax regimes for SMEs in the 25 countries examined will be described in more detail. Moreover, the country reports will inform about other tax provisions that might benefit or discriminate against SMEs in particular.

The information has been gathered from various sources. Comprehensive country analyses provided by the international bureau of fiscal documentation (IBFD) were the basic research tool. These analyses are annually updated by local tax experts and provide a high degree of reliability. In addition to that, the ZEW possesses an extensive data base on national tax codes in Europe from numerous previous studies and – in cooperation with PWC - keeps a network of

local tax experts that regularly deliver updates on recent changes in tax laws. If necessary, further country-specific sources were drawn upon (e.g. National tax codes, government announcements, scientific and practitioners' journals).

Austria

Austria has no special tax incentives for SMEs in place. There is an adjusted minimum tax for newly founded companies of € 1,092 that only benefits low income companies.

Belgium

Belgium has numerous incentives for SMEs in place. An SME for tax purposes must meet two of the following criteria:

- not more than 50 employees;
- turnover does not exceed € 7.3 million;
- balance sheet total does not exceed € 3.65 million.

First of all, Belgium offers several investment allowances. The general investment deduction for SMEs amounts to 11.5% of depreciation taken on assets. The rate has varied between 10.5% and 12.5% since 2009.[2] The incentive is restricted to companies with fewer than 20 employees. Unused amounts can be used in subsequent years with a maximum carry-forward of € 933,350. Additionally, an allowance of 21.5% is granted to SMEs for investments in safety measures either in the year of the investment or the following year. Concerning carry-forwards the same rules apply as for the above deductions. A notional interest deduction is available for all Belgian companies. It amounts to 3% of qualifying equity.[3] SMEs are allowed to deduct an additional 0.5%. Since 2012, carry-forwards are no longer possible.

Further incentives for SMEs include the possibility for income to enter a tax-exempt reserve of at most € 37,500 or 50% of retained earnings. The maximum size of the reserve can be further reduced by the following circumstances:

- capital gains on shares that are eligible for participation exemption;
- the exempt part of capital gains on cars used for business purposes;
- gains on debt claims against managers, shareholders and their spouses or children;
- decreases of paid-up capital.

The income needs to be re-invested within three years and the investment reserve must not be used in combination with the notional interest deduction. SMEs in Belgium also benefit from progressive corporate tax rates (rates are given excluding the surcharge of 3%):

[2] The exact rates in this period are as follows: 10.5% from 2009 to 2011, 12.5% in 2012 and 11.5% in 2011.

[3] The exact rates for large companies from 2009 to 2013 are as follows: 4.307% in 2009, 4.473% in 2010, 3.8% in 2011, 3.425% in 2012 and 3% in 2013. The respective rates for SME are 0.5% higher.

- 24.25% on income ≤ € 25,000;
- 31% on income between € 25,000 and € 90,000;
- 34.5% on income between € 90,000 and € 322,500;
- 33% on all income beyond that.

Certain types of companies are not allowed to apply the reduced rates (financial companies, collective investment companies, companies owned by other companies by 50% or more, companies whose distributions exceed 13% of paid-in capital, members of groups with a coordination center and companies not paying at least € 36,000 to a director or active partner). The tax credit on R&D investments is adjusted for companies with taxable incomes below € 322,500 according to the progressive schedule. As a last major relief, SMEs could incur twice the normal depreciation rate on all assets in the first three years of usage until 2010. The regime was curtailed in 2011. Since then, SMEs are merely allowed to deduct 100% of the ordinary annual depreciation for an asset in the year of acquisition, irrespective of the exact date of acquisition. Moreover, all costs related to the acquisition of depreciable assets can be immediately depreciated. An incentive that relates to newly founded companies is that all costs related to the establishment and the creation of a company can be immediately depreciated.

Bulgaria

Bulgaria has no special tax incentives for SMEs in place. Small companies are subject to administrative reliefs, though. Enterprises whose previous year's net sales were below BGR 300,000 (≈ € 150,000) do not have to make advance tax payments and those with net sales below BGR 3,000,000 (≈ € 1,500,000) only have to make quarterly advance payments instead of yearly.

Croatia

Croatia provides very comprehensive tax incentives for new investments. Income from new investments can be subject to reductions of the corporate income tax rate of 50-100% for 10 years. This depends on the size of the investment and on the number of newly created jobs related to the investment:

- 100% reduction if investment of at least € 3 million and related to 15 new employees;
- 75% reduction if investment of at least € 1 million and related to 10 new employees;
- 50% reduction if investment of less than € 1 million and related to 5 new employees.

For micro companies, a special regime exists that grants a 50% relief (resulting in a tax rate of 10% compared to the normal 20%) if the investment amounts to at least € 50,000 and creates 3 new jobs. Before the Law on Investment Promotion (2012), Croatia offered a similar incentive schedule without a special schedule for micro companies and with higher thresholds for eligibility:

- 100% reduction if investment of at least € 8 million and related to 75 new employees (50 for R&D activities);
- 65% reduction if investment of at least € 4 million and related to 50 new employees (25 for R&D activities);

- 65% reduction if investment of at least € 1.5 million and related to 30 new employees (15 for R&D activities);
- 50% reduction if investment of € 300,000 (100,000 for R&D activities) to € 1 million and related to 10 (5) new employees.

In addition, extensive reliefs were available for companies in economically weak regions. These regional incentives were abolished. Croatia also provides a special allowance for eligible costs for general education and training (50%) and special education and training (25%) for employees. The percentages increase for small and medium-sized companies (defined according to EU guidelines) to 70% and 35% respectively.

Estonia

Estonia provides no special tax incentives for corporate SMEs. This is due to the Estonian tax system that does not tax corporate income as such but only corporate distributions. Consequently, there are no reliefs of corporate income at all.

Finland

Finland provides only one special tax incentive for SMEs. In the least developed regions fixed assets purchased by SMEs in connection with the establishment or enlargement of production facilities and tourism enterprises are subject to a special depreciation scheme that grants 150% of the usual depreciation rate in the first three years of usage. The SME definition corresponds to the one proposed by the European Commission. The accelerated depreciation is granted on top of the accelerated schedule that is applicable to all companies in Finland in 2013 (200% of the usual rate on machinery, equipment and industrial buildings used for production activities). Moreover, SMEs benefit from reliefs concerning the documentation of transfer prices if certain criteria of independence are met.

France

France offers a multitude of tax incentives specifically designed for SMEs. The provisions include tax credits, special tax rates and exemptions of certain kinds of income. The latter form of relief applies to two sorts of income: First, capital gains on the sale of a complete branch of activity excluding gains on immovable property are affected, if the value of the branch does not exceed € 300,000 (100% exemption) or if it is between € 300,000 and € 500,000 (50% exemption). The exemption only comes into effect if at least 75% of the disposing SME are held directly or indirectly by individuals or other SMEs. Second, 100% of the income of innovative SMEs in the first year of their innovative activities are exempt and 50% in the second year. The incentive also includes reliefs from several other taxes than the corporate income tax and used to be granted for five years until 2011 (three years with an exemption of 100% and two years with 50%). In order to be eligible, SMEs must pursue R&D activities that account for at least 15% of the expenses incurred and they must not be older than eight years. Enterprises are generally considered to be SME if they meet the criteria set by the European Commission.

Additionally, special tax rates are in place. If an SME has a turnover below € 7,630,000 and is held directly or indirectly by individuals or other SME fulfilling the aforementioned condition, income up to € 38,120 is taxed at 15% instead of the usual rate of 33.33%. The surcharge of 3.33% is dispensed for all SMEs meeting the turnover criterion, whereas all other SMEs incur the surcharge on all income taxes paid beyond the threshold of € 763,000. Since 2012, another surcharge of 5% is in place for all companies with an income of more than € 250 million, which SMEs avoid by definition. Micro enterprises might incur even bigger advantages than the abovementioned. Upon election they can be subject to special tax rates of 13% (income from the sale of goods) or 23% (income from the sale of services) if their income is below certain thresholds (€ 81,500 for income from the sale of goods and € 32,600 for income from the sale of services). Micro enterprises also can determine their tax base in a simplified manner if two of the three following criteria are met:

- turnover ≤ € 534,000;
- balance sheet total ≤ € 267,000;
- number of employees ≤ 10.

Tax credits are the third major group of tax incentives for SMEs in France. First of all, a 20% credit is granted on expenditure related to innovative activities with a maximum expenditure of € 400,000 being eligible. Furthermore, a credit is available for all SMEs with at least 20 employees. The size of the relief is equal to the difference of the income tax payable multiplied with a rate reflecting the size of the increase in employment and the average corporate income tax paid effectively in the preceding year (→ income tax payable$_t$ * employment rate – income tax payable$_{t-1}$). The employment rate ranges from 0 to 100% with 100% reflecting an increase of 15% or more in personnel expenses compared to the preceding year. The credit only applies if the number of employees compared to each of the previous two years increased by at least 15%. Another one-off corporate tax credit is granted to SME for expenses related to the hiring of one employee to develop export activities outside the EU. The credit amounts to 50% of qualifying expenses and is limited to € 40,000 over a two-year period if no such activities have been pursued so far. Lastly, a credit for certain SMEs (turnover ≤ € 40 million, number of employees ≤ 250 and at least 75% of shares held by individuals or other SMEs) exists that is limited to the island of Corsica. It amounts to 20% of all qualifying investments in the year of investment. Qualified investments include:

- depreciable assets that qualify for declining-balance method depreciation;
- the installation or arrangement of commercial premises;
- software necessary for the use of the aforementioned assets or premises;
- the renovation of hotels.

Besides these reliefs, SMEs benefit from various other provisions:

- Firms with low turnovers are subject to lower minimum taxes (in 2013, all enterprises with turnover < € 15 million do not incur any minimum taxes)[4].

[4] In 2009, the amounts payable were as follows: € 0 if turnover < € 1,500,000; € 3,750 if turnover < € 7,500,000; € 16,250 if turnover < € 15,000,000; € 20,500 if turnover < € 75,000,000;

- Investments in SME incur benefits with regard to personal income taxes: 18% of amounts invested in qualifying SME can be deducted from the personal income tax base up to an amount of € 50,000 and capital gains of directors of SME who sell their shares upon retirement are exempt if certain requirements concerning the holding period are met.
- 50% of investments in qualifying SME are deductible for wealth tax purposes up to an amount of € 45,000.
- SME are eligible for an immediate refund of the R&D credit.
- SME are subject to beneficial provisions concerning the recognition of losses from foreign branches.
- Newly created companies benefit from tax exemptions in certain regions for the first five years of operations (the exemption is reduced from 100% to 75%/50%/25% in the last three years of the five-year period). Maximum reliefs of € 200,000 are in place for this incentive.

Germany

Germany has two tax incentives in place that target specifically small companies. For both reliefs, the following criteria must be met in order to be eligible:

- Net assets must be smaller than € 235,000 if the company applies the net worth method to determine the taxable income and smaller than € 100,000 if the company applies the net income method (the thresholds were reduced from € 335,000 and € 200,000 respectively in 2011).
- The relevant assets must remain in a domestic permanent establishment of the company for at least one year.

The benefits connected to fulfilling these criteria are twofold: First, an additional depreciation of 20% of the acquisition or manufacturing costs of new movable assets can be incurred in the year of acquisition or manufacturing and the following four years (20% at most in all five years together). The additional depreciation reduces subsequent depreciations accordingly. Second, an investment reserve of up to 40% of future acquisition or production costs of depreciable assets can be recognized. Income entering the reserve is tax-free upon recognition but is taxed later as soon as the respective assets start to be depreciated. The investment reserve is limited to € 200,000. The acquisition or the manufacturing of the asset for which the deduction is claimed must be made within three years and it must be used in a domestic permanent establishment almost exclusively for business purposes.

Greece

Greece does not provide any tax incentives specifically designed for SMEs. There is, however, a scheme that allows establishing tax-free reserves. The reserve amounts to 15-45% of the amount invested in qualifying undertakings (which includes investments that contribute to improving business, technological development, business competitiveness and regional cohesion). The eligible amount depends on the location of the investment and the size of the company

€ 32,500 if turnover < € 500,000,000 and € 110,000 otherwise. Since 2011, all companies with a turnover below € 15 million are exempt. The other thresholds stayed the same.

(smaller enterprises receive higher reliefs of 25-45% instead of 15-40%). SMEs can therefore be expected to receive more extensive exemptions by trend. The tax-free income must not be distributed or capitalized. Up to one third of the exemption is due in the first year of operations of the investment and up to two thirds in the following year. The balance is settled within a maximum of eight years.

A disadvantage for SMEs occurs with respect to Greece's treatment of so-called strategic investments. These are investments of at least € 15 million or investments creating at least 150 new jobs. SMEs naturally will not (or only hardly) reach such investment levels. They can therefore not benefit from the tax incentives connected to strategic investments.

Ireland

Ireland does not directly provide major tax incentives to SMEs. For personal income tax purposes, however, individuals can deduct up to € 150,000 for the acquisition costs of shares in qualifying unquoted trading SMEs. The share in the company must not be higher than 30% unless the investment amounts to less than € 500,000. Holding restrictions and other anti-avoidance rules are in place. The company must either be incorporated and resident in Ireland or be incorporated in an EEA country and resident (a) in Ireland or (b) in another EEA country and carrying on business through a branch or agency in Ireland. In addition, the company must carry on qualifying trade. The maximum capital to be raised under this regime is € 2 million and € 1.5 million within a six-month period. An even more generous deduction is granted to formerly employed people who invest in a start-up. They can claim a tax refund on income from the last six years (the maximum tax refund is € 100,000).

Other reliefs that may benefit SMEs include relaxed transfer pricing regulations, relaxed provisions for preliminary tax payments and an exemption of the first € 40,000 of income (exemption phases out until € 60,000) for newly founded companies in the first three years of their operations.

Italy

Italy does not provide incentives to SMEs with regard to the corporate income tax. SMEs are subject to particular rules for the determination of the tax base for IRAP purposes, though. Additionally, companies in the fields of energy production and supply do not incur the increased tax rate of 38% (instead of 27.5%) if they have a turnover below € 10 million and taxable income below € 1 million.

Lithuania

Lithuania has extensive tax incentives for micro companies in place. Foremost, enterprises enjoy a reduced tax rate of 5% (instead of 15%) if they meet the following criteria:

- number of employees ≤ 10;
- taxable income ≤ LTL 1 million (≈ € 290,000);

- the company must not be owned by more than 50% by an owner / a family / a group of persons who also own a sole proprietorship or other companies by more than 50%.

Companies meeting these criteria are also entitled to free depreciation of fixed assets (excluding buildings). Additionally, companies with taxable income ≤ LTL 100,000 (≈ € 29,000) are allowed to determine their income with the help of cash-basis accounting. An incentive benefiting small and medium-sized companies as well as large ones is the general investment deduction for expenditure on certain groups of fixed assets such as machinery, equipment, computer equipment and acquired rights. Large enterprises tend to be advantaged in special economic zones, where several tax advantages only apply to investments over € 1 million.

Luxembourg

Luxembourg does not provide any tax incentives that refer specifically to SMEs as defined by the European Commission. Small companies might particularly benefit from some rules, though. First of all, a reduced tax rate of 20% (instead of 21%) applies to all companies with an income below € 15,000. Moreover, the first € 17,500 of income is exempt from the municipal business tax. Further advantages for SMEs include higher non-tax grants for R&D projects and the absence of compulsory audit controls as long as the enterprise meets certain criteria (two of the following three: balance sheet total ≤ € 4.4 million, turnover ≤ € 8.8 million, number of employees < 50).

The tax credit on global investments in qualifying depreciable tangible assets might also benefit SMEs to a higher degree than large companies as a reduced rate (2% instead of 7%) applies beyond a threshold of € 150,000 of investment value. The danger of surpassing the threshold should increase considerably in the size of the company. There is also a tax credit on supplementary investments in place that is incremental and applies to all companies without any limits.

Netherlands

The Netherlands do not provide any incentives that are restricted to small and medium-sized enterprises. Two provisions, however, particularly benefit SMEs. First, there is a progressive tax schedule in place that taxes income up to € 200,000 at 20% and the excess at 25%. Second, the general investment deduction for small-scale investments in certain assets is only applicable if the total annual qualifying costs are between € 2,300 and € 306,931. Moreover, the deductible percentage decreases as eligible costs increase. The following sliding scale applies:

- 28% if the total of qualifying investments is between € 2,300 and € 55,248;
- € 15,470 if the total of qualifying investments is between € 55,248 and € 102,311;
- € 15,470 less 7.56% of the invested amount exceeding € 102,311 if the total of qualifying investments is between € 102,311 and € 306,931;
- 0% if the total of qualifying investments exceeds € 306,931.

The thresholds and deductible amounts have changed over time as table 10.5.7 shows.[5]

Table 4.7 Thresholds of the Dutch investment deduction

	2010	2011	2012	2013
Max. deductible percentage	38%	28%	28%	28%
Max. deductible amount	€ 15,120	€ 15,211	€ 15,470	€ 15,470
Min. investment amount	€ 2,200	€ 2,200	€ 2,300	€ 2,300
Second threshold	€ 54,000	€ 54,324	€ 55,248	€ 55,248
Third threshold	€ 100,000	€ 100,600	€ 102,311	€ 102,311
Fourth threshold	€ 300,000	€ 301,800	€ 306,931	€ 306,931

Poland

Poland provides several incentives to SMEs. First, small and medium-sized enterprises incur higher rates for the allowance on investments in new technologies that is generally available for all enterprises. Depending on the size of the company, a deduction of 70% (small entities) or 60% (medium-sized) instead of 50% applies. Additionally, SMEs may receive a credit for investing in new technologies with the option to benefit from a waiver of up to 70% of costs incurred (depending on the size of the company and the project location). The technology needs to be new and sufficiently innovative. The maximum credit is PLN 4 million (≈ € 950,000) and the project must not involve investments in new technology of more than € 50 million. The definition of SMEs corresponds to the one given by the European Commission.

Further incentives are in place for micro companies. Enterprises with a turnover of less than € 1.2 million are allowed to immediately depreciate the costs of certain fixed assets up to an amount of € 50,000. Eligible enterprises may also opt for quarterly advance tax payments instead of monthly payments. Newly founded small and micro companies can even receive a credit of 100% of the income tax due in the first year of operations that must be repaid within five years, though.

Romania

Romania provides a special tax regime based on turnover for micro companies. 100% privately owned enterprises with income below € 65,000 that do not derive income in the banking, gambling, consultancy or management sectors are obliged to pay a tax of 3% on turnover. Until 2009, the regime was voluntary. In 2010, it was repealed before being re-introduced as a compulsory provision in 2011. There are no other SME-specific provisions in Romania.

[5] In 2009, the design of the incentive differed significantly. Deductible amounts and thresholds were as follows: 25% for a total of qualifying investments between € 2,100 and € 37,000; 21% between € 37,000 and € 72,000; 12% between € 72,000 and € 105,000; 8% between € 105,000 and € 140,000; 5% between € 140,000 and € 176,000; 2% between € 176,000 and € 201,000; 1% between € 201,000 and € 245,000; 0% over € 245,000.

Slovenia

Slovenia does not provide tax incentives specifically designed for SMEs. They are, however, granted advantageous tax treatment in special economic zones where the maximum intensity of aids in form of tax concessions is 50% (small entities) or 40% (medium-sized enterprises) instead of 30%. Moreover, SMEs are subject to less restrictive holding requirements for assets that qualify for the investment deduction in the region of Pomurje. The deduction amounts to 70% of incurred costs of eligible equipment and intangibles with a maximum allowance of € 30,000. Lastly, there are reduced penalties for micro, small and medium-sized enterprises in case of delayed or insufficient tax payments.

Spain

Spain is one of the countries with the most comprehensive incentives for SMEs in place as it provides accelerated depreciation schemes as well as allowances, tax credits and special tax rates. In order to qualify for the various tax incentives named below, SME must fulfill the criteria given by the definition of the European Commission and they must have a turnover of less than € 10 million (€ 8 million until 2010).

Accelerated depreciation is the first measure available for SMEs. The scheme allows depreciating twice the ordinary rate for all tangible assets and even 300% of the normal rate if the respective assets were acquired as a reinvestment of a capital gain. In 2013 and 2014, eligible enterprises can even immediately depreciate the full cost of all tangible assets, intangible assets and immovable property, whereas large companies may only depreciate 70%. Until 2012, an additional regime applied for small companies, under which all tangible fixed assets could be freely depreciated if the average number of employees was raised. The maximum amount to be freely depreciated depended on the size of the personnel increase.

SMEs also qualify for a tax credit of 10% on expenses on new tangible assets that follow purposes related to renewable energy. Further tax credits are granted for hiring employees who are younger than 30 years (€ 3,000 per employee hired with an indefinite employment contract) and for hiring employees who received unemployment payments for at least three months (50% of outstanding unemployment payments for one year per employee hired with an indefinite employment contract). The latter two credits, however, are only available for companies with less than 50 employees.

Special tax rates are in place for enterprises which meet the following conditions:

- net revenue < € 5 million;
- average number of employees < 25;
- jobs must be maintained or created.

The applying tax rate is 20% on the first € 300,000 (€ 120,202.41 until 2010) of income and 25% on the income in excess of € 300,000. Enterprises with a turnover below € 10 million that do not meet the above criteria incur a reduced

tax rate of 25% only on the first € 300,000 of income (€ 120,202.41 until 2010; the ordinary rate amounts to 30%). In the regions of Alava, Vizcaya and Guipúzcoa, a special SME rate of 24% applies instead of the usual 28% for large companies in the Basque Country.

Besides these incentives, the following provisions for the tax treatment of SMEs in Spain exist:

- Very small companies might not be subject to tax audits and are subject to less restrictive documentation requirements on transfer prices.
- SME with turnover < € 10 million may establish a special provision for bad debt not qualifying for the general provision. The maximum provision amounts to 1% of the existing balance of debt at the end of the tax period.
- There is an exemption of 99% of gains from venture capital investments in non-financial SMEs operating in the field of technological innovation by qualifying venture capital companies and funds. It includes gains from the sale of shares and other participations held for at least one year and there is no exemption after 15 years. An extension to 20 years may be granted, though.
- Incentives for SMEs with regard to the local business tax (IAE) are provided. Most notably, income is exempt from IAE if turnover is below € 1 million.

Sweden

Sweden did not provide any tax incentives specifically targeted at SMEs. Only from December 1 2013 on, there has been a special deduction available for investors in small corporations. Small corporations are defined according to the definition the recommendation by the European Commission. Furthermore, the corporation must have a certain wage-base and almost exclusively pursue business The incentive grants a deduction of up to 50% of the acquisition costs invested by private individuals in shares of eligible corporations. The maximum deduction may amount to 650.000 SEK (~€ 100.000).

The UK

The United Kingdom has several incentives in place that benefit SME. First, the progressive tax schedule taxes income up to £ 300,000 (≈ € 350,000) at a reduced rate of 20% instead of the ordinary rate of 23%. Income between £ 300,000 and £ 1,500,000 (≈ € 1,760,000) is subject to an increased rate of 23.75% so that the average rate approaches 23%. In general, tax rates have been significantly reduced in the UK since 2009 – the ordinary rate from 28% to 23% and the reduced rate from 21% to 20%.[6] In 2014 and 2015, the general rate will further decrease to 21% and 20% respectively. Consequently, the general rate will equal the small business rate in 2015. Special rates also apply to companies engaged in the production of oil and gas. In this sector the general rate for small companies amounts to 30% and the reduced one to 19%.

[6] The exact general rates during the period were as follows: 28% until 2010, 26% in 2011, 24% in 2012 and 23% in 2013. The reduced rate changed in 2011.

SMEs benefit from increased allowances on R&D investments. While large companies are allowed to deduct an additional 30% of their R&D expenditure (only revenue expenditure), SMEs are entitled to a super-deduction of 125%. The special rate was increased from 75% in 2009 to 100% in 2011 and to 125% in 2012. The maximum relief under the SME-specific scheme is £ 7.5 million (≈ € 8,780,000). Expenditure beyond this threshold is subject to the rules for large companies. Eligibility for the regime is granted to enterprises meeting an extended definition of SMEs:

- number of employees ≤ 500;
- turnover ≤ € 100 million;
- balance sheet total ≤ € 86 million.

Further provisions that might impact the tax burden of SMEs are the following:

- There are exemptions from the arm's length principle in transactions between related SME.
- There is no cap - which exists for "large company groups" - on deductible external finance expenses if an SME is part of a taxable group.
- The exemption of distributions paid to other corporations might be restricted if the receiving company is a small one.
- There is an annual investment allowance on the first £ 25,000 (≈ € 29,300) of expenditure on plant and machinery in place. Alternatively, a first-year allowance for certain assets can be claimed. Both incentives are generally applicable and not restricted to SMEs.

Canada

Special tax rates are the major reliefs that Canada provides to SMEs. On the federal level 11% instead of 15% corporate income tax are incurred on the first CAD 500,000 (≈ € 365,000) of income by Canadian-controlled private corporations (CCPC). A CCPC is a private corporation resident in Canada that is not controlled by one or more non-resident persons or public corporations. The relief only fully applies if the taxable capital of the company does not exceed CAD 10 million and phases out between CAD 10 million (≈ € 7.3 million) and CAD 15 million (≈ € 11 million). A similar relief exists on the provincial level. In Ontario, for example, small CCPC according to the above definition are taxed at 4.5% instead of 10% on the first CAD 500,000 of income.

Further tax incentives are in place with regard to the shareholders. First, there are special rules for the accounting of securities issued by small CCPC. Eligible CCPC must have total assets of less than CAD 50 million (≈ € 36.5 million) and employ less than 500 employees. Moreover, allowable business investment losses may be deducted against any type of income. Allowable losses are defined as the deductible portion of a capital loss that has been realized on shares or debt of so-called small business corporations, which means Canadian-controlled private corporations that use substantially all their assets in an active business carried on primarily in Canada.

China

China provides tax incentives for SMEs mainly in the form of special tax rates. So-called low profit enterprises are subject to a reduced rate of 20% (instead of 25%) if the following criteria are met:

- taxable income < CNY 300,000 (≈ € 37,000);
- number of employees < 80 (for manufacturing companies a threshold of 100 applies);
- total assets < CNY 10 million (≈ € 1.2 million; CNY 30 million for manufacturing companies).

If the turnover of the low profit enterprise is below CNY 60,000 (≈ € 7,400), the applicable rate is even reduced to 10%.

Another incentive exists for venture capital enterprises, which invest in non-listed small to medium-sized new technology enterprises for more than two years. They can deduct up to 70% of their investment from the taxable income (carry-forwards to the following years are possible).

Japan

Japan provides various tax incentives to SMEs. In order to be eligible for these incentives, SMEs must file a blue tax return[7] and fulfill the following criteria:

- taxable capital ≤ ¥ 100 million (≈ € 770,000);
- number of employees ≤ 1,000.

First of all, SMEs can incur an increased initial depreciation of 30% on 75% of the acquisition costs of certain IT equipment. Alternatively, SMEs are eligible for a tax credit amounting to 7% of these costs if the paid-in-capital does not exceed ¥ 30 million (≈ € 231,000). The provision has been in place since 1 May 2010. The relief from the deduction must not exceed 20% of the tax payable. Additionally, SMEs are entitled to a credit of 7% on all costs related to assets that serve the purpose of energy rationalization. The latter credit is offered as an alternative to the additional depreciation of 30% in the year of acquisition that is available for all companies. It was introduced for all assets acquired or produced from 1 June 2011.

Further tax credits and deductions applicable for SMEs exist:

- A tax credit of 12% of the revenue expenditure on R&D activities including expenses on contract research is in place. The equivalent provision for large companies only grants a deduction of 8-10%.
- A tax credit of ¥ 200,000 (≈ € 1,500) per additional employee hired applies, if the number of employees was increased at least by two employees in absolute terms and by 10% in relative terms compared to the previous year. Further conditions include a reasonable increase of the

[7] Blue tax return filers elect to comply with elevated standards of book-keeping, thus providing tax authorities with high-quality records.

total wage sum and the absence of layoffs due to company reasons. The maximum relief per company amounts to 20% of the corporate tax payable. For large enterprises, the maximum relief is restricted to 10% of the income tax liability and the number of employees needs to be increased by at least five. The credit was introduced in 2011.

- SMEs are entitled to a deduction of 90% of entertainment expenses incurred up to a maximum of ¥ 5.4 million (≈ € 41,500) in contrast to large companies (this is not an additional deduction).

SMEs are also subject to special tax rates. The first ¥ 8 million (≈ € 61,500) of their income are taxed at 15% instead of 25.5% in the context of the corporation tax. This is a temporary measure to stimulate the economy. The usual small business rate is 19% on the first ¥ 8 million of income. Taking the special reconstruction corporation tax of 10% into account, the practical corporation tax rates will be 28.05% (= 25.5% * 110%) and 16.5% (= 15% * 110%) respectively. The current tax rates were only introduced in 2012. Until then the general rate used to be 30% and the small company rate 22% (18% as a temporary incentive between 2009 and 2011). Companies in Japan, however, are also subject to several other taxes on income. In this respect, a number of size-related differentiations occur:

- Business tax: SMEs incur higher rates that follow a progressive schedule (prefectures determine the exact tax rate which must be between the standard rate and the maximum rate)
  - 2.7% standard rate and 3.24% maximum rate for income up to ¥ 4 million (instead of 1.5% and 1.8% for large companies and SMEs with offices in at least three prefectures)
  - 4% standard rate and 4.8% maximum rate for income between ¥ 4 million and ¥ 8 million (instead of 2.2% and 2.64% for large companies and SMEs with offices in at least three prefectures)
  - 5.3% standard rate and 6.36% maximum rate for income over to ¥ 8 million (instead of 2.9% and 3.48% for large companies and SMEs with offices in at least three prefectures)
- Size-based business tax: only large companies are subject to this tax, which is composed of two components:
  - The added value component (the total of labour costs, net interest payments, net rent payments and the income/loss of the year) is taxed at rates between 0.48% and 0.576%
  - The capital component (capital plus capital surplus for tax purposes) is taxed at rates between 0.2% and 0.24%
- Special local corporate tax: SMEs incur a reduced rate of 81% instead of 148% on the product of taxable income and the standard rate of the business tax.
- SMEs are exempt from the accumulated earnings tax for closely held companies that taxes retained earnings as determined with a special formula at rates of 10%, 15% or 20%. The tax applies to companies which are controlled by one shareholder and related persons of the shareholder.

Furthermore, the following provisions grant special tax treatments to SMEs:

- There are no restrictions on loss compensation among related SMEs, whereas loss compensation is limited to 80% for large enterprises.

- SMEs can incur provisions for doubtful debt, whereas large companies have to deal with serious restrictions in this respect.
- SMEs can apply immediate loss carrybacks over 1 year.
- No interim tax returns need to be filed by enterprises with an average income tax liability below ¥ 50,000 (≈ € 380) per month in the previous fiscal year.

Switzerland

In Switzerland, the cantons enjoy a high degree of autonomy with regard to business taxation. There are no general incentives for SMEs on a federal level. Some cantons, however, offer progressive tax schedules that benefit companies with small profits in particular. Moreover, incentives to new companies that are of interest for the economy are provided in various regions.

USA

The U.S. offers several incentives that primarily target SMEs. First of all, small corporations have the possibility to elect the status of a Subchapter S corporation, which is related to a flow-through treatment of corporate income, losses, deductions and credits to the shareholders. Considering the comparably high level of corporate taxes in the U.S., this is usually advantageous with regard to the tax burden of a corporation. In order to be eligible for the status of an S corporation the following criteria must be met:

- only one class of stock;
- number of shareholders ≤ 100;
- shareholders must be U.S. citizens or residents and must be natural persons, so corporate shareholders and partnerships are generally excluded (certain trusts, estates and tax-exempt corporations are permitted to be shareholders);
- profits and losses must be allocated to shareholders proportionately to their shares in the corporation.

The general expense deduction for tangible business assets is another incentive that is designed to support primarily small and medium-sized businesses. The measure grants the immediate deduction of the entire cost of acquired tangible business assets with a maximum of $ 500,000 (≈ € 377,000) or the taxable income. The deduction begins to phase out when the cost of property placed in service during the year exceeds the amount of $ 2 million (≈ € 1.5 million) and is completely phased out at $2.5 million (≈ € 1.9 million). Different limits apply for some special tangibles such as qualified leasehold improvement property, qualified restaurant property, qualified retail improvement property and SUVs. The incentive is generally applicable to all companies but benefits small enterprises more due to the eligibility thresholds. The latter were increased in 2010 (from $ 250,000 to $ 500,000 and from $ 800,000 to $ 2 million respectively).

Further measures providing an advantageous tax treatment to SMEs include an exemption of $ 40,000 from the alternative minimum tax if the overall taxable income is below $ 150,000 (exemption phases out for incomes between $ 150,000 and $ 310,000) as well as a progressive tax schedule that:

- Income up to $ 50,000 is taxed at 15%;
- 25% on income between $ 50,000 and $ 75,000;
- 34% on income between $ 75,000 and $ 100,000;
- 39% on income between $ 100,000 and $ 355,000;
- 34% on income between $ 355,000 and $ 10 million;
- 35% on income between $ 10 million and $ 15 million;
- 38% on income between $ 15 million and $ 18,333,333;
- 35% on income over $ 18,333,333.

Moreover, SMEs benefit from the following provisions:

- Businesses with gross receipts < $ 5 million are allowed to apply a simplified LIFO method.

Businesses with taxable income > $ 1 million in the preceding three years are subject to stricter regulations concerning the payment of the tax liability. For them, quarterly payments must be equal to 100% of the tax shown on the final return for the current year. If income is below $ 1 million, payments only amount to 100% of the tax shown on the final return for the immediately preceding year (if this is less).

5 AN EMPIRICAL STUDY OF APPLIED CORPORATE INCOME TAXATION FOR SMES COMPARED TO LARGE ENTERPRISES

5.1 Generation of model corporations for the European Tax analyzer

The following describes in detail the steps for the modelling of the corporations for the European Tax Analyzer. The modelling is based on data provided by the AMADEUS database. Here, data provided for corporations across all EU-28 member states from AMADEUS forms the starting point to arrive at an EU-average corporation. In essence, we generate 24 different EU-28 average corporations with regard to a broad base case (average over different industries) and five different industries (manufacturing, energy, construction, commerce and hotels & restaurants) for four different sizes (large, medium, small and micro). Each of these EU-28 average corporations will be applied for the computation of effective tax burdens in the 20 member states considered in this study.

5.1.1 Description of AMADEUS and our Sampling Process

AMADEUS is a monthly updated commercial database and contains financial data from a wide range of EU- and non-EU European countries across all industries. For our study, several selection criteria had to be considered before checking the data for accuracy and consistency.We use the AMADEUS database version as of September 2013 which contains financial data for 20,531,516 European (EU and non-EU) companies over the period from 1998 to 2012 (thereof 17,899,969 EU-28 companies). The most current data from 2012 is only available for 5,769,585 companies whereas data for 11,561,141 companies is stored for 2011. We decided to use the 2011 data as a compromise of timeliness and large sampling (2010: only 11,102,566 companies in total are reported).

Some other preselecting steps have to be conducted before extracting the data from AMADEUS. As the focus of our study is the taxation of a single corporation (we neglect group taxation regimes), we concentrate on unconsolidated accounts which are provided for 8,698,915 companies. Our base case corporation is built on the NACE Rev.2 classifications C-J, L-N and S resulting in the exclusion of the agricultural, mining, financial and public sector. This prerequisite is fulfilled by 7,482,670 companies. Following the terms of the study, only corporations are included in the sample.[8] For this reason, 766,126 more companies have to be excluded. Table 5.1 gives an overview for the numerical results of our search strategy.

[8] The company must have a legal form according to Annex A, Part I of Council Directive 2011/96/EU ("Parent-Subsidiary-Directive"), lately amended by Council Directive 2013/13/EU.

Table 5.1 AMADEUS database – search steps

Step	Number
All companies in the AMADEUS database	20,531,516
thereof: EU-28 companies	17,899,969
thereof: companies providing data for 2011	11,561,141
thereof: companies with unconsolidated accounts	8,698,915
thereof: companies of the relevant industries (NACE Rev.2: C-J; L-N; S)	7,482,670
thereof: companies of the relevant legal forms (corporations)	6,716,544

The downloaded data has to be checked for consistency and accuracy. Those steps are described in detail in the next section "Data Accuracy and Consistency". After assuring consistent and accurate data, the sample consisted of 3,417,114 corporations. Using this sample in a first try, some of our aggregated model corporations would have been in a loss situation. Since loss-making corporations would pay almost no taxes in all countries, a comparison of tax burdens across countries would not be possible and would contradict the purpose of the study. Therefore, we decided to exclude all loss corporations from our sample. As a result, our final sample consists of 2,424,612 corporations (Table 5.2).

Table 5.2 Final sampling after checking for consistency and accuracy

Step	Number
Corporations fulfilling the requirements mentioned in Table 6.2	6,716,544
thereof: corporations with consistent and accurate data	3,417,114
thereof: corporations with a positive profit before taxes	2,424,612

A detailed overview about the structure of the implemented corporations by size class, industry and country is provided in tables 10.6.4 and 10.6.5.

The AMADEUS database provides a lot of information for each corporation. Detailed information is given for the balance sheet and profit- & loss-statement. For each of the 6,716,544 corporations that fulfilled the AMADEUS search criteria the following items presented in Table 5.3 have been downloaded from the database:

Table 5.3 Financial information extracted from AMADEUS for each corporation

Balance Sheet	
Assets	**Liabilities**
Fixed Assets	Equity
Intangible fixed assets	Common stock
Tangible fixed assets	Other shareholder funds
Other fixed assets	Non-current Liabilities
Current Assets	Long-term debt

Stocks	Other non-current liabilities
Debtors	thereof: Provisions
Other current assets	Current Liabilities
thereof: Cash	Loans
	Creditors
	Other current liabilities
Total Assets	Equity + Liabilities

Profit- & Loss-Statement	**Other Important Information**
Sales	Number of employees
- Costs of goods sold	Costs of employees
= Gross profit	
- Other operating expenses	
= Operating profit/loss	
+ Financial revenue	
- Interest paid	
- Other financial expenses	
= Profit/loss before tax	
- Taxes	
= Profit/loss after tax	

5.1.2 Data accuracy and consistency

The downloaded company data has to be checked for accuracy and consistency. Otherwise, the aggregated model corporations results would be based on incorrect estimations.

Balance Sheet: A three-level approach is chosen:

1st level: Total Liabilities = Equity + Liabilities
2nd level: Total Assets = Fixed Assets + Current Assets
Total Liabilities = Equity + Non-current Liabilities + Current Liabilities
3rd level: Subdivision of 2nd level balance sheet items (see table 5.3 above)

In each of the three steps, a deviation of up to 2,000 EUR in the sum of each item is accepted, since data from AMADEUS is automatically downloaded in non-rounded thousand EUR which could lead to rounding errors for summarized items. In case of higher deviations at the first and second level, it is checked whether the mistake can be traced back to a wrong addition of the sub-items. If this is the case, the value is replaced by that sum of sub-items. Otherwise, the corporation is dropped from the sample. Negative values are not accepted at all (except for other shareholder funds) and also result in the exclusion of the corporation from our sample. For the third and lowest level in our balance sheet, another approach is used. The sub-items (e.g. stocks, debtors, other current assets) are added up and compared with their head-item (e.g. current assets). If the deviation exceeds 2,000 EUR the sub-items are proportionally decreased or increased. This procedure eliminates mistakes in AMADEUS which cannot be explained by a wrong addition of the sub-items.

Profit- and Loss-Statement: Each corporation has to report in AMADEUS at least the following items:

- - Sales
- - Operating profit/loss
- - Profit/loss before tax
- - Profit/loss after tax

We have to limit our consistency checks to those four items as two different methods for the profit- & loss-statement are used in AMADEUS depending on national accounting rules: cost of sales format and total expenditure format. The gross profit figure is not given in the total expenditure format and comparable figures for both methods are only sales and operating profit/loss.[9] Due to different disclosure requirements, detailed and complete information about the financial result is not available for a lot of corporations. We therefore have to rely on the profit/loss before tax figure and, hence, checking consistency is difficult for the profit- & loss-statement. Corporations with a negative sales or a higher operating profit/loss figure compared to sales are excluded. Further checks are not possible.[10]

After those steps, the sample shrinks to 3,417,114 corporations (reduction of 49.12%) with consistent balance sheets and profit- & loss-statement.

Number/costs of employees: First of all, we exclude corporations with a negative number of employees or costs of employees (personnel costs have normally a positive sign in AMADEUS; a negative sign would mean earnings from costs of employees). A further analysis shows that 1,239,415 corporations (36.27% of the sample) do not report their number of employees (costs of employees is missing for 880,530 corporations). This might also be due to national reporting requirements as in some countries especially small and micro corporations do not have to report this figure. But as the number of employees is the most important criterion for the allocation of each corporation to a class (large, medium, small, micro) according to EU recommendation 2003/361/EC it might be sensible to estimate the number of employees. The total assets and sales figures only play a minor role in the determination of the size classes as only one of the two criteria has to be fulfilled. If we would eliminate all corporations with an unknown number of employees, some countries would have been totally excluded. In using estimators, the exclusion can be avoided.

To estimate the number of employees (and costs of employees as well) we use the "structural business statistics" provided by Eurostat[11]. This statistic reports sales, number of employees and costs of employees on a country- and highly industry-specific level. In a first step, parameters for each country and on a

[9] Enterprises reporting in the total expenditure format report in AMADEUS have always a turnover figure including increases/decreases of inventory and a sales figure concerning the actual sales of the period. Therefore, comparability with the sales figure of company using the cost of sales method is assured.

[10] Negative numbers have to be allowed as they display a loss. Profit/loss before tax could be higher than operating profit/loss due to high dividends or interest revenue. A higher profit/loss after tax compared to profit/loss before tax could be due to tax refunds relating to other periods.

[11] Eurostat, Structural Business Statistics: http://epp.eurostat.ec.europa.eu/portal/page/portal/european_business/introduction

NACE Rev. 2 two-digit code (for commerce, the three-digit codes are used) are calculated according to the following formula:

ESTnumber = number of employees/sales
ESTcosts = costs of employees/sales

As we calculate 28 country-specific parameters for each two-digit/three-digit NACE Rev. 2 industry, more than 2,000 parameters are generated in total. This is a highly precise estimate and reflects country- and industry-specific differences very well. In a second step, the sales figure of the 1,239,415 corporations, which has been previously checked for consistency, is multiplied with the respective parameter. This yields our estimate for the number of employees (costs of employees).

The preliminary final sample consists of 3,415,497 corporations (large: 31,928; medium: 130,761; small: 518,223; micro: 2,734,585). The division of the sample in the different size classes was determined by applying the conditions set out in the recommendation by the European Commission.[12]

Final Sampling: We use this sample to generate preliminary aggregated values and ratios (detailed description can be found in the next section "Determination of the Model Corporations"). In an intermediate step and to account for possible outliers, corporations below the 1%- and above the 99%-percentile are eliminated based on the profit/loss ratio before taxes. According to this analysis, half of our model corporations (12 out of 24 models) would have had a loss before tax (especially the micro models).[13]

The use of the loss-making corporations would contradict the purpose of the study for the following reason: Apart from some minor taxes (e. g. real estate taxes), a loss-generating corporation would have to pay no tax in any considered country of our study. This argument is especially valid for profit taxes. The European Tax Analyzer is an instrument to show where it might be most advantageous for an investor to establish a new profitable corporation based on the comparison of effective tax burdens in different countries. As there is no tax burden for a loss-generating enterprise, an investment decision cannot be made.

We therefore decided to eliminate all corporations with a negative profit before taxes. This applies to 990,885 corporations and the final sample consists of 2,424,612 corporations. Tables 5.4 and 5.5 display a detailed structure by class, country and industry:

Table 5.4 Final sample: number of corporations by class and country

Country	large	medium	small	micro	Total
AT	705	1,818	512	333	**3,368**
BE	929	3,399	6,766	31,111	**42,205**
BG	512	3,208	13,751	83,441	**100,912**

[12] See European Commission, Recommendation 2003/361/EC.
[13] This could be due to the economic downturn in some member states in 2011.

CY	9	35	64	39	**147**
CZ	1,128	4,128	12,324	53,566	**71,146**
DE	2,744	7,215	10,485	8,417	**28,861**
DK	330	713	1,115	8,648	**10,806**
EE	100	751	3,588	43,478	**47,917**
ES	1,992	9,393	57,972	218,595	**287,952**
FI	296	1,399	9,010	70,855	**81,560**
FR	3,270	14,134	72,294	383,167	**472,865**
GR	185	1,030	5,094	5,546	**11,855**
HR	240	1,127	5,510	46,126	**53,003**
HU	603	2,899	15,335	146,925	**165,762**
IE	47	167	183	355	**752**
IT	2,770	16,952	92,960	386,915	**499,597**
LT	189	1,233	3,119	1,815	**6,356**
LU	92	194	252	371	**909**
LV	97	702	2,384	12,521	**15,704**
MT	36	88	111	1,055	**1,290**
NL	530	1,022	559	1,349	**3,460**
PL	1,681	6,343	11,511	16,372	**35,907**
PT	542	3,273	20,125	81,721	**105,661**
RO	1,099	5,813	27,585	211,917	**246,414**
SE	714	2,527	2,527	567	**6,335**
SI	155	706	3,441	25,183	**29,485**
SK	321	1,252	3,255	20,724	**25,552**
UK	4,174	12,020	12,104	40,533	**68,831**
Total	**25,490**	**103,541**	**393,936**	**1,901,645**	**2,424,612**

Table 5.5 Final sample: number of companies by class and industry

Industry	large	medium	small	micro	Total
C	9,289	34,213	189,521	94,612	**327,635**
D	579	1,031	15,608	1,837	**19,055**
E	447	1,809	7,719	3,840	**13,815**
F	1,489	11,256	281,786	62,044	**356,575**
G	5,397	23,980	530,912	109,308	**669,597**
H	1,424	6,335	78,958	22,836	**109,553**
I	686	3,458	99,131	24,178	**127,453**
J	1,283	4,664	102,742	15,187	**123,876**
L	299	2,174	191,220	10,857	**204,550**
M	1,756	6,402	308,562	28,497	**345,217**

N	2,801	8,104	86,175	19,818	**116,898**
S	40	115	9,311	922	**10,388**
Total	**25,490**	**103,541**	**393,936**	**1,901,645**	**2,424,612**

C=	Manufacturing	I=	Hotels and restaurants
D=	Energy	J=	Information and communication
E=	Water supply; sewerage	L=	Real Estate activities
F=	Construction	M=	Professional/scientific activities
G=	Commerce	N=	Administrative/support activities
H=	Transportation and storage	S=	Other service activities

To prevent an overestimation of profit before taxes, corporations above the 90%-quantile with respect to profit before taxes are excluded for the calculation of the ratios in the next section "Determination of the Model Enterprises". This means that the first 10% of corporations having the highest profit before taxes are excluded.

5.1.3 Determination of the Model Corporations

In the final sample, we have 2,424,612 complete and consistent datasets. The model corporations are based on averages of the relevant items. Table 10.6.4 shows that the number of corporations in the final sample differs at a large scale comparing different countries. Without any adjustment, countries with a high number of corporations would have a much higher impact on the final sample than countries with a low number. To account for this and to arrive at an "average EU-28 corporation", the averages are first calculated in a country-specific manner. The final average is then calculated by the sum of country-specific averages divided by the number of countries.

Apart from the country-specific influence, a corporation at the upper boundary of a class has a higher influence concerning the average than the corporation at the bottom boundary of a class if we would only rely on absolute figures. To illustrate this, compare as a simplified example two companies: one with 10 million total assets and thereof 5 million fixed assets (50%), the other with just above 2 million total assets and thereof 0.5 million fixed assets (25%).[14] If we simply add both numbers for each position and divide them by two we get 6 million total assets and 2,75 million for fixed assets (45.83%). Yet, the true ratio is 37.5% (50%+25% divided by two).This problem is solved by the use of ratios for nearly all relevant items. Only total assets, the sum of equity and liabilities, sales and the number/costs of employees are calculated as absolute numbers. For each subsample of the 24 corporations, the following rules are applied.

Balance Sheet: The three-level approach has already been presented in subsection "Data Accuracy and Consistency". For the calculation of the ratios, this distinction is important again. The average total assets and the average sum of equity and liabilities are calculated in the manner described in the first

[14] According to their sales figure, both would meet the definition for a small corporation.

paragraph of this section (EU-average is calculated by the means of the 28 country-specific averages) and are expressed by absolute numbers. 2nd-level items (fixed assets, current assets, equity, non-current liabilities, current liabilities) are calculated for each corporation as a ratio in relation to total assets. The ratios of each country are used for a country-specific average ratio. The final EU-28 average ratio is calculated as the average of the country-specific average ratios.

3rd-level items are calculated as ratios in relation to the 2nd-level item (e.g. intangible fixed assets/fixed assets). The model corporation average ratio is calculated as described for the 2nd-level items.

Profit and loss statement: The sales figure is calculated as an absolute number, whereas the three other relevant figures (operating profit/loss, before tax profit/loss, after tax profit/loss) are expressed as percentage of sales. The calculation of the averages follows the same rules as for the balance sheet.

Number/costs of Employees: The average number of employees and the costs of employees are calculated as absolute numbers. We calculate again country-specific averages prior to the determination of the overall EU-28 average figure.

The complete ratios and results for the 24 model corporation using the AMADEUS database can be found in table 5.8.

5.1.4 Macroeconomic Data and other Assumptions

For the completion of the simulation, we have to specify some further planning parameters.

Economic lifetime of assets: The economic lifetime is important for the depreciation in the pre-tax model. We assume the following (unchanged compared to the last study prepared for the Commission): buildings (50 years); patent and license (5 years each); office furniture (9 years); plant equipment (4 years); machinery (five assets are considered, 5 to 10 years).

Rates of price increase[15]: price index for basic material (2.5%); consumer price index (2.7%); price index for wages (2.2%); price index for investment goods (2.7%); price index for real estate (2.5%).

Interest rates for creditors and debtors[16]: short-term debt claim (1.1%); long-term debt claim (2.5%); short-term liabilities (3.9%); long-term liabilities (3.5%).

Research & Development costs: R&D-expenses are important for the production plan and the cost of goods. The research intensity can be calculated

[15] See Eurostat and Statistical Office of Germany. All data taken from 2012. The numbers displayed are the average of the monthly or quarterly values in 2012 .

[16] See ECB, MFI interest rate statistics. All data taken from 2012. The numbers displayed are the average of the monthly values in 2012. Short-term refers to a time period of up to one year. Long-term refers to a time period of longer than one year.

by using the data from the "7th Community Innovation Survey 2010" conducted by Eurostat. This study is conducted every two years by using a standardized questionnaire. It contains questions about the development of R&D expenditures and funding of ongoing R&D projects. It is possible to derive an industry-specific intensity in relation to sales. The application of R&D incentives is restricted to certain expense categories (e.g. R&D-personnel, assets used in R&D). For the division of the R&D-expense in different categories, OECD-statistics are used.[17] The numbers (average across EU member states) finally taken into account for this study are based on data from 2009. In 2009, most EU member states reported this kind of data.

Earnings of employees: The European Tax Analyzer also requires some input regarding the income of an employee specified for three different salary levels. With data from Eurostat ("Structure of Earnings Survey 2010"), we use the educational background as the main criterion for the division into three salary levels. The salary for the lower, middle and upper salary stage are again calculated in an industry-specific manner. This European study contains a broad sample of enterprises and gives a detailed structure about the number of employees and their earnings dependent on different characteristics as age and gender. With the same database, it is also possible to derive an industry-specific age structure for the staff of the model corporation which is also implemented in the European Tax Analyzer.

Subdivision of tangible assets and other fixed assets: In table 10.6.3 above, it is displayed that AMADEUS only contains a summarized tangible asset and other fixed asset items. For the European Tax Analyzer, a subdivision is needed (tangible assets: real estate, machinery, office and plant equipment; other fixed assets: shareholdings and debt claims). In our last study for the Commission, the BACH-database was used to derive the respective shares. Right now, BACH does not report this important measure anymore. For the sake of comparability, we therefore use the same ratios as in the last study.

5.1.5 Final Steps for Model Corporations

With the steps presented above, we have model corporations data as well as necessary company planning estimators. Our model corporations data is the relevant data we implement in period 6 for the European Tax Analyzer. The final data is contained in table 9.9.9 for each of the 24 model corporations (divided by class and industry). Based on the company planning estimators, it is possible to derive the balance sheet and profit- & loss-statement for previous and later periods. It should be noted that the macroeconomic estimators do not necessarily reflect the reality of a single corporations (e.g. interest rates, assumptions about economic lifetime of fixed assets).

As there are also several interactions between different company planning estimators, it is possible that the final figures implemented in the European Tax Analyzer are differing from the values calculated by using AMADEUS. The AMADEUS data is the output that should be achieved in period 6 with our simulation. As some items like stocks, debtors and other current assets are

[17] See OECD, Gross Domestic Expenditure on R-D by sector of performance and type of cost, http://stats.oecd.org/Index.aspx?DataSetCode=GERD_COST.

items that are directly linked to the ongoing business activity (and are set to zero at the beginning), they depend mainly on sales figures. In the intermediate periods 1 to 6, those items are gradually and smoothly increased such that they match the AMADEUS data in period 6 as exactly as possible. Because of the very complex calculations and interdependencies, it is not possible to achieve the exact AMADEUS result in the simulation for every item.

For a better understanding, the AMADEUS data and the final implemented European Tax Analyzer data for the large EU-28 average corporation will be compared in the following:

Table 5.6 Comparison between AMADEUS data and implemented European Tax Analyzer data (large EU-28 average corporation)

Item	AMADEUS data	European Tax Analyzer data	Deviation
Employees	628	628	0,00%
Costs of employees	21.939.002	21.939.312	0,00%
Total Assets	**171.285.224**	**171.949.188**	**0,39%**
Fixed assets	58.759.020	58.759.036	0,00%
Intangible fixed assets	5.199.374	5.199.376	0,00%
Tangible fixed assets	41.151.165	41.151.178	0,00%
Other fixed assets	12.408.482	12.408.482	0,00%
Current assets	112.526.204	113.190.152	0,59%
Stock	25.735.312	27.361.625	6,32%
Debtors	44.568.408	41.937.873	-5,90%
Other current assets	42.222.484	43.890.654	3,95%
Equity+Liabilities	**171.285.224**	**171.949.188**	**0,39%**
Equity	66.580.511	73.194.026	9,93%
Common stock	21.305.895	21.305.895	0,00%
Other equity	45.274.616	51.888.131	14,61%
Non-current liabilites	22.971.165	27.999.977	21,89%
Long-term debt	10.272.318	19.937.409	94,09%
Other non-current	12.698.847	8.062.568	-36,51%
Current liabilities	81.733.548	70.755.185	-13,43%
Loans	12.995.431	22.660.522	74,37%
Creditors	32.385.199	32.385.199	0,00%
Other current liabilities	36.352.918	15.709.464	-56,79%
Sales	**209.689.441**	**209.689.369**	**0,00%**
Operating profit/loss	14.278.106	14.277.986	0,00%
Profit/loss before tax	13.567.731	13.369.175	-1,46%
Profit/loss after tax	11.234.593	10.383.662	-7,57%

Assets: The fixed assets can be matched nearly exactly with the generated AMADEUS data. Deviations could only occur for the current assets. At the beginning of the simulation (period 1), all current asset positions are set to zero keeping in mind the general aim of the European Tax Analyzer: the comparison of tax burdens for a *new* profitable investment. As the current positions develop over time depending on prespecified sales figures, some minor differences can occur.

Equity + Liabilities: At a first glance, the differences for the liabilities are very high. This high increase is related to the very exact calculation of the fixed assets. The given AMADEUS data is used for the calculation of the value of the fixed assets at the beginning of the simulation. In subsection ”Macroeconomic Data and Other Assumptions”, we displayed the assumptions about the economic lifetime of the fixed assets and as a consequence, some fixed assets are assumed to be nearly written off in period 6 and had a much higher value at the beginning of the simulation. The increase for the fixed asset position at the beginning of the simulation also requires an increase of the liabilities. Otherwise, we would not have an equated balance sheet.

An increase in liabilities results in higher interest payments. To counteract this deviation, interest payments of the profit- & loss-statement are reduced by the amount that can be traced back to the increase in liabilities.

Any difference between AMADEUS and European Tax Analyzer concerning the current liabilities has no influence on the profit and loss-statement as this position contains only trade payables which are assumed to be paid in the next period. Therefore, no interest payment accrues.

Profit and loss statement: Differences in the profit/loss before tax are a result of calculated interest expenses and receipts based on the interest rates of the European Central Bank. The profit/loss after tax might differ due to the assumed and the real faced tax rate.

Especially depending on the value of the fixed assets at the beginning of the calculation, the necessary adaptations could be very high or not necessary at all.

As an additional remark, the above-mentioned items showing large differences are not actually relevant for taxation purposes; for instance, there is no tax rule that defines the amount of stock or debtor as its tax base.

The data for all 24 different model corporations as they have been implemented in the European Tax Analyzer for period 6 is displayed in table 5.9.

5.1.6 Sensitivity analysis

Effective tax burdens are only valid for model corporations displaying specific corporations characteristics such as size, profitability, capital intensity, equity ratio and labour intensity. To gain additional insights in effective tax burdens, a sensitivity analysis for four average base case model corporations (large, medium, small, micro) is conducted. To this end, the effects of changes in the corporations’ profitability, capital intensity, equity ratio and labour intensity on the effective tax burdens will be analysed. The figures of the average base case model in period 6 serve as a starting point and each single parameter is increased or decreased separately. In the following, the procedure for each of the sensitivity dimension will be described. To illustrate the procedure, exemplary calculations based on the ratios for the large average model corporation (Table 5.7) will be shown.

Profitability: The return on sales (Profit after taxes/Sales) figure in period 6 of the model corporation is calculated and increased resp. decreased by 10%, 20%

and 30% by modifying sales. As expenses are held constant, a rise/decrease in sales revenues results in a higher/lower taxable profit and periodical liquidity and thus in a higher/lower effective tax burden.

Capital intensity: For the capital intensity ratio, the sum of fixed assets is divided by the balance sheet total in period 6. In the next step, the sum of fixed assets is increased or decreased by 5%, 10% and 15% (Profit after taxes/Sales) holding the balance sheet total constant. Based on the increased or decreased sum of fixed assets, the value for each asset in period 6 can be calculated as the subdivision of tangible assets used in the base case is also assumed to remain constant. To counterbalance the effect of an in- or decrease of fixed assets, the debtor account (current assets) is reduced respectively. This leads to a constant balance sheet total. Given a higher capital intensity and all other ratios unchanged, a higher depreciation in absolute terms will occur. The annual tax base and the effective tax burden will be decreasing. For a lower capital intensity, a higher annual tax base and effective tax burden should be expected to the diminishing amount of depreciation expense.

Equity ratio: Equity ratio is defined as equity (Common Stock + Other Equity) divided by balance sheet total in period 6. The equity ratio is increased and decreased by 10%, 20% and 30% holding the balance sheet total constant. The decrease and increase for liabilities (to hold balance sheet total constant) will be split equally among long-term debt and loans. An decreasing equity ratio leads to higher liabilities and more interest expenses can be deducted at the corporate level. This should lead to lower profits and a lower effective tax burden. But in recent years, multiple countries have introduced special regulations that limit the deductibility of interest payments. A decreasing equity ratio might trigger the application of such rules. A differing equity ratio might also have an impact on the overall tax burden (shareholder and corporate level) as the shareholders receive (assuming an decreasing equity ratio for the model corporation) more interest income that might be taxed differently compared to dividend payments.

Labour intensity: Labour intensity is given by costs of employees divided by sales in period 6. This ratio is again increased and decreased by 10%, 20% and 30%. The three pre-specified salary levels are increased and decreased respectively. An increasing labour intensity leads to higher business expenses and lowers the tax base for the corporate income tax. On the other hand, some countries (Austria, France) levy a special tax based on the costs of employees. Thus, the variation of the labour intensity could also lead to a higher effective tax burden in some countries.

Table 5.7 shows the ratios for the average large base case (table 10.6.6) as well as the resulting ratios that are used for the sensitivity analysis of the effective tax burdens.

Table 5.7 Sensitivity Analysis – Ratios for the large EU-28 average corporation

Sensitivity	-15%/ -30%	-10%/ -20%	-5%/ -10%	Base Case	-5%/ -10%	-10%/ -20%	-15%/ -30%
Profitability	3.47%	3.96%	4.46%	4.95%	5.45%	5.94%	6.44%
Capital Intensity	20.34%	21.54%	22.74%	23.93%	25.13%	26.33%	27.52%
Equity Ratio	29.80%	34.05%	38.31%	42.57%	46.82%	51.08%	55.34%
Labour Intensity	7.32%	8.37%	9.42%	10.46%	11.51%	12.56%	13.60%

Variations of 10% are used for profitability, equity ratio and labour intensity. A 5%-interval is used for capital intensity

Table 5.8 AMADEUS Data for Model Corporations (in thousand EUR)

	Large						Medium					
	Base Case	C	D	F	G	I	Base Case	C	D	F	G	I
Employees	628	558	492	551	668	806	90	98	57	91	78	101
Costs of employees	21,939	20,317	22,386	20,001	16,567	23,070	2,703	2,850	5,845	2,662	2,252	1,928
Total Assets	**171,285**	**158,817**	**596,873**	**115,104**	**190,253**	**172,159**	**16,292**	**12,645**	**44,773**	**12,621**	**15,016**	**11,967**
Fixed assets	58,759	63,510	333,448	28,596	49,357	43,114	5,215	4,521	23,742	2,888	3,767	6,814
Intangible fixed assets	5,199	3,724	34,192	1,793	4,531	5,720	340	199	1,940	92	281	284
Tangible fixed assets	41,151	49,416	237,305	17,886	32,239	26,891	4,110	3,827	18,745	2,327	2,835	5,816
Other fixed assets	12,408	10,371	61,951	8,916	12,587	10,503	764	495	3,057	470	650	714
Current assets	112,526	95,306	263,425	86,508	140,897	129,045	11,078	8,123	21,031	9,733	11,249	5,154
Stock	25,735	29,369	27,506	13,493	47,858	40,777	2,698	2,656	1,662	1,863	3,996	722
Debtors	44,568	34,269	122,914	40,193	46,959	44,410	4,564	3,191	9,509	4,525	4,097	1,375
Other current assets	42,222	31,668	113,005	32,823	46,080	43,858	3,816	2,276	9,861	3,344	3,157	3,056
Equity+Liabilities	**171,285**	**158,817**	**596,873**	**115,104**	**190,253**	**172,159**	**16,292**	**12,645**	**44,773**	**12,621**	**15,016**	**11,967**
Equity	66,581	74,690	223,709	38,370	63,163	59,087	6,266	5,677	16,838	4,558	5,700	3,841
Common stock	21,306	28,024	72,427	9,331	16,073	16,248	1,694	1,754	6,557	744	1,462	1,571
Other equity	45,275	46,665	151,281	29,038	47,090	42,839	4,572	3,923	10,282	3,814	4,238	2,270
Non-current liabilites	22,971	20,941	139,369	13,902	19,758	19,400	2,251	1,735	10,149	1,516	1,621	3,131
Long-term debt	10,272	9,455	63,348	5,164	8,951	6,529	1,186	946	4,535	772	862	1,902
Other non-current liabil.	12,699	11,486	76,022	8,737	10,807	12,871	1,065	789	5,614	744	760	1,229
Current liabilities	81,734	63,186	233,795	62,832	107,332	93,671	7,775	5,233	17,785	6,547	7,695	4,995
Loans	12,995	11,888	37,522	7,682	16,947	15,280	1,310	985	3,133	855	1,396	902
Creditors	32,385	25,935	86,301	24,827	49,126	40,683	3,265	2,261	6,404	3,028	3,637	1,757

Other current liabilities	36,353	25,363	109,973	30,324	41,259	37,708	3,199	1,987	8,247	2,664	2,661	2,336
Sales	**209,689**	**168,726**	**459,404**	**106,227**	**369,605**	**46,524**	**19,404**	**17,184**	**29,917**	**14,145**	**30,927**	**6,381**
Operating profit/loss	14,278	13,683	51,660	6,802	15,365	3,457	1,352	1,220	3,560	829	1,461	566
Profit/loss before tax	13,568	13,128	44,829	6,079	15,408	3,156	1,206	1,102	2,568	767	1,357	469
Profit/loss after tax	11,235	11,057	37,438	4,820	12,506	2,634	983	909	2,075	612	1,085	385
	Small						Micro					
	Base Case	C	D	F	G	I	Base Case	C	D	F	G	I
Employees	21	24	13	22	19	22	3	4	2	3	3	4
Costs of employees	634	700	404	648	588	442	84	105	90	85	84	63
Total Assets	**4,795**	**3,002**	**13,382**	**3,564**	**3,606**	**2,500**	**1,274**	**837**	**2,558**	**820**	**469**	**772**
Fixed assets	1,385	943	7,333	814	820	1,281	340	223	1,330	189	87	314
Intangible fixed assets	88	47	409	25	54	85	21	11	45	6	6	25
Tangible fixed assets	1,139	822	6,179	693	667	1,109	284	195	1,167	168	73	270
Other fixed assets	158	75	745	96	99	87	36	16	118	14	8	18
Current assets	3,411	2,059	6,049	2,750	2,786	1,219	934	614	1,228	631	382	459
Stock	821	620	446	581	1,021	230	188	147	85	120	127	116
Debtors	1,304	761	2,490	1,184	938	278	295	209	433	230	110	81
Other current assets	1,286	678	3,113	984	828	711	451	258	710	282	145	262
Equity+Liabilities	**4,795**	**3,002**	**13,382**	**3,564**	**3,606**	**2,500**	**1,274**	**837**	**2,558**	**820**	**469**	**772**
Equity	1,710	1,277	4,620	1,276	1,375	782	385	282	933	246	138	141
Common stock	659	294	1,852	225	615	318	151	104	397	82	56	91
Other equity	1,052	983	2,768	1,051	760	463	234	179	536	164	82	50
Non-current liabilites	716	419	4,056	429	422	529	212	128	725	119	64	186
Long-term debt	416	244	2,098	246	253	320	127	77	419	72	40	114
Other non-current liabil.	300	176	1,958	183	170	209	85	51	306	47	25	72

Current liabilities	2,369	1,306	4,706	1,859	1,808	1,189	677	427	901	455	266	445
Loans	344	190	913	231	278	177	77	49	155	46	29	64
Creditors	963	530	1,587	803	830	403	246	158	314	173	113	133
Other current liabilities	1,061	586	2,206	825	700	609	354	220	431	236	124	248
Sales	**4,764**	**4,196**	**7,852**	**3,226**	**7,207**	**1,827**	**659**	**587**	**970**	**382**	**1122**	**263**
Operating profit/loss	381	321	1,237	254	390	147	72	55	175	37	80	25
Profit/loss before tax	323	289	783	219	353	123	61	50	128	33	74	19
Profit/loss after tax	263	242	663	178	281	102	50	41	108	27	61	16

C = Manufacturing; D = Energy; F = Construction; G = Commerce; I = Hotels&Restaurants

Table 5.9 European Tax Analyzer Data in Period 6 for Model Corporations (in thousand EUR)

	Large						Medium					
	Base Case	C	D	F	G	I	Base Case	C	D	F	G	I
Employees	628	558	492	551	668	806	90	98	57	91	78	101
Costs of employees	21,939	20,317	22,386	20,001	16,567	23,071	2,703	2,850	5,845	2,662	2,252	2,302
Total Assets	**171,949**	**171,405**	**663,739**	**102,843**	**177,553**	**174,881**	**15,857**	**13,889**	**48,178**	**13,074**	**15,282**	**12,775**
Fixed assets	58,759	63,510	333,448	28,596	49,357	43,114	5,215	4,521	23,742	2,888	3,767	6,814
Intangible fixed assets	5,199	3,724	34,192	1,793	4,531	5,720	340	199	1,940	92	281	284
Tangible fixed assets	41,151	49,416	237,305	17,886	32,239	26,891	4,111	3,827	18,745	2,327	2,835	5,816
Other fixed assets	12,408	10,371	61,951	8,916	12,587	10,503	764	495	3,057	470	650	714
Current assets	113,190	107,894	330,291	74,247	128,196	131,767	10,642	9,368	24,436	10,186	11,515	5,961
Stock	27,362	39,906	30,066	14,263	23,262	42,349	2,978	4,041	1,593	3,588	1,938	1,821
Debtors	41,938	33,745	114,851	15,934	54,311	29,528	2,911	1,718	7,479	1,751	4,542	1,148
Other current assets	43,891	34,243	185,374	44,049	50,623	59,890	4,753	3,608	15,364	4,847	5,035	2,991

Equity+Liabilities	**171,949**	**171,405**	**663,739**	**102,843**	**177,553**	**174,881**	**15,857**	**13,889**	**48,178**	**13,074**	**15,282**	**12,775**
Equity	73,194	65,924	111,665	43,491	68,705	99,023	7,035	5,992	9,871	5,604	6,557	4,135
Common stock	21,306	28,024	72,427	9,331	16,073	16,248	1,694	1,754	6,557	744	1,462	1,571
Other equity	51,888	37,900	39,237	34,159	52,631	82,776	5,341	4,238	3,314	4,860	5,094	2,564
Non-current liabilites	28,000	37,111	228,739	10,324	23,162	9,931	2,558	2,651	15,945	1,427	2,051	3,881
Long-term debt	19,937	30,624	210,235	5,786	8,951	6,529	1,796	1,991	14,741	772	862	3,614
Other non-current liabil.	8,063	6,488	18,505	4,538	14,211	3,402	762	661	1,203	655	1,189	267
Current liabilities	70,755	68,369	323,335	49,028	85,686	65,926	6,264	5,246	22,362	6,043	6,675	4,758
Loans	22,661	33,057	184,409	8,303	16,947	15,280	1,920	2,030	13,340	855	1,396	2,614
Creditors	32,385	25,935	86,301	24,827	49,126	40,683	3,265	2,261	6,404	3,028	3,637	1,757
Other current liabilities	15,709	9,377	52,626	15,898	19,613	9,963	1,078	955	2,618	2,159	1,641	387
Sales	**209,689**	**168,726**	**459,404**	**106,227**	**369,605**	**46,524**	**19,404**	**17,184**	**29,916**	**14,145**	**30,927**	**6,380**
Operating profit/loss	14,278	13,685	51,951	6,726	15,364	3,452	1,348	1,221	3,550	834	1,461	567
Profit/loss before tax	13,369	12,955	40,306	6,367	13,732	3,120	1,237	1,147	2,675	765	1,329	481
Profit/loss after tax	10,384	10,047	31,509	4,980	10,665	2,492	957	885	2,079	592	1,027	373
	Small						Micro					
	Base Case	C	D	F	G	I	Base Case	C	D	F	G	I
Employees	21	24	13	22	19	22	3	4	2	3	3	4
Costs of employees	634	700	530	648	588	479	84	105	90	85	84	105
Total Assets	**4,442**	**3,225**	**15,391**	**3,279**	**3,745**	**2,625**	**1,074**	**762**	**2,790**	**811**	**494**	**694**
Fixed assets	1,385	943	7,333	814	820	1,281	340	223	1,330	189	87	314
Intangible fixed assets	88	47	409	25	54	85	21	11	45	6	6	25
Tangible fixed assets	1,139	822	6,179	693	667	1,109	284	195	1,167	168	73	270
Other fixed assets	158	75	745	96	99	87	36	16	118	14	8	18
Current assets	3,057	2,282	8,058	2,465	2,925	1,344	734	539	1,460	622	407	380

Stock	816	975	549	890	982	289	175	134	94	118	129	109
Debtors	993	420	2,356	528	1,231	256	154	106	339	103	97	26
Other current assets	1,248	888	5,153	1,047	712	800	405	299	1,027	401	182	245
Equity+Liabilities	**4,442**	**3,225**	**15,391**	**3,279**	**3,745**	**2,625**	**1,074**	**762**	**2,790**	**811**	**494**	**694**
Equity	2,268	1,427	3,136	1,519	1,729	951	509	360	679	485	210	316
Common stock	659	294	1,852	225	615	318	151	104	397	82	56	91
Other equity	1,609	1,133	1,285	1,293	1,114	632	358	256	282	402	154	225
Non-current liabilites	601	626	5,698	380	525	694	156	110	1,015	86	82	144
Long-term debt	416	464	5,380	246	253	614	127	84	976	72	40	134
Other non-current liabil.	185	161	318	134	272	79	28	26	39	14	42	10
Current liabilities	1,572	1,173	6,556	1,381	1,491	981	410	292	1,096	240	202	234
Loans	344	410	4,195	231	278	471	77	56	713	46	29	84
Creditors	963	530	1,587	803	830	403	246	158	314	173	113	133
Other current liabilities	265	233	774	347	382	107	87	78	68	21	60	16
Sales	**4,764**	**4,196**	**7,852**	**3,226**	**7,207**	**1,827**	**659**	**586**	**969**	**382**	**1,122**	**263**
Operating profit/loss	381	321	1,244	251	391	147	72	54	177	38	81	25
Profit/loss before tax	342	303	798	223	353	130	62	48	124	34	76	20
Profit/loss after tax	264	233	618	172	272	100	48	37	96	26	58	15

C = Manufacturing; D = Energy; F = Construction; G = Commerce; I = Hotels&Restaurants

5.2 R&D incentives implemented 2009-2013 (European Tax Analyzer)

Table 5.10 Overview of implemented R&D tax incentives, 2009

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Austria		-	8% volume-based tax credit for capital expenditure, personnel, current costs
Belgium	33.33 % accelerated depreciation on machinery, equipment, furniture, intangibles (for intangibles, minimum depreciation period is reduced from 5 to 3 years) 15.5% volume-based deduction on capital expenditures for tangibles, intangibles EUR 13,250 deduction on staff per qualifying employee hired in scientific research		Alternatively to the deduction, a tax credit can be applied that equals the tax benefit of the deduction
Bulgaria	-	-	-
Croatia	125% volume-based deduction (on top of the immediate deduction of the actual expense) on personnel, current costs, depreciation	Investments in projects concerning establishment and development of technology and innovation centres from EUR 150,000 to EUR 1,500,000 a reduced tax rate of 10% (instead of 20%) applies for 10 years	-
Estonia	-	-	-
Finland	20% (instead of 7% resp. 4%) accelerated depreciation for industrial and office	-	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	buildings used in R&D[18]		
France	Accelerated depreciation on machinery, equipment, furniture, intangibles: declining-balance method with 150%/200%/250% of the normal straight-line rate (depending on the useful life: 3-4 years/5-6 years/more)	-	Volume-based tax credit for personnel, current costs, depreciation: 30% up to expenses of EUR 100 million and 5% on the excess amount (50% and 40% apply instead of 30% in the first two years of a period of 5 years without any claims) Only SMEs: 20% of capital expenditures with a maximum credit of EUR 100,000
Germany	-	-	-
Greece	33.33% accelerated depreciation on machinery, equipment, furniture 50% deduction additional to regular deduction on personnel, current costs on an incremental basis (only the amount that exceeds the average R&D expenses of the previous two years))	-	-
Ireland	Immediate depreciation of 100% on machinery, equipment, furniture, buildings, land, intangibles	-	25% tax credit on capital expenditure, personnel, current costs (incremental)

[18] Please note that general accelerated depreciation was available in Finland in tax years 2009, 2010 and 2013. In particular, industrial building could be depreciated at 14% (instead of 7%), increased 50% pool depreciation (instead of 25%) applied to machinery and equipment.

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
			25% volume-based credit on costs related to the construction and refurbishment of buildings if used for R&D by 35% for 4 years
Italy	personnel costs related to employees in R&D are deductible for IRAP purposes in contrast to other personnel costs	-	10% volume-based tax credit on capital expenditure, personnel, current costs; maximum qualifying expenditure is EUR 15 million
Lithuania	200% volume-based deduction (on top of the immediate deduction of the actual expense) on personnel, current costs	-	-
Luxembourg	Accelerated depreciation on machinery, equipment, furniture (special rates for the declining-balance method of 40% or four times the straight line rate (instead of 30% and three times))	-	-
Netherlands	-	-	reduction of wage withholding tax with respect to salaries paid to employees who carry out certain R&D activities (max. EUR14 million per enterprise); amount is equal to 42% of the relevant wage costs up to EUR 150,000 and 14% above that amount
Poland	-	-	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Romania	20% volume-based deduction on personnel, current costs accelerated depreciation (straight-line with 33.33% or declining-balance) is granted for patents	-	-
Slovenia	33.3% (instead of 20%) accelerated depreciation on machinery, equipment, furniture 20% volume-based deduction on capital expenditures for tangibles and intangibles, personnel, current costs	-	-
Spain	10% accelerated depreciation on buildings	-	9% volume-based tax-credit on capital expenditure on tangible movable assets and intangibles (If the sum of tax credits is smaller than 10% tax due, only 25% of all tax credits are useable; it the sum is higher 50% of all tax credits are useable; carry forward exists) 17% tax credit for personnel engaged in R&D Tax credit on current costs, depreciation (volume-based (25%) and incremental (increased rate of 42% for expenses in excess of the

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
			average of the previous 2 years))
Sweden	-	-	-
United Kingdom	100% immediate depreciation on machinery, equipment, furniture, buildings, intangibles Volume-based deduction on personnel and current costs: 30% of R&D expenditure on top of the immediate deduction of the actual expense (40% for qualifying expenditure on research of certain vaccines for human use) Only for SMEs: 75% volume-based deduction on personnel and current costs (increases the normal 100% relief of R&D spending to 175%)	-	-

Table 5.11 Overview of implemented R&D tax incentives, 2010

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Austria		-	8% volume-based tax credit for capital expenditure, personnel, current costs

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Belgium	33.33 % accelerated depreciation on machinery, equipment, furniture, intangibles (for intangibles, minimum depreciation period is reduced from 5 to 3 years) 13.5% volume-based deduction on capital expenditures for tangibles, intangibles EUR 13,840 deduction on staff per qualifying employee hired in scientific research	-	Alternatively to the deduction, a tax credit can be applied that equals the tax benefit of the deduction
Bulgaria	-	-	-
Croatia	125% volume-based deduction (on top of the immediate deduction of the actual expense) on personnel, current costs, depreciation	Investments in projects concerning establishment and development of technology and innovation centres from EUR 150,000 to EUR 1,500,000 a reduced tax rate of 10% (instead of 20%) applies for 10 years	-
Estonia	-	-	-
Finland	20% (instead of 7% resp. 4%) accelerated depreciation for industrial and office buildings used in R&D	-	-
France	Accelerated depreciation on machinery, equipment, furniture, intangibles: declining-balance method with 150%/200%/250% of the normal straight-line rate (depending	-	Volume-based tax credit for personnel, current costs, depreciation: 30% up to expenses of EUR 100 million and 5% on the excess amount (50% and 40% apply instead of 30%

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	on the useful life: 3-4 years/5-6 years/more)		in the first two years of a period of 5 years without any claims) Only SMEs: 20% of capital expenditures with a maximum credit of EUR 100,000
Germany	-	-	-
Greece	33,33% accelerated depreciation on machinery, equipment, furniture 50% deduction additional to regular deduction on personnel, current costs, on an incremental basis (only the amount that exceeds the average R&D expenses of the previous two years))	-	-
Ireland	Immediate depreciation of 100% on machinery, equipment, furniture, buildings, land, intangibles	-	25% tax credit on capital expenditure, personnel, current costs (incremental) 25% volume-based credit on costs related to the construction and refurbishment of buildings if used for R&D by 35% for 4 years
Italy	personnel costs related to employees in R&D are deductible for IRAP purposes in contrast to other personnel costs	-	10% volume-based tax credit on capital expenditure, personnel, current costs; maximum qualifying expenditure is EUR 50 million
Lithuania	200% volume-based	-	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	deduction (on top of the immediate deduction of the actual expense) on personnel, current costs		
Luxembourg	Accelerated depreciation on machinery, equipment, furniture (special rates for the declining-balance method of 40% or four times the straight line rate (instead of 30% and three times))	-	-
Netherlands	-	-	reduction of wage withholding tax with respect to salaries paid to employees who carry out certain R&D activities (max. EUR14 million per enterprise); amount is equal to 42% of the relevant wage costs up to EUR 220,000 and 14% above that amount
Poland	-	-	-
Romania	20% volume-based deduction on personnel, current costs accelerated depreciation (straight-line with 33.33% or declining-balance) is granted for patents	-	-
Slovenia	33.3% (instead of 20%) accelerated depreciation on machinery, equipment, furniture 40% volume-based	-	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	deduction on capital expenditures for tangibles and intangibles, personnel, current costs		
Spain	10% accelerated depreciation on buildings	-	9% volume-based tax-credit on capital expenditure on tangible movable assets and intangibles (If the sum of tax credits is smaller than 10% tax due, only 25% of all tax credits are useable; it the sum is higher 50% of all tax credits are useable; carry forward exists) 17% tax credit for personnel engaged in R&D Tax credit on current costs, depreciation (volume-based (25%) and incremental (increased rate of 42% for expenses in excess of the average of the previous 2 years))
Sweden	-	-	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
United Kingdom	100% immediate depreciation on machinery, equipment, furniture, buildings, intangibles Volume-based deduction on personnel and current costs: 30% of R&D expenditure on top of the immediate deduction of the actual expense (40% for qualifying expenditure on research of certain vaccines for human use) Only for SMEs: 75% volume-based deduction on personnel and current costs (increases the normal 100% relief of R&D spending to 175%)	-	-

Table 5.12 Overview of implemented R&D tax incentives, 2011

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Austria	-	-	10% volume-based tax credit for capital expenditure, personnel, current costs

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Belgium	33.33 % accelerated depreciation on machinery, equipment, furniture, intangibles (for intangibles, minimum depreciation period is reduced from 5 to 3 years) 13.5% volume-based deduction on capital expenditures for tangibles, intangibles EUR 14,140 deduction on staff per qualifying employee hired in scientific research	-	Alternatively to the deduction, a tax credit can be applied that equals the tax benefit of the deduction
Bulgaria	-	-	-
Croatia	125% volume-based deduction (on top of the immediate deduction of the actual expense) on personnel, current costs, depreciation	Investments in projects concerning establishment and development of technology and innovation centres from EUR 150,000 to EUR 1,500,000 a reduced tax rate of 10% (instead of 20%) applies for 10 years	-
Estonia	-	-	-
Finland	20% (instead of 7% resp. 4%) accelerated depreciation for industrial and office buildings used in R&D	-	-
France	Accelerated depreciation on machinery, equipment, furniture, intangibles: declining-balance method with 150%/200%/250% of the normal straight-line rate (depending	-	Volume-based tax credit for personnel, current costs, depreciation: 30% up to expenses of EUR 100 million and 5% on the excess amount (40% and 35% apply instead of 30%

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	on the useful life: 3-4 years/5-6 years/more)		in the first two years of a period of 5 years without any claims) Only SMEs: 20% of capital expenditures with a maximum credit of EUR 100,000
Germany	-	-	-
Greece	33.33% accelerated depreciation on machinery, equipment, furniture 50% deduction additional to regular deduction on personnel, current costs, on an incremental basis (only the amount that exceeds the average R&D expenses of the previous two years))	-	-
Ireland	Immediate depreciation of 100% on machinery, equipment, furniture, buildings, land, intangibles	-	25% tax credit on capital expenditure, personnel, current costs (incremental) 25% volume-based credit on costs related to the construction and refurbishment of buildings if used for R&D by 35% for 4 years
Italy	personnel costs related to employees in R&D are deductible for IRAP purposes in contrast to other personnel costs	-	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Lithuania	200% volume-based deduction (on top of the immediate deduction of the actual expense) on personnel, current costs	-	-
Luxembourg	Accelerated depreciation on machinery, equipment, furniture (special rates for the declining-balance method of 40% or four times the straight line rate (instead of 30% and three times))	-	-
Netherlands	-	-	reduction of wage withholding tax with respect to salaries paid to employees who carry out certain R&D activities (max. EUR 14 million per enterprise); amount is equal to 50% of the relevant wage costs up to EUR 220,000 and 18% above that amount
Poland	-	-	Only SMEs: 75% of capital expenditures and investments can be credited
Romania	20% volume-based deduction on personnel, current costs accelerated depreciation (straight-line with 33.33% or declining-balance) is granted for patents	-	-
Slovenia	33.3% (instead of 20%) accelerated depreciation on	-	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	machinery, equipment, furniture 40% volume-based deduction on capital expenditures for tangibles and intangibles, personnel, current costs		
Spain	10% accelerated depreciation on buildings	-	9% volume-based tax-credit on capital expenditure on tangible movable assets and intangibles (If the sum of tax credits is smaller than 10% tax due, only 25% of all tax credits are useable; it the sum is higher 50% of all tax credits are useable; carry forward exists) 17% tax credit for personnel engaged in R&D Tax credit on current costs, depreciation (volume-based (25%) and incremental (increased rate of 42% for expenses in excess of the average of the previous 2 years))
Sweden	-	-	-
United Kingdom	100% immediate depreciation on machinery, equipment, furniture, buildings, intangibles Volume-based deduction on personnel and current	-	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	costs: 30% of R&D expenditure on top of the immediate deduction of the actual expense (40% for qualifying expenditure on research of certain vaccines for human use) Only for SMEs: 100% volume-based deduction on personnel and current costs (increases the normal 100% relief of R&D spending to 200%)		

Table 5.13 Overview of implemented R&D tax incentives, 2012

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Austria	-	-	10% volume-based tax credit for capital expenditure, personnel, current costs
Belgium	33,33 % accelerated depreciation on machinery, equipment, furniture, intangibles (for intangibles, minimum depreciation period is reduced from 5 to 3 years) 15,5% volume-based deduction on capital expenditures for tangibles, intangibles	-	Alternatively to the deduction, a tax credit can be applied that equals the tax benefit of the deduction

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	EUR 14,640 deduction on staff per qualifying employee hired in scientific research		
Bulgaria	-	-	-
Croatia	125% volume-based deduction (on top of the immediate deduction of the actual expense) on personnel, current costs, depreciation	Investments in projects concerning establishment and development of technology and innovation centres from EUR 150,000 to EUR 1,500,000 a reduced tax rate of 10% (instead of 20%) applies for 10 years	-
Estonia	-	-	-
Finland	20% (instead of 7% resp. 4%) accelerated depreciation for industrial and office buildings used in R&D	-	-
France	Accelerated depreciation on machinery, equipment, furniture, intangibles: declining-balance method with 150%/200%/250% of the normal straight-line rate (depending on the useful life: 3-4 years/5-6 years/more	-	Volume-based tax credit for personnel, current costs, depreciation: 30% up to expenses of EUR 100 million and 5% on the excess amount (40% and 35% apply instead of 30% in the first two years of a period of 5 years without any claims) Only SMEs: 20% of capital expenditures with a maximum credit of EUR 100,000
Germany	-	-	-
Greece	33,33% accelerated depreciation on machinery,	-	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	equipment, furniture 50% deduction additional to regular deduction on personnel, current costs, on an incremental basis (only the amount that exceeds the average R&D expenses of the previous two years))		
Ireland	Immediate depreciation of 100% on machinery, equipment, furniture, buildings, land, intangibles	-	25% tax credit on capital expenditure, personnel, current costs (volume-based up to qualifying expenditure of EUR 100,000 and incremental beyond 25% volume-based credit on costs related to the construction and refurbishment of buildings if used for R&D by 35% for 4 years
Italy	personnel costs related to employees in R&D are deductible for IRAP purposes in contrast to other personnel costs	-	35% tax credit for staff (max. credit of EUR 200,000 per year)
Lithuania	200% volume-based deduction (on top of the immediate deduction of the actual expense) on personnel, current costs	-	-
Luxembourg	Accelerated depreciation on machinery, equipment, furniture (special rates for the declining-balance	-	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	method of 40% or four times the straight line rate (instead of 30% and three times))		
Netherlands	40% volume-based deduction on tangibles, intangibles, current costs, additionally to immediate deduction	-	reduction of wage withholding tax with respect to salaries paid to employees who carry out certain R&D activities (max. EUR 14 million per enterprise); amount is equal to 42% of the relevant wage costs up to EUR 110,000 and 14% above that amount
Poland	-	-	Only SMEs: 75% of capital expenditures and investments can be credited
Romania	20% volume-based deduction on personnel, current costs accelerated depreciation (straight-line with 33.33% or declining-balance) is granted for patents	-	-
Slovenia	33.3% (instead of 20%) accelerated depreciation on machinery, equipment, furniture 40% volume-based deduction on capital expenditures for tangibles and intangibles, personnel, current costs	-	-
Spain	10% accelerated depreciation on buildings	-	9% volume-based tax-credit on capital expenditure on tangible movable

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
			assets and intangibles (If the sum of tax credits is smaller than 10% tax due, only 25% of all tax credits are useable; it the sum is higher 50% of all tax credits are useable; carry forward exists) 17% tax credit for personnel engaged in R&D Tax credit on current costs, depreciation (volume-based (25%) and incremental (increased rate of 42% for expenses in excess of the average of the previous 2 years))
Sweden	-	-	-
United Kingdom	100% immediate depreciation on machinery, equipment, furniture, buildings, intangibles Volume-based deduction on personnel and current costs: 30% of R&D expenditure on top of the immediate deduction of the actual expense Only for SMEs: 125% volume-based deduction on personnel and current costs (increases the normal 100% relief of R&D spending to	-	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	225%)		

Table 5.14 Overview of implemented R&D tax incentives, 2013

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Austria	-	-	10% volume-based tax credit for capital expenditure, personnel, current costs
Belgium	33.33 % accelerated depreciation on machinery, equipment, furniture, intangibles (for intangibles, minimum depreciation period is reduced from 5 to 3 years) 14.5% volume-based deduction on capital expenditures for tangibles, intangibles EUR 15,050 deduction on staff per qualifying employee hired in scientific research	-	Alternatively to the deduction, a tax credit can be applied that equals the tax benefit of the deduction
Bulgaria	-	-	-
Croatia	125% volume-based deduction (on top of the immediate deduction of the actual expense) on personnel, current costs, depreciation	-	-
Estonia	-	-	-
Finland	20% (instead of 7% resp. 4%) accelerated depreciation for industrial and office buildings used in R&D 100% additional	-	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	deduction of salaries paid to employees in R&D		
France	Accelerated depreciation on machinery, equipment, furniture, intangibles: declining-balance method with 150%/200%/250% of the normal straight-line rate (depending on the useful life: 3-4 years/5-6 years/more	-	Volume-based tax credit for personnel, current costs, depreciation: 30% up to expenses of EUR 100 million and 5% on the excess amount (40% and 35% apply instead of 30% in the first two years of a period of 5 years without any claims) Only SMEs: 20% of capital expenditures with a maximum credit of EUR 100,000
Germany	-	-	-
Greece	33.33% accelerated depreciation on machinery, equipment, furniture 50% deduction additional to regular deduction on personnel, current costs on an incremental basis (only the amount that exceeds the average R&D expenses of the previous two years)	-	-
Ireland	Immediate depreciation of 100% on machinery, equipment, furniture, buildings, land, intangibles	-	25% tax credit on capital expenditure, personnel, current costs (volume-based up to qualifying expenditure of EUR 200,000 and incremental beyond 25% volume-based credit on costs related to the construction and refurbishment of buildings if used for R&D by 35% for 4 years
Italy	personnel costs related to employees in R&D are deductible for IRAP	-	35% tax credit for staff (max. credit of EUR 200,000 per year)

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	purposes in contrast to other personnel costs		
Lithuania	200% volume-based deduction (on top of the immediate deduction of the actual expense) on personnel, current costs	-	-
Luxembourg	Accelerated depreciation on machinery, equipment, furniture (special rates for the declining-balance method of 40% or four times the straight line rate (instead of 30% and three times))	-	-
Netherlands	54% volume-based deduction on tangibles, intangibles, current costs, additionally to immediate deduction	-	reduction of wage withholding tax with respect to salaries paid to employees who carry out certain R&D activities (max. EUR 14 million per enterprise); amount is equal to 38% of the relevant wage costs up to EUR 200,000 and 14% above that amount
Poland	-	-	-
Romania	50% volume-based deduction on personnel, current costs accelerated depreciation (straight-line with 33.33% or declining-balance) is granted for patents	-	-
Slovenia	33.3% (instead of 20%) accelerated depreciation on machinery, equipment, furniture 40% volume-based deduction on capital expenditures for tangibles and intangibles, personnel, current costs	-	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Spain	10% accelerated depreciation on buildings	-	8% volume-based tax-credit on capital expenditure on tangible moveable assets and intangibles (If the sum of tax credits is smaller than 10% tax due, only 25% of all tax credits are useable; if the sum is higher, 50% of all tax credits are useable; carry forward exists) 17% tax credit for personnel engaged in R&D Tax credit on current costs, depreciation (volume-based (25%) and incremental (increased rate of 42% for expenses in excess of the average of the previous 2 years))
Sweden	-	-	-
United Kingdom	100% immediate depreciation on machinery, equipment, furniture, buildings, intangibles Only for SMEs: 125% volume-based deduction on personnel and current costs (increases the normal 100% relief of R&D spending to 225%)	-	Only for large enterprises: 10% volume-based tax credit on personnel and current costs

5.3 SME incentives implemented 2009-2013 (European Tax Analyzer)

Table 5.15 Overview of implemented SME tax incentives, 2009

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Austria	-	-	-
Belgium	increased depreciation: 200% of the normal straight line rate	progressive schedule for income up to EUR 322,500: 24.25% (up to EUR 25,000), 31% (EUR 25,000-90,000); 34.5% (EUR 90,000-322,500)	-
Bulgaria	-	-	-
Croatia	-	-	-
Estonia	-	-	-
Finland	-[19]	-	-
France	*Personal income tax*: 25% of invested amouts in qualifying SMEs can be deducted up to €20,000-	15% instead of 33.33% for the first EUR 38,120 of income if turnover < EUR 7,630,000 no surcharge on turnover of 0.16% if turnover < EUR 7,630,000 no surcharge on corporate tax liability above EUR 763,000 of 3.33% if turnover < EUR 7,630,000	
Germany	20% additional depreciation on machinery in the first year	-	-
Greece	-	-	-

[19] Accelerated depreciation (general rates increased by 50%) is available for small and medium-sized enterprises in the least developed regions of Finland from 1998 to 2013. Due to that explicit geographical limitation, we do not, however, consider this incentive for our calculations.

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Ireland	*Personal income tax:* deduction for the cost of share in SME (max. €150,000; max. share in company is 30%) against taxable income	for new businesses in the first three years of operation: if corporate tax liability is below EUR 40,000 no tax have to be paid; marginal relief if corporate tax liability is between EUR 40,000 and EUR 60,000	-
Italy	-	-	-
Lithuania	-	income of an SME with employees < 11 and taxable income < LTL 500,000 is taxed at 13% (instead of 20%)	-
Luxembourg	-	reduced tax rate of 20% for the first EUR 10,000 and 26% for EUR 10,000-15000 if taxable income is below EUR 15,000	-
Netherlands	-	-	-
Poland	Immediate deduction of machinery and equipment	-	-
Romania	-	-	-
Slovenia	-	-	-
Spain	Ordinary depreciation rate multiplied by factor 2 for machinery and buildings and by factor 1.5 for intangibles	20% instead of 30%; exemption from local business tax (IAE)	-
Sweden	-	-	-
United Kingdom	-	21% tax rate (instead of 28%) if income is below GBP 300,000 and marginal relief for income between GBP 300,000-1,500,000	-

Table 5.16 Overview of implemented SME tax incentives, 2010

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Austria	-	-	-
Belgium	notional interest deduction increased by 0.5% (3.5% instead of 3%) increased depreciation: 200% of the normal straight line rate	progressive schedule for income up to EUR 322,500: 24.25% (up to EUR 25,000), 31% (EUR 25,000-90,000); 34.5% (EUR 90,000-322,500)	-
Bulgaria	-	-	-
Croatia	-	-	-
Estonia	-	-	-
Finland	-	-	-
France	*Personal income tax*: 25% of invested amouts in qualifying SMEs can be deducted up to €20,000 *Private wealth tax*: deduction of 75% of investments in qualifying SMEs up to €50,000	15% instead of 33.33% for the first EUR 38,120 of income if turnover < EUR 7,630,000 no surcharge on turnover of 0.16% if turnover < EUR 7,630,000 no surcharge on corporate tax liability above EUR 763,000 of 3.33% if turnover < EUR 7,630,000	-
Germany	20% additional depreciation on machinery in the first year	-	-
Greece	-	-	-
Ireland	*Personal income tax:* deduction for the cost of share in SME (max. €150,000; max. share in company is 30%)	for new businesses in the first three years of operation: if corporate tax liability is below EUR 40,000 no tax have to be	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	against taxable income	paid; marginal relief if corporate tax liability is between EUR 40,000 and EUR 60,000	
Italy	-	-	-
Lithuania	-	income of an SME with employees < 11 and taxable income < LTL 500,000 is taxed at 5% (instead of 15%)	-
Luxembourg	-	reduced tax rate of 20% for the first EUR 10,000 and 26% for EUR 10,000-15000 if taxable income is below EUR 15,000	-
Netherlands	-	-	-
Poland	Immediate deduction of machinery and equipment	-	-
Romania	-	-	-
Slovenia	-	-	-
Spain	Ordinary depreciation rate multiplied by factor 2 for machinery and buildings and by factor 1.5 for intangibles	first EUR 120,202.41 of income is taxed at 20% (in excess: 25%) instead of 30% if net revenue < 15 million EUR and number of employees < 25 exemption from local business tax (IAE) if turnover < 1,000,000 EUR	-
Sweden	-	-	-
United Kingdom	-	21% tax rate (instead of 28%) if income is below GBP 300,000 and marginal relief for income between GBP 300,000-1,500,000	-

Table 5.17 Overview of implemented SME tax incentives, 2011

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Austria	-	-	-
Belgium	notional interest deduction increased by 0.5% (3.5% instead of 3%)	progressive schedule for income up to EUR 322,500: 24.25% (up to EUR 25,000), 31% (EUR 25,000-90,000); 34.5% (EUR 90,000-322,500)	-
Bulgaria	-	-	-
Croatia	-	-	-
Estonia	-	-	-
Finland	-	-	-
France	*Personal income tax*: 18% of invested amouts in qualifying SMEs can be deducted up to €50,000 *Private wealth tax*: deduction of 75% of investments in qualifying SMEs up to €50,000	15% instead of 33.33% for the first EUR 38,120 of income if turnover < EUR 7,630,000 no surcharge on turnover of 0.16% if turnover < EUR 7,630,000 no surcharge on corporate tax liability above EUR 763,000 of 3.33% if turnover < EUR 7,630,000	-
Germany	20% additional depreciation on machinery in the first year	-	-
Greece	-	-	-
Ireland	*Personal income tax:* deduction for the cost of share in SME (max. €150,000; max. share in company is 30%) against taxable	for new businesses in the first three years of operation: if corporate tax liability is below EUR 40,000 no tax have to be paid; marginal relief	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	income	if corporate tax liability is between EUR 40,000 and EUR 60,000	
Italy	-	-	-
Lithuania	-	income of an SME with employees < 11 and taxable income < LTL 500,000 is taxed at 5% (instead of 15%)	-
Luxembourg	-	reduced tax rate of 20% if taxable income is below EUR 15,000	-
Netherlands	-	-	-
Poland	Immediate deduction of machinery and equipment	-	-
Romania	-	-	-
Slovenia	-	-	-
Spain	Ordinary depreciation rate multiplied by factor 2 for machinery and buildings and by factor 1.5 for intangibles	first EUR 300,000 of income is taxed at 20% (in excess: 25%) instead of 30% if net revenue < 15 million EUR and number of employees < 25 exemption from local business tax (IAE) if turnover < 1,000,000 EUR	-
Sweden	-	-	-
United Kingdom	-	21% tax rate (instead of 26%) if income is below GBP 300,000 and marginal relief for income between GBP 300,000-1,500,000	-

Table 5.18 Overview of implemented SME tax incentives, 2012

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Austria	-	-	-
Belgium	notional interest deduction increased by 0.5% (3.5% instead of 3%)	progressive schedule for income up to EUR 322,500: 24.25% (up to EUR 25,000), 31% (EUR 25,000-90,000); 34.5% (EUR 90,000-322,500)	-
Bulgaria	-	-	-
Croatia	-	Income from investments (min. 50.000 EUR) in micro enterprises: 10% instead of 20% corporate tax rate for 10 years	-
Estonia	-	-	-
Finland	-	-	-
France	*Personal income tax*: 18% of invested amouts in qualifying SMEs can be deducted up to €50,000 *Private wealth tax*: deduction of 75% of investments in qualifying SMEs up to €45,000	15% instead of 33.33% for the first EUR 38,120 of income if turnover < EUR 7,630,000 no surcharge on turnover of 0.16% if turnover < EUR 7,630,000 no surcharge on corporate tax liability above EUR 763,000 of 3.33% if turnover < EUR 7,630,000	-
Germany	20% additional depreciation on machinery in the first year	-	-
Greece	-	-	-
Ireland	*Personal income tax:* deduction for the cost of share in SME (max. €150,000; max. share in	for new businesses in the first three years of operation: if corporate tax liability is below EUR 40,000	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	company is 30%) against taxable income	no tax have to be paid; marginal relief if corporate tax liability is between EUR 40,000 and EUR 60,000	
Italy	-	-	-
Lithuania	-	income of an SME with employees < 11 and taxable income < LTL 500,000 is taxed at 5% (instead of 15%)	-
Luxembourg	-	reduced tax rate of 20% if taxable income is below EUR 15,000	-
Netherlands	-	-	-
Poland	Immediate deduction of machinery and equipment	-	-
Romania	-	-	-
Slovenia	-	-	-
Spain	Ordinary depreciation rate multiplied by factor 2 for machinery and buildings and by factor 1.5 for intangibles	first EUR 300,000 of income is taxed at 20% (in excess: 25%) instead of 30% if net revenue < 15 million EUR and number of employees < 25 exemption from local business tax (IAE) if turnover < 1,000,000 EUR	EUR 3,000 per employee hired under 30 years if turnover < 10 million EUR and less than 50 employees
Sweden	-	-	-
United Kingdom	-	21% tax rate (instead of 24%) if income is below GBP 300,000 and marginal relief for income between GBP 300,000-1,500,000	-

Table 5.19 Overview of implemented SME tax incentives, 2013

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Austria	-	-	-
Belgium	notional interest deduction increased by 0.5% (3.5% instead of 3%) for enterprises that fulfill two of the three following criteria: max. 50 employees, max. turnover EUR 6,250,000, max. balance sheet total: EUR 3,125,000	progressive schedule for income up to EUR 322,500: 24.25% (up to EUR 25,000), 31% (EUR 25,000-90,000); 34.5% (EUR 90,000-322,500)	-
Bulgaria	-	-	-
Croatia	-	Income from investments (min. 50.000 EUR) in micro enterprises: 10% instead of 20% corporate tax rate for 10 years	-
Estonia	-	-	-
Finland	-	-	-
France	*Personal income tax*: 18% of invested amouts in qualifying SMEs can be deducted up to €50,000 *Private wealth tax*: deduction of 75% of investments in qualifying SMEs up to €45,000	15% instead of 33.33% for the first EUR 38,120 of income if turnover < EUR 7,630,000 no surcharge on turnover of 0.16% if turnover < EUR 7,630,000 no surcharge on corporate tax liability above EUR 763,000 of 3.33% if turnover < EUR 7,630,000	-
Germany	20% additional depreciation on machinery in the first	-	-

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	year if net income < EUR 100,000		
Greece	-	-	-
Ireland	*Personal income tax:* deduction for the cost of share in SME (max. €150,000; max. share in company is 30%) against taxable income	for new businesses in the first three years of operation: if corporate tax liability is below EUR 40,000 no tax has to be paid; marginal relief if corporate tax liability is between EUR 40,000 and EUR 60,000	-
Italy	-	-	-
Lithuania	-	income of SMEs with employees < 11 and taxable income < LTL 500,000 is taxed at 5% (instead of 15%)	-
Luxembourg	-	reduced tax rate of 20% if taxable income is below EUR 15,000	-
Netherlands	-	-	-
Poland	Immediate deduction of machinery and equipment if turnover < EUR 1,200,000	-	-
Slovenia	if annual revenues are below EUR 50,000, micro corporations are allowed to take a lump-sum deduction of 70% of annual revenues	-	-
Romania	-	-	-
Spain	Ordinary depreciation rate multiplied by factor 2 for machinery and	first EUR 300,000 of income is taxed at 20% (in excess: 25%) instead of 30%	EUR 3,000 per employee hired under 30 years if turnover < 10 million

Country	Reduction in tax base (depreciation, allowances and deductions)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
	buildings and by factor 1.5 for intangibles if turnover < EUR 10 million	if net revenue < 15 million EUR and number of employees < 25 exemption from local business tax (IAE) if turnover < EUR 1,000,000	EUR and less than 50 employees
Sweden	-	-	-
United Kingdom	-	21% tax rate (instead of 23%) if income is below GBP 300,000 and marginal relief for income between GBP 300,000-1,500,000	-

5.4 Detailed calculation results (Effective Tax Burden, corporate level)

Table 5.20 Effective Tax Burden (10 periods, corporate level, large corporation, fiscal years 2009-2013)

Country	Year	General Tax Code (large) Tax Burden	R&D-Incentives							
			All Incentives		Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives	
			Tax Burden	Total Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect
Austria	2009	52,770,907	51,182,721	-3.01%	52,770,907	-	52,770,907	-	51,182,721	-3.01%
	2010	52,771,208	51,183,022	-3.01%	52,771,208	-	52,771,208	-	51,183,022	-3.01%
	2011-2013	52,771,208	50,785,976	-3.76%	52,771,208	-	52,771,208	-	50,785,976	-3.76%
Belgium	2009	54,411,629	53,369,295	-1.92%	53,369,295	-1.92%	54,411,629	-	54,411,629	-
	2010	54,411,629	53,383,281	-1.89%	53,383,281	-1.89%	54,411,629	-	54,411,629	-
	2011	54,411,629	53,381,796	-1.89%	53,381,796	-1.89%	54,411,629	-	54,411,629	-
	2012	54,168,834	53,119,617	-1.94%	53,119,617	-1.94%	54,168,834	-	54,168,834	-
	2013	54,168,834	53,126,038	-1.93%	53,126,038	-1.93%	54,168,834	-	54,168,834	-
Bulgaria	2009	16,729,850	16,729,850	-	16,729,850	-	16,729,850	-	16,729,850	-
	2010	16,738,736	16,738,736	-	16,738,736	-	16,738,736	-	16,738,736	-
	2011-2013	16,996,330	16,996,330	-	16,996,330	-	16,996,330	-	16,996,330	-
Croatia	2009	32,639,168	13,828,993	-57.63%	27,698,984	-15.14%	16,318,369	-50.00%	32,639,168	-
	2010-2011	32,609,289	13,802,786	-57.67%	27,672,981	-15.14%	16,288,249	-50.05%	32,609,289	-
	2012	32,564,896	13,763,843	-57.73%	27,634,339	-15.14%	16,243,499	-50.12%	32,564,896	-
	2013	32,564,895	27,634,341	-15.14%	27,634,341	-15.14%	32,564,895	-	32,564,895	-
Estonia	2009-2013	34,571,589	34,571,589	-	34,571,589	-	34,571,589	-	34,571,589	-
Finland	2009	43,361,043	43,206,057	-0.36%	43,206,057	-0.36%	43,361,043	-	43,361,043	-
	2010	43,795,871	43,640,888	-0.35%	43,640,888	-0.35%	43,795,871	-	43,795,871	-
	2011	44,147,823	43,912,198	-0.53%	43,912,198	-0.53%	44,147,823		44,147,823	
	2012	41,707,356	41,485,232	-0.53%	41,485,232	-0.53%	41,707,356	-	41,707,356	-
	2013	41,368,771	38,584,338	-6.73%	38,584,338	-6.73%	41,368,771		41,368,771	
France	2009	82,506,016	73,751,232	-8.16%	80,154,845	-0.18%	82,506,016	-	73,897,245	-7.97%
	2010	83,034,884	76,485,259	-7.89%	82,888,871	-0.18%	83,034,884	-	76,631,272	-7.71%
	2011	83,544,699	79,299,445	-5.08%	83,398,685	-0.17%	83,544,699	-	79,445,459	-4.91%
	2012	85,978,680	81,885,601	-4.76%	85,837,047	-0.16%	85,978,680	-	82,027,233	-4.60%
	2013	78,090,960	74,135,453	-5.07%	77,949,326	-0.18%	78,090,960	-	74,277,089	-4.88%
Germany	2009	52,562,247	52,562,247	-	52,562,247	-	52,562,247	-	52,562,247	-
	2010	52,543,705	52,543,705	-	52,543,705	-	52,543,705	-	52,543,705	-
	2011	52,892,178	52,892,178	-	52,892,178	-	52,892,178	-	52,892,178	-
	2012	53,045,569	53,045,569	-	53,045,569	-	53,045,569	-	53,045,569	-
	2013	53,434,468	53,434,468	-	53,434,468	-	53,434,468	-	53,434,468	-
Greece	2009	41,467,965	41,295,990	-0.41%	41,295,990	-0.41%	41,467,965	-	41,467,965	-
	2010	39,821,717	39,656,560	-0.41%	39,656,560	-0.41%	39,821,717	-	39,821,717	-

Country	Year	General Tax Code (large) Tax Burden	R&D-Incentives							
			All Incentives		Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives	
			Tax Burden	Total Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect
	2011-2012	33,616,256	33,478,423	-0.41%	33,478,423	-0.41%	33,616,256	-	33,616,256	-
	2013	43,896,744	43,035,140	-1.96%	43,035,140	-1.96%	43,896,744	-	43,896,744	-
Ireland	2009	22,567,371	20,978,522	-7.04%	21,737,522	-3.68%	22,567,371	-	21,808,369	-3.36%
	2010	22,539,546	20,950,696	-7.05%	21,709,698	-3.68%	22,539,546	-	21,780,545	-3.37%
	2011	22,531,291	20,942,440	-7.05%	21,701,443	-3.68%	22,531,291	-	21,772,292	-3.37%
	2012	22,508,247	20,658,285	-8.22%	21,678,397	-3.69%	22,508,247	-	21,488,135	-4.53%
	2013	22,501,512	20,390,438	-9.38%	21,671,664	-3.69%	22,501,512	-	21,220,289	-5.69%
Italy	2009	60,244,929	58,310,782	-3.21%	59,836,327	-0.68%	60,244,929	-	58,719,382	-2.53%
	2010	59,106,741	57,172,594	-3.27%	58,698,138	-0.69%	59,106,741	-	57,581,197	-2.58%
	2011	58,946,236	58,537,638	-0.69%	58,537,638	-0.69%	58,946,236	-	58,946,236	-
	2012-2013	56,573,404	54,073,193	-4.42%	56,162,562	-0.73%	56,573,404	-	54,484,035	-3.69%
Lithuania	2009	33,704,118	26,403,045	-21.66%	26,403,045	-21.66%	33,704,118	-	33,704,118	-
	2010-2012	25,926,559	20,437,743	-21.17%	20,437,743	-21.17%	25,926,559	-	25,926,559	-
	2013	28,234,532	22,745,714	-19.44%	22,745,714	-19.44%	28,234,532	-	28,234,532	-
Luxem-bourg	2009-2010	49,842,395	49,628,686	-0.43%	49,628,686	-0.43%	49,842,395	-	49,842,395	-
	2011-2012	50,171,772	49,956,501	-0.43%	49,956,501	-0.43%	50,171,772	-	50,171,772	-
	2013	50,838,649	50,339,264	-0.98%	50,339,264	-0.98%	50,838,649	-	50,838,649	-
Nether-lands	2009	42,059,959	40,866,555	-2.84%	42,059,959	-	42,059,959	-	40,866,555	-2.84%
	2010	42,311,240	40,914,447	-3.30%	42,311,240	-	42,311,240	-	40,914,447	-3.30%
	2011	41,485,245	40,012,775	-3.55%	41,485,245	-	41,485,245	-	40,012,775	-3.55%
	2012	41,501,737	39,439,617	-4.97%	40,517,058	-2.37%	41,501,737	-	40,424,295	-2.60%
	2013	41,515,570	38,930,286	-6.23%	40,186,253	-3.20%	41,515,570	-	40,259,602	-3.03%
Poland	2009	32,771,850	32,771,850	-	32,771,850	-	32,771,850	-	32,771,850	-
	2010	32,786,525	32,786,525	-	32,786,525	-	32,786,525	-	32,786,525	-
	2011	32,742,882	32,742,882	-	32,742,882	-	32,742,882	-	32,742,882	-
	2012	32,821,236	32,821,236	-	32,821,236	-	32,821,236	-	32,821,236	-
	2013	32,877,089	32,877,089	-	32,877,089	-	32,877,089	-	32,877,089	-
Romania	2009	27,575,326	26,968,879	-2.20%	26,968,879	-2.20%	27,575,326	-	27,575,326	-
	2010	27,369,511	26,763,062	-2.22%	26,763,062	-2.22%	27,369,511	-	27,369,511	-
	2011-2012	27,369,254	26,762,805	-2.22%	26,762,805	-2.22%	27,369,254	-	27,369,254	-
	2013	27,413,142	25,914,327	-5.47%	25,914,327	-5.47%	27,413,142	-	27,413,142	-
Slovenia	2009	34,472,064	33,315,052	-3.36%	33,315,052	-3.36%	34,472,064	-	34,472,064	-
	2010-2011	32,844,662	30,915,792	-5.87%	30,915,792	-5.87%	32,844,662	-	32,844,662	-
	2012	29,585,644	25,614,483	-13.42%	25,614,483	-13.42%	29,585,644	-	29,585,644	-
	2013	27,954,026	24,201,738	-13.42%	24,201,738	-13.42%	27,954,026	-	27,954,026	-
Spain	2009-2011	58,129,031	54,902,168	-5.55%	57,945,188	-0.32%	58,129,031	-	55,086,012	-5.23%

Country	Year	General Tax Code (large) Tax Burden	R&D-Incentives							
			All Incentives		Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives	
			Tax Burden	Total Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect
Sweden	2012-2013	58,129,031	54,944,564	-5.48%	57,945,188	-0.32%	58,129,031	-	55,128,410	-5.16%
	2009-2012	43,798,954	43,798,954	-	43,798,954	-	43,798,954	-	43,798,954	-
	2013	36,866,963	36,866,963	-	36,866,963	-	36,866,963	-	36,866,963	-
United Kingdom	2009	49,513,867	46,446,354	-6.20%	46,446,354	-6.20%	49,513,867	-	49,513,867	-
	2010	49,161,217	46,077,493	-6.27%	46,077,493	-6.27%	49,161,217	-	49,161,217	-
	2011	45,971,766	43,075,200	-6.30%	43,075,200	-6.30%	45,971,766	-	45,971,766	-
	2012	43,054,344	40,312,482	-6.37%	40,312,482	-6.37%	43,054,344	-	43,054,344	-
	2013	41,582,866	38,389,124	-7.68%	40,211,801	-3.30%	41,582,866	-	39,760,190	-4.38%

Table 5.21 Effective Tax Burden (10 periods, corporate level, medium-sized corporation, fiscal years 2009-2013)

Country	Year	General Tax Code Tax Burden	SME specific Tax Code		Tax Code and R&D Incentives		SME specific Tax Code and R&D-Incentives											
							All Incentives		R&D-Incentives						SME-Incentives			
									Tax Base Incentives		Tax Rate Incentives		Tax Liabilitiy Incentives		Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives	
			Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect
AT	2009	5,535,625	5,535,625	-	5,386,774	-2.69%	5,386,774	-2.69%	5,535,625	-	5,535,625	-	5,386,774	-2.69%	5,535,625	-	5,535,625	-	5,535,625	-
	2010	5,535,665	5,535,665	-	5,386,812	-2.69%	5,386,812	-2.69%	5,535,665	-	5,535,665	-	5,386,812	-2.69%	5,535,665	-	5,535,665	-	5,535,665	-
	2011-2013	5,535,665	5,535,665	-	5,349,599	-3.36%	5,349,599	-3.36%	5,535,665	-	5,535,665	-	5,349,599	-3.36%	5,535,665	-	5,535,665	-	5,535,665	-
BE	2009	5,480,270	5,480,270	-	5,378,799	-1.85%	5,378,799	-1.85%	5,378,799	-1.85%	5,480,270	-	5,480,270	-	5,480,270	-	5,480,270	-	5,480,270	-
	2010	5,480,270	5,480,270	-	5,379,964	-1.83%	5,379,964	-1.83%	5,379,964	-1.83%	5,480,270	-	5,480,270	-	5,480,270	-	5,480,270	-	5,480,270	-
	2011	5,480,270	5,480,270	-	5,379,752	-1.83%	5,379,752	-1.83%	5,379,752	-1.83%	5,480,270	-	5,480,270	-	5,480,270	-	5,480,270	-	5,480,270	-
	2012	5,453,582	5,453,582	-	5,351,122	-1.88%	5,351,122	-1.88%	5,351,122	-1.88%	5,453,582	-	5,453,582	-	5,453,582	-	5,453,582	-	5,453,582	-
	2013	5,453,582	5,453,582	-	5,351,627	-1.87%	5,351,627	-1.87%	5,351,627	-1.87%	5,453,582	-	5,453,582	-	5,453,582	-	5,453,582	-	5,453,582	-
BG	2009	1,669,791	1,669,791	-	1,669,791	-	1,669,791	-	1,669,791	-	1,669,791	-	1,669,791	-	1,669,791	-	1,669,791	-	1,669,791	-
	2010	1,670,769	1,670,769	-	1,670,769	-	1,670,769	-	1,670,769	-	1,670,769	-	1,670,769	-	1,670,769	-	1,670,769	-	1,670,769	-
	2011-2013	1,699,083	1,699,083	-	1,699,083	-	1,699,083	-	1,699,083	-	1,699,083	-	1,699,083	-	1,699,083	-	1,699,083	-	1,699,083	-
DE	2009	5,191,695	5,191,695	-	5,191,695	-	5,191,695	-	5,191,695	-	5,191,695	-	5,191,695	-	5,191,695	-	5,191,695	-	5,191,695	-
	2010	5,189,958	5,189,958	-	5,189,958	-	5,189,958	-	5,189,958	-	5,189,958	-	5,189,958	-	5,189,958	-	5,189,958	-	5,189,958	-
	2011	5,223,990	5,223,990	-	5,223,990	-	5,223,990	-	5,223,990	-	5,223,990	-	5,223,990	-	5,223,990	-	5,223,990	-	5,223,990	-
	2012	5,239,381	5,239,381	-	5,239,381	-	5,239,381	-	5,239,381	-	5,239,381	-	5,239,381	-	5,239,381	-	5,239,381	-	5,239,381	-
	2013	5,279,368	5,279,368	-	5,279,368	-	5,279,368	-	5,279,368	-	5,279,368	-	5,279,368	-	5,279,368	-	5,279,368	-	5,279,368	-
EE	2009-2013	3,440,541	3,440,541	-	3,440,541	-	3,440,541	-	3,440,541	-	3,440,541	-	3,440,541	-	3,440,541	-	3,440,541	-	3,440,541	-
ES	2009-2011	5,784,801	5,784,801	-	5,488,311	-5.13%	5,488,311	-5.13%	5,577,206	-3.59%	5,784,801	-	5,505,687	-4.82%	5,784,801	-	5,784,801	-	5,784,801	-
	2012-2013	5,784,801	5,784,801	-	5,496,368	-4.99%	5,496,368	-4.99%	5,577,206	-3.59%	5,784,801	-	5,513,747	-4.69%	5,784,801	-	5,784,801	-	5,784,801	-
FI	2009	4,330,601	4,330,601	-	4,315,964	-0.34%	4,315,964	-0.34%	4,315,964	-0.34%	4,330,601	-	4,330,601	-	4,330,601	-	4,330,601	-	4,330,601	-
	2010	4,378,402	4,378,402	-	4,363,767	-0.33%	4,363,767	-0.33%	4,363,767	-0.33%	4,378,402	-	4,378,402	-	4,378,402	-	4,378,402	-	4,378,402	-
	2011	4,411,118	4,411,118	-	4,388,860	-0.50%	4,388,860	-0.50%	4,388,860	-0.50%	4,411,118	-	4,411,118	-	4,411,118	-	4,411,118	-	4,411,118	-
	2012	4,168,051	4,168,051	-	4,147,070	-0.50%	4,147,070	-0.50%	4,147,070	-0.50%	4,168,051	-	4,168,051	-	4,168,051	-	4,168,051	-	4,168,051	-
	2013	4,136,579	4,136,579	-	3,875,510	-6.31%	3,875,510	-6.31%	3,875,510	-6.31%	4,136,579	-	4,136,579	-	4,136,579	-	4,136,579	-	4,136,579	-
FR	2009	7,967,877	7,967,877	-	7,308,893	-8.27%	7,308,893	-8.27%	7,954,553	-0.17%	7,967,877	-	7,322,217	-8.10%	7,967,877	-	7,967,877	-	7,967,877	-
	2010	8,230,478	8,230,478	-	7,571,494	-8.01%	7,571,494	-8.01%	8,217,152	-0.16%	8,230,478	-	7,584,816	-7.84%	8,230,478	-	8,230,478	-	8,230,478	-
	2011	8,194,959	8,194,959	-	7,797,044	-4.86%	7,797,044	-4.86%	8,181,633	-0.16%	8,194,959	-	7,810,371	-4.69%	8,194,959	-	8,194,959	-	8,194,959	-

Country	Year	General Tax Code Tax Burden	SME specific Tax Code		Tax Code and R&D Incentives		SME specific Tax Code and R&D-Incentives											
							All Incentives		R&D-Incentives						SME-Incentives					
									Tax Base Incentives		Tax Rate Incentives		Tax Liabilitiy Incentives		Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives	
			Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect
	2012	8,434,730	8,434,730	-	8,007,489	-5.07%	8,007,489	-5.07%	8,421,806	-0.15%	8,434,730	-	8,020,414	-4.91%	8,434,730	-	8,434,730	-	8,434,730	-
	2013	7,462,469	7,462,469	-	7,048,155	-5.55%	7,048,155	-5.55%	7,449,543	-0.17%	7,462,469	-	7,061,079	-5.38%	7,462,469	-	7,462,469	-	7,462,469	-
GR	2009	4,136,439	4,136,439	-	4,120,245	-0.39%	4,120,245	-0.39%	4,120,245	-0.39%	4,136,439	-	4,136,439	-	4,136,439	-	4,136,439	-	4,136,439	-
	2010	3,972,989	3,972,989	-	3,957,518	-0.39%	3,957,518	-0.39%	3,957,518	-0.39%	3,972,989	-	3,972,989	-	3,972,989	-	3,972,989	-	3,972,989	-
	2011-2012	3,345,834	3,345,834	-	3,332,853	-0.39%	3,332,853	-0.39%	3,332,853	-0.39%	3,345,834	-	3,345,834	-	3,345,834	-	3,345,834	-	3,345,834	-
	2013	4,360,005	4,360,005	-	4,278,726	-1.86%	4,278,726	-1.86%	4,278,726	-1.86%	4,360,005	-	4,360,005	-	4,360,005	-	4,360,005	-	4,360,005	-
HR	2009	3,268,858	3,268,858	-	2,808,577	-14.08%	2,808,577	-14.08%	2,808,577	-14.08%	3,268,858	-	3,268,858	-	3,268,858	-	3,268,858	-	3,268,858	-
	2010-2011	3,265,951	3,265,951	-	2,806,029	-14.08%	2,806,029	-14.08%	2,806,029	-14.08%	3,265,951	-	3,265,951	-	3,265,951	-	3,265,951	-	3,265,951	-
	2012	3,261,629	3,261,629	-	2,802,246	-14.08%	2,802,246	-14.08%	2,802,246	-14.08%	3,261,629	-	3,261,629	-	3,261,629	-	3,261,629	-	3,261,629	-
	2013	3,261,631	3,261,631	-	2,802,246	-14.08%	2,802,246	-14.08%	2,802,246	-14.08%	3,261,631	-	3,261,631	-	3,261,631	-	3,261,631	-	3,261,631	-
IE	2009	2,241,892	2,241,897	-	2,087,324	-6.89%	2,087,330	-6.89%	2,163,742	-3.49%	2,241,892	-	2,165,487	-3.41%	2,241,892	-	2,241,892	-	2,241,892	-
	2010	2,238,827	2,238,835	-	2,084,260	-6.90%	2,084,266	-6.90%	2,160,680	-3.49%	2,238,827	-	2,162,424	-3.41%	2,238,827	-	2,238,827	-	2,238,827	-
	2011	2,237,927	2,237,931	-	2,083,358	-6.91%	2,083,362	-6.91%	2,159,775	-3.49%	2,237,927	-	2,161,519	-3.41%	2,237,927	-	2,237,927	-	2,237,927	-
	2012	2,235,393	2,235,400	-	1,819,714	-18.60%	1,819,722	-18.59%	2,157,243	-3.50%	2,235,393	-	1,897,878	-15.10%	2,235,393	-	2,235,400	-	2,235,393	-
	2013	2,234,652	2,234,656	-	1,670,627	-25.24%	1,670,630	-25.24%	2,156,500	-3.50%	2,234,652	-	1,748,785	-21.74%	2,234,652	-	2,234,656	-	2,234,652	-
IT	2009	6,215,286	6,215,286	-	6,034,016	-2.92%	6,034,016	-2.92%	6,176,993	-0.62%	6,215,286	-	6,072,310	-2.30%	6,215,286	-	6,215,286	-	6,215,286	-
	2010	6,052,173	6,052,173	-	5,870,901	-3.00%	5,870,901	-3.00%	6,013,878	-0.63%	6,052,173	-	5,909,195	-2.36%	6,052,173	-	6,052,173	-	6,052,173	-
	2011	6,039,413	6,039,413	-	6,001,118	-0.63%	6,001,118	-0.63%	6,001,118	-0.63%	6,039,413	-	6,039,413	-	6,039,413	-	6,039,413	-	6,039,413	-
	2012-2013	5,754,110	5,754,110	-	5,360,271	-6.84%	5,360,271	-6.84%	5,715,603	-0.67%	5,754,110	-	5,398,775	-6.18%	5,754,110	-	5,754,110	-	5,754,110	-
LT	2009	3,368,670	3,368,670	-	2,684,384	-20.31%	2,684,384	-20.31%	2,684,384	-20.31%	3,368,670	-	3,368,670	-	3,368,670	-	3,368,670	-	3,368,670	-
	2010-2012	2,597,408	2,597,408	-	2,082,965	-19.81%	2,082,964	-19.81%	2,082,964	-19.81%	2,597,408	-	2,597,408	-	2,597,408	-	2,597,408	-	2,597,408	-
	2013	2,851,156	2,851,156	-	2,336,714	-18.04%	2,336,714	-18.04%	2,336,714	-18.04%	2,851,156	-	2,851,156	-	2,851,156	-	2,851,156	-	2,851,156	-
LU	2009-2010	4,958,584	4,958,584	-	4,938,458	-0.41%	4,938,458	-0.41%	4,938,458	-0.41%	4,958,584	-	4,958,584	-	4,958,584	-	4,958,584	-	4,958,584	-
	2011-2012	4,991,354	4,991,354	-	4,971,077	-0.41%	4,971,077	-0.41%	4,971,077	-0.41%	4,991,354	-	4,991,354	-	4,991,354	-	4,991,354	-	4,991,354	-
	2013	5,069,557	5,069,557	-	5,022,551	-0.93%	5,022,551	-0.93%	5,022,551	-0.93%	5,069,557	-	5,069,557	-	5,069,557	-	5,069,557	-	5,069,557	-
NL	2009	4,144,031	4,144,031	-	3,931,024	-5.14%	3,931,024	-5.14%	4,144,031	-	4,144,031	-	3,931,024	-5.14%	4,144,031	-	4,144,031	-	4,144,031	-
	2010	4,171,658	4,171,658	-	3,958,650	-5.11%	3,958,650	-5.11%	4,171,658	-	4,171,658	-	3,958,650	-5.11%	4,171,658	-	4,171,658	-	4,171,658	-
	2011	4,046,696	4,046,696	-	3,793,058	-6.27%	3,793,058	-6.27%	4,046,696	-	4,046,696	-	3,793,058	-6.27%	4,046,696	-	4,046,696	-	4,046,696	-
	2012	4,048,512	4,048,512	-	3,743,166	-7.54%	3,743,166	-7.54%	3,956,222	-2.28%	4,048,512	-	3,835,452	-5.26%	4,048,512	-	4,048,512	-	4,048,512	-
	2013	4,050,031	4,050,031	-	3,732,677	-7.84%	3,732,677	-7.84%	3,925,444	-3.08%	4,050,031	-	3,857,264	-4.76%	4,050,031	-	4,050,031	-	4,050,031	-

Country	Year	General Tax Code Tax Burden	SME specific Tax Code		Tax Code and R&D Incentives		SME specific Tax Code and R&D-Incentives											
							All Incentives		R&D-Incentives						SME-Incentives					
									Tax Base Incentives		Tax Rate Incentives		Tax Liabilitiy Incentives		Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives	
			Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect
PL	2009	3,278,465	3,278,465	-	3,278,465	-	3,278,465	-	3,278,465	-	3,278,465	-	3,278,465	0.00%	3,278,465	-	3,278,465	-	3,278,465	-
	2010	3,280,075	3,280,075	-	3,280,075	-	3,280,075	-	3,280,075	-	3,280,075	-	3,280,075	0.00%	3,280,075	-	3,280,075	-	3,280,075	-
	2011	3,275,277	3,275,277	-	3,101,337	-5.31%	3,101,337	-5.31%	3,275,277	-	3,275,277	-	3,101,337	-5.31%	3,275,277	-	3,275,277	-	3,275,277	-
	2012	3,283,900	3,283,900	-	3,109,962	-5.30%	3,109,962	-5.30%	3,283,900	-	3,283,900	-	3,109,962	-5.30%	3,283,900	-	3,283,900	-	3,283,900	-
	2013	3,290,040	3,290,040	-	3,116,102	-5.29%	3,116,102	-5.29%	3,290,040	-	3,290,040	-	3,116,102	-5.29%	3,290,040	-	3,290,040	-	3,290,040	-
RO	2009	2,762,067	2,762,067	-	2,705,216	-2.06%	2,705,216	-2.06%	2,705,216	-2.06%	2,762,067	-	2,762,067	-	2,762,067	-	2,762,067	-	2,762,067	-
	2010	2,739,759	2,739,759	-	2,682,909	-2.08%	2,682,909	-2.08%	2,682,909	-2.08%	2,739,759	-	2,739,759	-	2,739,759	-	2,739,759	-	2,739,759	-
	2011-2012	2,739,735	2,739,735	-	2,682,885	-2.08%	2,682,885	-2.08%	2,682,885	-2.08%	2,739,735	-	2,739,735	-	2,739,735	-	2,739,735	-	2,739,735	-
	2013	2,744,562	2,744,562	-	2,604,070	-5.12%	2,604,070	-5.12%	2,604,070	-5.12%	2,744,562	-	2,744,562	-	2,744,562	-	2,744,562	-	2,744,562	-
SE	2009-2012	4,371,929	4,371,929	-	4,371,929	-	4,371,929	-	4,371,929	-	4,371,929	-	4,371,929	-	4,371,929	-	4,371,929	-	4,371,929	-
	2013	3,681,747	3,681,747	-	3,681,747	-	3,681,747	-	3,681,747	-	3,681,747	-	3,681,747	-	3,681,747	-	3,681,747	-	3,681,747	-
SI	2009	3,430,875	3,430,875	-	3,322,272	-3.17%	3,322,272	-3.17%	3,322,272	-3.17%	3,430,875	-	3,430,875	-	3,430,875	-	3,430,875	-	3,430,875	-
	2010-2011	3,268,918	3,268,918	-	3,087,979	-5.54%	3,087,979	-5.54%	3,087,979	-5.54%	3,268,918	-	3,268,918	-	3,268,918	-	3,268,918	-	3,268,918	-
	2012	2,944,577	2,944,577	-	2,572,239	-12.64%	2,572,239	-12.64%	2,572,239	-12.64%	2,944,577	-	2,944,577	-	2,944,577	-	2,944,577	-	2,944,577	-
	2013	2,782,195	2,782,195	-	2,430,377	-12.65%	2,430,377	-12.65%	2,430,377	-12.65%	2,782,195	-	2,782,195	-	2,782,195	-	2,782,195	-	2,782,195	-
UK	2009	4,967,898	4,841,102	-2.55%	4,298,172	-13.48%	4,130,084	-16.86%	4,298,172	-13.48%	4,967,898	-	4,967,898	-	4,967,898	-	4,841,102	-2.55%	4,967,898	-
	2010	4,929,120	4,878,132	-1.03%	4,365,501	-11.43%	4,283,492	-13.10%	4,365,501	-11.43%	4,929,120	-	4,929,120	-	4,929,120	-	4,878,132	-1.03%	4,929,120	-
	2011	4,613,203	4,566,219	-1.02%	3,963,195	-14.09%	3,888,279	-15.71%	3,963,195	-14.09%	4,613,203	-	4,613,203	-	4,613,203	-	4,566,219	-1.02%	4,613,203	-
	2012	4,325,393	4,285,640	-0.92%	3,559,126	-17.72%	3,490,792	-19.30%	3,559,126	-17.72%	4,325,393	-	4,325,393	-	4,325,393	-	4,285,640	-0.92%	4,325,393	-
	2013	4,180,444	4,155,099	-0.61%	3,472,871	-16.93%	3,428,102	-18.00%	3,472,871	-16.93%	4,180,444	-	4,180,444	-	4,180,444	-	4,155,099	-0.61%	4,180,444	-

Table 5.22 Effective Tax Burden (10 periods, corporate level, small corporation, fiscal years 2009-2013)

Country	Year	General Tax Code Tax Burden	SME specific Tax Code		Tax Code And R&D Incentives		SME specific Tax code an R&D-Incentives													
							All Incentives		R&D-Incentives						SME-Incentives					
									Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives		Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives	
			Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect
AT	2009	1,512,178	1,512,178	-	1,475,746	-2.41%	1,475,746	-2.41%	1,512,178	-	1,512,178	-	1,475,746	-2.41%	1,512,178	-	1,512,178	-	1,512,178	-
	2010	1,512,187	1,512,187	-	1,475,753	-2.41%	1,475,753	-2.41%	1,512,187	-	1,512,187	-	1,475,753	-2.41%	1,512,187	-	1,512,187	-	1,512,187	-
	2011-2013	1,512,187	1,512,187	-	1,466,642	-3.01%	1,466,642	-3.01%	1,512,187	-	1,512,187	-	1,466,642	-3.01%	1,512,187	-	1,512,187	-	1,512,187	-
BE	2009	1,541,179	1,531,658	-0.62%	1,516,519	-1.60%	1,506,557	-2.25%	1,516,519	-1.60%	1,541,179	-	1,541,179	-	1,541,970	0.05%	1,531,150	-0.65%	1,541,179	-
	2010	1,541,179	1,503,184	-2.47%	1,516,809	-1.58%	1,478,222	-4.08%	1,516,809	-1.58%	1,541,179	-	1,541,179	-	1,514,091	-1.76%	1,531,150	-0.65%	1,541,179	-
	2011	1,541,179	1,502,136	-2.53%	1,516,759	-1.58%	1,477,032	-4.16%	1,516,759	-1.58%	1,541,179	-	1,541,179	-	1,513,010	-1.83%	1,531,150	-0.65%	1,541,179	-
	2012	1,533,802	1,494,804	-2.54%	1,508,915	-1.62%	1,469,211	-4.21%	1,508,915	-1.62%	1,533,802	-	1,533,802	-	1,505,577	-1.84%	1,523,866	-0.65%	1,533,802	-
	2013	1,533,802	1,494,804	-2.54%	1,509,038	-1.61%	1,469,347	-4.20%	1,509,038	-1.61%	1,533,802	-	1,533,802	-	1,505,577	-1.84%	1,523,866	-0.65%	1,533,802	-
BG	2009	478,170	478,170	-	478,170	-	478,170	-	478,170	-	478,170	-	478,170	-	478,170	-	478,170	-	478,170	-
	2010	478,444	478,444	-	478,444	-	478,444	-	478,444	-	478,444	-	478,444	-	478,444	-	478,444	-	478,444	-
	2011-2013	486,286	486,286	-	486,286	-	486,286	-	486,286	-	486,286	-	486,286	-	486,286	-	486,286	-	486,286	-
DE	2009-2010	1,456,315	1,456,315	-	1,456,315	-	1,456,315	-	1,456,315	-	1,456,315	-	1,456,315	-	1,456,315	-	1,456,315	-	1,456,315	-
	2011	1,465,863	1,465,863	-	1,465,863	-	1,465,863	-	1,465,863	-	1,465,863	-	1,465,863	-	1,465,863	-	1,465,863	-	1,465,863	-
	2012	1,470,102	1,470,102	-	1,470,102	-	1,470,102	-	1,470,102	-	1,470,102	-	1,470,102	-	1,470,102	-	1,470,102	-	1,470,102	-
	2013	1,480,901	1,480,901	-	1,480,901	-	1,480,901	-	1,480,901	-	1,480,901	-	1,480,901	-	1,480,901	-	1,480,901	-	1,480,901	-
EE	2009-2013	981,644	981,644	-	981,644	-	981,644	-	981,644	-	981,644	-	981,644	-	981,644	-	981,644	-	981,644	-
ES	2009-2010	1,655,304	1,247,950	-24.61%	1,583,496	-4.34%	1,180,482	-28.68%	1,604,496	-3.07%	1,655,304	-	1,587,754	-4.08%	1,604,277	-3.08%	1,333,636	-19.43%	1,478,635	-10.67%
	2011	1,655,304	1,167,502	-29.47%	1,583,496	-4.34%	1,100,056	-33.54%	1,604,496	-3.07%	1,655,304	-	1,587,754	-4.08%	1,604,277	-3.08%	1,245,754	-24.74%	1,478,635	-10.67%
	2012-2013	1,655,304	1,167,502	-29.47%	1,585,975	-4.19%	1,105,021	-33.24%	1,604,496	-3.07%	1,655,304	-	1,590,225	-3.93%	1,604,277	-3.08%	1,245,754	-24.74%	1,478,635	-10.67%
FI	2009	1,239,697	1,239,697	-	1,236,122	-0.29%	1,236,122	-0.29%	1,236,122	-0.29%	1,239,697	-	1,239,697	-	1,239,697	-	1,239,697	-	1,239,697	-
	2010	1,252,937	1,252,937	-	1,249,358	-0.29%	1,249,358	-0.29%	1,249,358	-0.29%	1,252,937	-	1,252,937	-	1,252,937	-	1,252,937	-	1,252,937	-
	2011	1,261,994	1,261,994	-	1,256,550	-0.43%	1,256,550	-0.43%	1,256,550	-0.43%	1,261,994	-	1,261,994	-	1,261,994	-	1,261,994	-	1,261,994	-
	2012	1,192,427	1,192,427	-	1,187,293	-0.43%	1,187,293	-0.43%	1,187,293	-0.43%	1,192,427	-	1,192,427	-	1,192,427	-	1,192,427	-	1,192,427	-
	2013	1,183,714	1,183,714	-	1,119,822	-5.40%	1,119,822	-5.40%	1,119,822	-5.40%	1,183,714	-	1,183,714	-	1,183,714	-	1,183,714	-	1,183,714	-
FR	2009	1,770,912	1,698,673	-4.08%	1,609,943	-9.09%	1,537,705	-13.17%	1,767,657	-0.18%	1,770,912	-	1,613,198	-8.91%	1,770,912	-	1,698,673	-4.08%	1,770,912	-
	2010	1,803,115	1,730,875	-4.01%	1,642,146	-8.93%	1,569,910	-12.93%	1,799,859	-0.18%	1,803,115	-	1,645,402	-8.75%	1,803,115	-	1,730,878	-4.01%	1,803,115	-
	2011	2,002,573	1,930,286	-3.61%	1,905,306	-4.86%	1,833,067	-8.46%	1,999,315	-0.16%	2,002,573	-	1,908,563	-4.69%	2,002,573	-	1,930,286	-3.61%	2,002,573	-

Country	Year	General Tax Code Tax Burden	SME specific Tax Code		Tax Code And R&D Incentives		SME specific Tax code an R&D-Incentives													
							All Incentives		R&D-Incentives						SME-Incentives					
									Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives		Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives	
			Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect
	2012	2,080,513	2,010,394	-3.37%	1,976,078	-5.02%	1,906,009	-8.39%	2,077,353	-0.15%	2,080,513	-	1,979,236	-4.87%	2,080,513	-	2,010,396	-3.37%	2,080,513	-
	2013	1,852,668	1,782,597	-3.78%	1,751,422	-5.46%	1,681,351	-9.25%	1,849,513	-0.17%	1,852,668	-	1,754,578	-5.29%	1,852,668	-	1,782,597	-3.78%	1,852,668	-
GR	2009	1,184,274	1,184,274	-	1,180,278	-0.34%	1,180,278	-0.34%	1,180,278	-0.34%	1,184,274	-	1,184,274	-	1,184,274	-	1,184,274	-	1,184,274	-
	2010	1,137,471	1,137,471	-	1,133,683	-0.33%	1,133,683	-0.33%	1,133,683	-0.33%	1,137,471	-	1,137,471	-	1,137,471	-	1,137,471	-	1,137,471	-
	2011-2012	956,652	956,652	-	953,452	-0.33%	953,452	-0.33%	953,452	-0.33%	956,652	-	956,652	-	956,652	-	956,652	-	956,652	-
	2013	1,246,258	1,246,258	-	1,226,346	-1.60%	1,226,346	-1.60%	1,226,346	-1.60%	1,246,258	-	1,246,258	-	1,246,258	-	1,246,258	-	1,246,258	-
HR	2009	938,209	938,209	-	824,884	-12.08%	824,884	-12.08%	824,884	-12.08%	938,209	-	938,209	-	938,209	-	938,209	-	938,209	-
	2010-2011	937,372	937,372	-	824,134	-12.08%	824,134	-12.08%	824,134	-12.08%	937,372	-	937,372	-	937,372	-	937,372	-	937,372	-
	2012-2013	936,131	936,131	-	823,021	-12.08%	823,021	-12.08%	823,021	-12.08%	936,131	-	936,131	-	936,131	-	936,131	-	936,131	-
IE	2009	638,581	590,203	-7.58%	601,067	-5.87%	548,396	-14.12%	619,469	-2.99%	638,581	-	620,187	-2.88%	638,581	-	590,203	-7.58%	638,581	-
	2010	637,732	589,401	-7.58%	600,219	-5.88%	547,596	-14.13%	618,622	-3.00%	637,732	-	619,341	-2.88%	637,732	-	589,401	-7.58%	637,732	-
	2011	637,483	589,171	-7.58%	599,971	-5.88%	547,366	-14.14%	618,371	-3.00%	637,483	-	619,090	-2.89%	637,483	-	589,171	-7.58%	637,483	-
	2012	636,780	588,507	-7.58%	498,740	-21.68%	446,260	-29.92%	617,668	-3.00%	636,780	-	517,863	-18.67%	636,780	-	588,507	-7.58%	636,780	-
	2013	636,567	588,305	-7.58%	498,531	-21.68%	446,061	-29.93%	617,456	-3.00%	636,567	-	517,652	-18.68%	636,567	-	588,305	-7.58%	636,567	-
IT	2009	1,714,673	1,714,673	-	1,670,385	-2.58%	1,670,385	-2.58%	1,705,317	-0.55%	1,714,673	-	1,679,739	-2.04%	1,714,673	-	1,714,673	-	1,714,673	-
	2010	1,676,694	1,676,694	-	1,632,403	-2.64%	1,632,403	-2.64%	1,667,336	-0.56%	1,676,694	-	1,641,762	-2.08%	1,676,694	-	1,676,694	-	1,676,694	-
	2011	1,671,828	1,671,828	-	1,662,471	-0.56%	1,662,471	-0.56%	1,662,471	-0.56%	1,671,828	-	1,671,828	-	1,671,828	-	1,671,828	-	1,671,828	-
	2012-2013	1,603,376	1,603,376	-	1,507,156	-6.00%	1,507,156	-6.00%	1,593,969	-0.59%	1,603,376	-	1,516,562	-5.41%	1,603,376	-	1,603,376	-	1,603,376	-
LT	2009	964,253	964,253	-	796,774	-17.37%	796,774	-17.37%	796,774	-17.37%	964,253	-	964,253	-	964,253	-	964,253	-	964,253	-
	2010-2012	742,970	742,970	-	617,061	-16.95%	617,061	-16.95%	617,061	-16.95%	742,970	-	742,970	-	742,970	-	742,970	-	742,970	-
	2013	813,281	813,280	-	687,372	-15.48%	687,372	-15.48%	687,372	-15.48%	813,281	-	813,281	-	813,281	-	813,281	-	813,281	-
LU	2009-2010	1,425,927	1,425,927	-	1,421,011	-0.34%	1,421,011	-0.34%	1,421,011	-0.34%	1,425,927	-	1,425,927	-	1,425,927	-	1,425,927	-	1,425,927	-
	2011-2012	1,435,303	1,435,303	-	1,430,345	-0.35%	1,430,345	-0.35%	1,430,345	-0.35%	1,435,303	-	1,435,303	-	1,435,303	-	1,435,303	-	1,435,303	-
	2013	1,456,114	1,456,114	-	1,444,617	-0.79%	1,444,617	-0.79%	1,444,617	-0.79%	1,456,114	-	1,456,114	-	1,456,114	-	1,456,114	-	1,456,114	-
NL	2009	1,148,310	1,148,310	-	1,096,169	-4.54%	1,096,169	-4.54%	1,148,310	-	1,148,310	-	1,096,169	-4.54%	1,148,310	-	1,148,310	-	1,148,310	-
	2010	1,155,976	1,155,976	-	1,103,834	-4.51%	1,103,834	-4.51%	1,155,976	-	1,155,976	-	1,103,834	-4.51%	1,155,976	-	1,155,976	-	1,155,976	-
	2011	1,088,059	1,088,059	-	1,025,969	-5.71%	1,025,969	-5.71%	1,088,059	-	1,088,059	-	1,025,969	-5.71%	1,088,059	-	1,088,059	-	1,088,059	-
	2012	1,088,567	1,088,567	-	1,014,250	-6.83%	1,014,250	-6.83%	1,066,410	-2.04%	1,088,567	-	1,036,408	-4.79%	1,088,567	-	1,088,567	-	1,088,567	-
	2013	1,088,987	1,088,987	-	1,011,885	-7.08%	1,011,885	-7.08%	1,059,076	-2.75%	1,088,987	-	1,041,796	-4.33%	1,088,987	-	1,088,987	-	1,088,987	-
PL	2009	937,802	937,802	-	937,802	-	937,802	-	937,802	-	937,802	-	937,802	-	937,802	-	937,802	-	937,802	-

Country	Year	General Tax Code Tax Burden	SME specific Tax Code		Tax Code And R&D Incentives		SME specific Tax code an R&D-Incentives											
							All Incentives		R&D-Incentives						SME-Incentives			
									Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives		Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives	
			Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect
	2010	938,249	938,249	-	938,249	-	938,249	-	938,249	-	938,249	-	938,249	-	938,249	-	938,249	-	938,249	-
	2011	936,915	936,915	-	894,340	-4.54%	894,340	-4.54%	936,915	-	936,915	-	894,340	-4.54%	936,915	-	936,915	-	936,915	-
	2012	939,304	939,304	-	896,729	-4.53%	896,729	-4.53%	939,304	-	939,304	-	896,729	-4.53%	939,304	-	939,304	-	939,304	-
	2013	941,007	941,007	-	898,431	-4.52%	898,431	-4.52%	941,007	-	941,007	-	898,431	-4.52%	941,007	-	941,007	-	941,007	-
RO	2009	790,263	790,263	-	776,349	-1.76%	776,349	-1.76%	776,349	-1.76%	790,263	-	790,263	-	790,263	-	790,263	-	790,263	-
	2010	784,243	784,243	-	770,331	-1.77%	770,331	-1.77%	770,331	-1.77%	784,243	-	784,243	-	784,243	-	784,243	-	784,243	-
	2011-2012	784,235	784,235	-	770,322	-1.77%	770,322	-1.77%	770,322	-1.77%	784,235	-	784,235	-	784,235	-	784,235	-	784,235	-
	2013	785,565	785,565	-	751,182	-4.38%	751,182	-4.38%	751,182	-4.38%	785,565	-	785,565	-	785,565	-	785,565	-	785,565	-
SE	2009-2012	1,251,778	1,251,778	-	1,251,778	-	1,251,778	-	1,251,778	-	1,251,778	-	1,251,778	-	1,251,778	-	1,251,778	-	1,251,778	-
	2013	1,054,122	1,054,122	-	1,054,122	-	1,054,122	-	1,054,122	-	1,054,122	-	1,054,122	-	1,054,122	-	1,054,122	-	1,054,122	-
SI	2009	983,000	983,000	-	956,426	-2.70%	956,426	-2.70%	956,426	-2.70%	983,000	-	983,000	-	983,000	-	983,000	-	983,000	-
	2010	936,624	936,624	-	892,346	-4.73%	892,346	-4.73%	892,346	-4.73%	936,624	-	936,624	-	936,624	-	936,624	-	936,624	-
	2011	936,624	936,624	-	892,346	-4.73%	892,346	-4.73%	892,346	-4.73%	936,624	-	936,624	-	936,624	-	936,624	-	936,624	-
	2012	843,742	843,742	-	752,617	-10.80%	752,617	-10.80%	752,617	-10.80%	843,742	-	843,742	-	843,742	-	843,742	-	843,742	-
	2013	797,236	797,236	-	711,133	-10.80%	711,133	-10.80%	711,133	-10.80%	797,236	-	797,236	-	797,236	-	797,236	-	797,236	-
UK	2009	1,419,642	1,148,004	-19.13%	1,255,749	-11.54%	1,014,043	-28.57%	1,255,749	-11.54%	1,419,642	-	1,419,642	-	1,419,642	-	1,148,004	-19.13%	1,419,642	-
	2010	1,408,896	1,181,006	-16.18%	1,270,974	-9.79%	1,046,202	-25.74%	1,270,974	-9.79%	1,408,896	-	1,408,896	-	1,408,896	-	1,181,006	-16.18%	1,408,896	-
	2011	1,318,394	1,127,228	-14.50%	1,159,329	-12.07%	978,534	-25.78%	1,159,329	-12.07%	1,318,394	-	1,318,394	-	1,318,394	-	1,127,228	-14.50%	1,318,394	-
	2012	1,235,658	1,099,152	-11.05%	1,048,137	-15.18%	926,884	-24.99%	1,048,137	-15.18%	1,235,658	-	1,235,658	-	1,235,658	-	1,099,152	-11.05%	1,235,658	-
	2013	1,193,995	1,095,785	-8.23%	1,020,840	-14.50%	931,307	-22.00%	1,020,840	-14.50%	1,193,995	-	1,193,995	-	1,193,995	-	1,095,785	-8.23%	1,193,995	-

Table 5.23 Effective Tax Burden (10 periods, corporate level, micro corporation, fiscal years 2009-2013)

Country	Year	General Tax Code Tax Burden	SME specific Tax Code		Tax Code and R&D Incentives		SME specific Tax Code and R&D-Incentives													
							All Incentives		R&D-Incentives						SME-Incentives					
									Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives		Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives	
			Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect
AT	2009	272,761	272,761	-	267,400	-1.97%	267,400	-1.97%	272,761	-	272,761	-	267,400	-1.97%	272,761	-	272,761	-	272,761	-
	2010	272,763	272,763	-	267,403	-1.97%	267,403	-1.97%	272,763	-	272,763	-	267,403	-1.97%	272,763	-	272,763	-	272,763	-
	2011-2013	272,763	272,763	-	266,066	-2.46%	266,066	-2.46%	272,763	-	272,763	-	266,066	-2.46%	272,763	-	272,763	-	272,763	-
BE	2009	300,732	270,776	-9.96%	297,029	-1.23%	267,223	-11.14%	297,029	-1.23%	300,732	-	300,732	-	300,915	0.06%	270,023	-10.21%	300,732	-
	2010	300,732	264,859	-11.93%	297,073	-1.22%	261,346	-13.10%	297,073	-1.22%	300,732	-	300,732	-	294,947	-1.92%	270,023	-10.21%	300,732	-
	2011	300,732	264,022	-12.21%	297,066	-1.22%	261,339	-13.10%	297,066	-1.22%	300,732	-	300,732	-	294,947	-1.92%	270,023	-10.21%	300,732	-
	2012	298,891	262,134	-12.30%	295,162	-1.25%	258,505	-13.51%	295,162	-1.25%	298,891	-	298,891	-	292,843	-2.02%	268,145	-10.29%	298,891	-
	2013	298,891	262,134	-12.30%	295,180	-1.24%	258,524	-13.51%	295,180	-1.24%	298,891	-	298,891	-	292,843	-2.02%	268,145	-10.29%	298,891	-
BG	2009	92,653	92,653	-	92,653	-	92,653	-	92,653	-	92,653	-	92,653	-	92,653	-	92,653	-	92,653	-
	2010	92,719	92,719	-	92,719	-	92,719	-	92,719	-	92,719	-	92,719	-	92,719	-	92,719	-	92,719	-
	2011-2013	94,666	94,666	-	94,666	-	94,666	-	94,666	-	94,666	-	94,666	-	94,666	-	94,666	-	94,666	-
DE	2009-2010	282,342	281,951	-0.14%	282,342	-	281,951	-0.14%	282,342	-	282,342	-	282,342	-	281,951	-0.14%	282,342	-	282,342	-
	2011	284,188	283,794	-0.14%	284,188	-	283,794	-0.14%	284,188	-	284,188	-	284,188	-	283,794	-0.14%	284,188	-	284,188	-
	2012	285,063	284,670	-0.14%	285,063	-	284,670	-0.14%	285,063	-	285,063	-	285,063	-	284,670	-0.14%	285,063	-	285,063	-
	2013	286,898	286,498	-0.14%	286,898	-	286,498	-0.14%	286,898	-	286,898	-	286,898	-	286,498	-0.14%	286,898	-	286,898	-
EE	2009-2013	191,108	191,108	-	191,108	-	191,108	-	191,108	-	191,108	-	191,108	-	191,108	-	191,108	-	191,108	-
ES	2009-2010	321,052	169,677	-47.15%	310,886	-3.17%	159,785	-50.23%	313,563	-2.33%	321,052	-	311,535	-2.96%	313,090	-2.48%	180,060	-43.92%	295,622	-7.92%
	2011	321,052	164,769	-48.68%	310,886	-3.17%	154,905	-51.75%	313,563	-2.33%	321,052	-	311,535	-2.96%	313,090	-2.48%	177,445	-44.73%	295,622	-7.92%
	2012-2013	321,052	164,769	-48.68%	311,536	-2.96%	155,643	-51.52%	313,563	-2.33%	321,052	-	312,184	-2.76%	313,090	-2.48%	177,445	-44.73%	295,622	-7.92%
FI	2009	240,109	240,109	-	239,564	-0.23%	239,564	-0.23%	239,564	-0.23%	240,109	-	240,109	-	240,109	-	240,109	-	240,109	-
	2010	243,408	243,408	-	242,864	-0.22%	242,864	-0.22%	242,864	-0.22%	243,408	-	243,408	-	243,408	-	243,408	-	243,408	-
	2011	246,559	246,559	-	245,732	-0.34%	245,732	-0.34%	245,732	-0.34%	246,559	-	246,559	-	246,559	-	246,559	-	246,559	-
	2012	233,094	233,094	-	232,315	-0.33%	232,315	-0.33%	232,315	-0.33%	233,094	-	233,094	-	233,094	-	233,094	-	233,094	-
	2013	230,005	230,005	-	220,605	-4.09%	220,605	-4.09%	220,605	-4.09%	230,005	-	230,005	-	230,005	-	230,005	-	230,005	-
FR	2009	323,012	244,804	-24.21%	299,314	-7.34%	221,108	-31.55%	322,521	-0.15%	323,012	-	299,807	-7.18%	323,012	-	244,804	-24.21%	323,012	-
	2010	328,992	250,786	-23.77%	305,296	-7.20%	227,090	-30.97%	328,500	-0.15%	328,992	-	305,788	-7.05%	328,992	-	250,786	-23.77%	328,992	-
	2011	336,247	250,786	-25.42%	321,917	-4.26%	243,711	-27.52%	335,756	-0.15%	336,247	-	322,410	-4.12%	336,247	-	258,042	-23.26%	336,247	-

Country	Year	General Tax Code Tax Burden	SME specific Tax Code		Tax Code and R&D Incentives		SME specific Tax Code and R&D-Incentives													
							All Incentives		R&D-Incentives						SME-Incentives					
									Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives		Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives	
			Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect
	2012	352,915	277,054	-21.50%	337,531	-4.36%	261,672	-25.85%	352,439	-0.13%	352,915	-	338,005	-4.22%	352,915	-	277,054	-21.50%	352,915	-
	2013	322,756	246,895	-23.50%	307,834	-4.62%	231,973	-28.13%	322,281	-0.15%	322,756	-	308,309	-4.48%	322,756	-	246,895	-23.50%	322,756	-
GR	2009	229,841	229,841	-	229,063	-0.34%	229,063	-0.34%	229,063	-0.34%	229,841	-	229,841	-	229,841	-	229,841	-	229,841	-
	2010	220,775	220,775	-	220,222	-0.25%	220,222	-0.25%	220,222	-0.25%	220,775	-	220,775	-	220,775	-	220,775	-	220,775	-
	2011-2012	185,994	185,994	-	185,367	-0.34%	185,367	-0.34%	185,367	-0.34%	185,994	-	185,994	-	185,994	-	185,994	-	185,994	-
	2013	242,676	242,676	-	239,481	-1.32%	239,481	-1.32%	239,481	-1.32%	242,676	-	242,676	-	242,676	-	242,676	-	242,676	-
HR	2009	179,725	179,725	-	163,132	-9.23%	163,132	-9.23%	163,132	-9.23%	179,725	-	179,725	-	179,725	-	179,725	-	179,725	-
	2010-2011	179,558	179,558	-	162,977	-9.23%	162,977	-9.23%	162,977	-9.23%	179,558	-	179,558	-	179,558	-	179,558	-	179,558	-
	2012	179,308	89,611	-50.02%	162,748	-9.24%	81,249	-54.69%	162,748	-9.24%	179,308	-	179,308	-	179,308	-	89,611	-50.02%	179,308	-
	2013	179,309	89,611	-50.02%	162,749	-9.24%	81,250	-54.69%	162,749	-9.24%	179,309	-	179,309	-	179,309	-	89,611	-50.02%	179,309	-
IE	2009	126,260	80,529	-36.22%	119,821	-5.10%	74,488	-41.00%	123,395	-2.27%	126,260	-	122,693	-2.83%	126,260	-	80,529	-36.22%	126,260	-
	2010	126,052	80,311	-36.29%	119,610	-5.11%	74,272	-41.08%	123,188	-2.27%	126,052	-	122,484	-2.83%	126,052	-	80,311	-36.29%	126,052	-
	2011	125,985	77,408	-38.56%	119,544	-5.11%	70,968	-43.67%	123,122	-2.27%	125,985	-	122,418	-2.83%	125,985	-	77,408	-38.56%	125,985	-
	2012	125,812	77,231	-38.61%	105,460	-16.18%	56,882	-54.79%	122,945	-2.28%	125,812	-	108,334	-13.89%	125,812	-	77,231	-38.61%	125,812	-
	2013	125,756	77,179	-38.63%	105,408	-16.18%	56,830	-54.81%	122,894	-2.28%	125,756	-	108,282	-13.90%	125,756	-	77,179	-38.63%	125,756	-
IT	2009	319,232	319,232	-	312,720	-2.04%	312,720	-2.04%	317,859	-0.43%	319,232	-	314,091	-1.61%	319,232	-	319,232	-	319,232	-
	2010	313,807	313,807	-	307,293	-2.08%	307,293	-2.08%	312,432	-0.44%	313,807	-	308,667	-1.64%	313,807	-	313,807	-	313,807	-
	2011	312,694	312,694	-	311,320	-0.44%	311,320	-0.44%	311,320	-0.44%	312,694	-	312,694	-	312,694	-	312,694	-	312,694	-
	2012-2013	303,414	303,414	-	289,269	-4.66%	289,269	-4.66%	302,034	-0.45%	303,414	-	290,651	-4.21%	303,414	-	303,414	-	303,414	-
LT	2009	187,901	141,088	-24.91%	163,288	-13.10%	124,178	-33.91%	163,288	-13.10%	187,901	-	187,901	-	187,901	-	141,088	-24.91%	187,901	-
	2010-2011	145,766	78,692	-46.01%	127,260	-12.70%	71,255	-51.12%	127,260	-12.70%	145,766	-	145,766	-	145,766	-	78,692	-46.01%	145,766	-
	2012	145,766	57,006	-60.89%	127,260	-12.70%	50,805	-65.15%	127,260	-12.70%	145,766	-	145,766	-	145,766	-	57,006	-60.89%	145,766	-
	2013	163,287	76,669	-53.05%	144,782	-11.33%	70,471	-56.84%	144,782	-11.33%	163,287	-	163,287	-	163,287	-	76,669	-53.05%	163,287	-
LU	2009-2010	268,227	268,227	-	267,490	-0.27%	267,490	-0.27%	267,490	-0.27%	268,227	-	268,227	-	268,227	-	268,227	-	268,227	-
	2011-2012	270,031	270,031	-	269,291	-0.27%	269,291	-0.27%	269,291	-0.27%	270,031	-	270,031	-	270,031	-	270,031	-	270,031	-
	2013	274,267	274,267	-	272,547	-0.63%	272,547	-0.63%	272,547	-0.63%	274,267	-	274,267	-	274,267	-	274,267	-	274,267	-
NL	2009	200,796	200,796	-	193,120	-3.82%	193,120	-3.82%	200,796	-	200,796	-	193,120	-3.82%	200,796	-	200,796	-	200,796	-
	2010	202,754	202,754	-	195,076	-3.79%	195,076	-3.79%	202,754	-	202,754	-	195,076	-3.79%	202,754	-	202,754	-	202,754	-
	2011	186,153	186,153	-	177,002	-4.92%	177,002	-4.92%	186,153	-	186,153	-	177,002	-4.92%	186,153	-	186,153	-	186,153	-

Country	Year	General Tax Code Tax Burden	SME specific Tax Code		Tax Code and R&D Incentives		SME specific Tax Code and R&D-Incentives													
							All Incentives		R&D-Incentives						SME-Incentives					
									Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives		Tax Base Incentives		Tax Rate Incentives		Tax Liability Incentives	
			Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Total Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect	Tax Burden	Isolated Effect
	2012	186,289	186,289	-	175,939	-5.56%	175,939	-5.56%	183,629	-1.43%	186,289	-	178,603	-4.13%	186,289	-	186,289	-	186,289	-
	2013	186,401	186,401	-	175,850	-5.66%	175,850	-5.66%	182,805	-1.93%	186,401	-	179,445	-3.73%	186,401	-	186,401	-	186,401	-
PL	2009	183,962	183,236	-0.39%	183,962	-	183,236	-0.39%	183,962	-	183,962	-	183,962	-	183,236	-0.39%	183,962	-	183,962	-
	2010	184,074	183,345	-0.40%	184,074	-	183,345	-0.40%	184,074	-	184,074	-	184,074	-	183,345	-0.40%	184,074	-	184,074	-
	2011	183,747	183,386	-0.20%	177,487	-3.41%	177,125	-3.60%	183,747	-	183,747	-	177,487	-3.41%	183,386	-0.20%	183,747	-	183,747	-
	2012	184,336	183,976	-0.20%	178,075	-3.40%	177,713	-3.59%	184,336	-	184,336	-	178,075	-3.40%	183,976	-0.20%	184,336	-	184,336	-
	2013	184,766	184,405	-0.20%	178,508	-3.39%	178,143	-3.58%	184,766	-	184,766	-	178,508	-3.39%	184,405	-0.20%	184,766	-	184,766	-
RO	2009	154,907	154,907	-	152,861	-1.32%	152,861	-1.32%	152,861	-1.32%	154,907	-	154,907	-	154,907	-	154,907	-	154,907	-
	2010	153,723	153,723	-	151,674	-1.33%	151,674	-1.33%	151,674	-1.33%	153,723	-	153,723	-	153,723	-	153,723	-	153,723	-
	2011-2012	153,713	153,713	-	151,664	-1.33%	151,664	-1.33%	151,664	-1.33%	153,713	-	153,713	-	153,713	-	153,713	-	153,713	-
	2013	154,053	154,053	-	148,997	-3.28%	148,997	-3.28%	148,997	-3.28%	154,053	-	154,053	-	154,053	-	154,053	-	154,053	-
SE	2009-2012	243,006	243,006	-	243,006	-	243,006	-	243,006	-	243,006	-	243,006	-	243,006	-	243,006	-	243,006	-
	2013	204,894	204,894	-	204,894	-	204,894	-	204,894	-	204,894	-	204,894	-	204,894	-	204,894	-	204,894	-
SI	2009	190,169	190,169	-	186,238	-2.07%	186,238	-2.07%	186,238	-2.07%	190,169	-	190,169	-	190,169	-	190,169	-	190,169	-
	2010-2011	181,199	181,199	-	174,667	-3.60%	174,667	-3.60%	174,667	-3.60%	181,199	-	181,199	-	181,199	-	181,199	-	181,199	-
	2012	163,235	163,235	-	149,820	-8.22%	149,820	-8.22%	149,820	-8.22%	163,235	-	163,235	-	163,235	-	163,235	-	163,235	-
	2013	154,239	149,788	-2.89%	141,562	-8.22%	137,163	-11.07%	141,562	-8.22%	154,239	-	154,239	-	149,788	-2.89%	154,239	-	154,239	-
UK	2009	280,983	221,028	-21.34%	275,670	-1.89%	217,033	-22.76%	275,670	-1.89%	280,983	-	312,184	11.10%	280,983	-	221,028	-21.34%	280,983	-
	2010	278,303	218,067	-21.64%	272,931	-1.93%	214,029	-23.09%	272,931	-1.93%	278,303	-	312,184	12.17%	278,303	-	218,067	-21.64%	278,303	-
	2011	260,897	209,220	-19.81%	255,798	-1.95%	205,288	-21.31%	255,798	-1.95%	260,897	-	312,184	19.66%	260,897	-	209,220	-19.81%	260,897	-
	2012	245,428	210,995	-14.03%	240,487	-2.01%	206,872	-15.71%	240,487	-2.01%	245,428	-	312,184	27.20%	245,428	-	210,995	-14.03%	245,428	-
	2013	237,622	211,816	-10.86%	232,888	-1.99%	207,695	-12.59%	239,260	0.69%	237,622	-	312,184	31.38%	237,622	-	217,356	-8.53%	237,622	-

5.5 Sensitivity analysis (Effective Tax Burden, large corporation, corporate level)

Table 5.24 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, large corporation, fiscal years 2009-2013, profitability)

Country	Year	Base Case			Profitability - 30%		Profitability - 20%		Profitability - 10%		Profitability + 10%		Profitability + 20%		Profitability + 30%	
		General Tax Code Tax Burden	General Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives
Austria	2009	52,770,907	51,182,721	-3.01%	-18.95%	-3.72%	-14.22%	-3.51%	-4.74%	-3.16%	9.48%	-2.75%	14.22%	-2.63%	23.70%	-2.43%
	2010	52,771,208	51,183,022	-3.01%	-18.95%	-3.72%	-14.22%	-3.51%	-4.74%	-3.16%	9.48%	-2.75%	14.22%	-2.63%	23.70%	-2.43%
	2011-2013	52,771,208	50,785,976	-3.76%	-18.95%	-4.65%	-14.22%	-4.39%	-4.74%	-3.95%	9.48%	-3.44%	14.22%	-3.29%	23.70%	-3.04%
Belgium	2009	54,411,629	53,369,295	-1.92%	-23.10%	-2.49%	-17.33%	-2.32%	-5.78%	-2.03%	11.56%	-1.72%	17.34%	-1.63%	28.92%	-1.48%
	2010	54,411,629	53,383,281	-1.89%	-23.10%	-2.46%	-17.33%	-2.28%	-5.78%	-2.01%	11.56%	-1.69%	17.34%	-1.61%	28.92%	-1.46%
	2011	54,411,629	53,381,796	-1.89%	-23.10%	-2.46%	-17.33%	-2.29%	-5.78%	-2.01%	11.56%	-1.70%	17.34%	-1.61%	28.92%	-1.47%
	2012	54,168,834	53,119,617	-1.94%	-23.20%	-2.52%	-17.40%	-2.34%	-5.80%	-2.06%	11.61%	-1.74%	17.42%	-1.65%	29.06%	-1.50%
	2013	54,168,834	53,126,038	-1.93%	-22.61%	-2.48%	-16.81%	-2.31%	-5.80%	-2.04%	11.61%	-1.72%	17.42%	-1.64%	29.06%	-1.49%
Bulgaria	2009	16,729,850	16,729,850	-	-24.10%	-	-18.08%	-	-6.03%	-	12.05%	-	18.08%	-	30.13%	-
	2010	16,738,736	16,738,736	-	-24.09%	-	-18.07%	-	-6.02%	-	12.04%	-	18.07%	-	30.11%	-
	2011-2012	16,996,330	16,996,330	-	-23.72%	-	-17.79%	-	-5.93%	-	11.86%	-	17.79%	-	29.65%	-
	2013	16,996,329	16,996,329	-	-23.72%	-	-17.79%	-	-5.93%	-	11.86%	-	17.79%	-	29.65%	-
Croatia	2009	32,639,168	13,828,993	-57.63%	-24.65%	-60.24%	-18.49%	-59.44%	-6.16%	-58.16%	12.70%	-56.27%	19.11%	-56.02%	31.44%	-55.42%
	2010-2011	32,609,289	13,802,786	-57.67%	-24.65%	-60.28%	-18.49%	-59.48%	-6.16%	-58.20%	12.71%	-56.31%	19.11%	-56.06%	31.44%	-55.46%
	2012	32,564,896	13,763,843	-57.73%	-24.65%	-60.34%	-18.49%	-59.54%	-6.16%	-58.26%	12.71%	-56.37%	19.12%	-56.12%	31.45%	-55.52%
	2013	32,564,895	27,634,341	-15.14%	-24.65%	-20.07%	-18.49%	-18.56%	-6.16%	-16.14%	12.71%	-13.35%	19.12%	-12.71%	31.45%	-11.52%
Estonia	2009-2013	34,571,589	34,571,589	-	-23.48%	-	-17.61%	-	-5.87%	-	11.74%	-	17.61%	-	29.35%	-
Finland	2009	43,361,043	43,206,057	-0.36%	-24.01%	-0.47%	-18.00%	-0.44%	-6.00%	-0.38%	12.00%	-0.32%	18.00%	-0.30%	29.99%	-0.27%
	2010	43,795,871	43,640,888	-0.35%	-23.78%	-0.46%	-17.82%	-0.43%	-5.94%	-0.38%	11.88%	-0.32%	17.82%	-0.30%	29.70%	-0.27%
	2011	44,147,823	43,912,198	-0.53%	-23.56%	-0.70%	-17.68%	-0.65%	-5.89%	-0.57%	11.78%	-0.48%	17.68%	-0.45%	29.46%	-0.41%
	2012	41,707,356	41,485,232	-0.53%	-23.52%	-0.70%	-17.64%	-0.65%	-5.88%	-0.57%	11.76%	-0.48%	17.64%	-0.45%	29.41%	-0.41%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Profitability - 30%		Profitability - 20%		Profitability - 10%		Profitability + 10%		Profitability + 20%		Profitability + 30%	
		General Tax Code Tax Burden	General Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives
	2013	41,368,771	38,584,338	-6.73%	-23.73%	-8.81%	-17.79%	-8.19%	-5.93%	-7.15%	11.86%	-6.02%	17.79%	-5.71%	29.65%	-5.19%
France	2009	80,300,859	73,751,232	-8.16%	-17.08%	-9.88%	-12.83%	-9.36%	-4.28%	-8.52%	8.55%	-7.51%	12.83%	-7.23%	21.38%	-6.72%
	2010	83,034,884	76,485,259	-7.89%	-16.92%	-9.59%	-12.75%	-9.04%	-4.25%	-8.24%	8.50%	-7.27%	12.75%	-7.00%	21.24%	-6.50%
	2011	83,544,699	79,299,445	-5.08%	-16.80%	-6.21%	-12.67%	-5.82%	-4.22%	-5.31%	8.45%	-4.69%	12.67%	-4.51%	21.11%	-4.20%
	2012	85,978,680	81,885,601	-4.76%	-17.17%	20.00%	-12.95%	-5.47%	-4.32%	-4.98%	8.63%	-4.38%	12.95%	-4.21%	21.59%	-3.92%
	2013	78,090,960	74,135,453	-5.07%	-19.01%	-6.25%	-14.26%	-5.91%	-4.75%	-5.32%	9.51%	-4.63%	14.26%	-4.43%	23.77%	-4.09%
Germany	2009	52,562,247	52,562,247	-	-23.48%	-	-17.62%	-	-5.88%	-	11.76%	-	17.63%	-	29.39%	-
	2010	52,543,705	52,543,705	-	-23.49%	-	-17.62%	-	-5.88%	-	11.76%	-	17.64%	-	29.40%	-
	2011	52,892,178	52,892,178	-	-23.49%	-	-17.62%	-	-5.88%	-	11.76%	-	17.64%	-	29.40%	-
	2012	53,045,569	53,045,569	-	-23.47%	-	-17.61%	-	-5.88%	-	11.75%	-	17.63%	-	29.38%	-
	2013	53,434,468	53,434,468	-	-23.37%	-	-17.53%	-	-5.85%	-	11.72%	-	17.58%	-	29.30%	-
Greece	2009	41,467,965	41,295,990	-0.41%	-24.14%	-0.55%	-18.10%	-0.51%	-6.03%	-0.44%	12.07%	-0.37%	18.10%	-0.35%	30.17%	-0.32%
	2010	39,821,717	39,656,560	-0.41%	-24.14%	-0.55%	-18.11%	-0.51%	-6.04%	-0.44%	12.07%	-0.37%	18.11%	-0.35%	30.18%	-0.32%
	2011-2012	33,616,256	33,478,423	-0.41%	-23.88%	-0.54%	-17.91%	-0.50%	-5.97%	-0.44%	11.94%	-0.37%	17.91%	-0.35%	29.84%	-0.32%
	2013	43,896,744	43,035,140	-1.96%	-23.61%	-2.57%	-17.71%	-2.39%	-5.90%	-2.09%	11.81%	-1.76%	17.74%	-1.67%	29.59%	-1.51%
Hungary	2009	59,363,722	59,363,722	-	-14.72%	-	-11.15%	-	-3.83%	-	7.23%	-	10.82%	-	18.00%	-
	2010	64,151,777	64,151,777	-	-13.20%	-	-9.98%	-	-3.39%	-	6.62%	-	9.87%	-	16.37%	-
	2011	61,017,567	61,017,567	-	-13.65%	-	-10.21%	-	-3.49%	-	6.80%	-	10.21%	-	17.05%	-
	2012	62,528,788	62,528,788	-	-13.22%	-	-9.91%	-	-3.33%	-	6.97%	-	10.30%	-	16.97%	-
	2013	62,532,159	62,532,159	-	-13.23%	-	-9.92%	-	-3.34%	-	6.97%	-	10.30%	-	16.96%	-
Ireland	2009	22,567,371	20,978,522	-7.04%	-22.30%	-9.06%	-16.73%	-8.45%	-5.58%	-7.46%	11.15%	-6.33%	16.73%	-6.03%	27.88%	-5.51%
	2010	22,539,546	20,950,696	-7.05%	-22.33%	-9.08%	-16.75%	-8.47%	-5.58%	-7.47%	11.16%	-6.34%	16.75%	-6.04%	27.91%	-5.51%
	2011	22,531,291	20,942,440	-7.05%	-22.34%	-9.08%	-16.75%	-8.47%	-5.58%	-7.47%	11.17%	-6.34%	16.75%	-6.04%	27.92%	-5.51%
	2012	22,508,247	20,658,285	-8.22%	-22.36%	-10.59%	-16.77%	-9.88%	-5.59%	-8.71%	11.18%	-7.39%	16.77%	-7.04%	27.95%	-6.42%
	2013	22,501,512	20,390,438	-9.38%	-22.37%	-12.08%	-16.77%	-11.27%	-5.59%	-9.94%	11.18%	-8.44%	16.77%	-8.03%	27.96%	-7.33%
Italy	2009	60,244,929	58,310,782	-3.21%	-20.61%	-4.04%	-15.46%	-3.80%	-5.15%	-3.38%	10.31%	-2.91%	15.46%	-2.78%	25.78%	-2.55%
	2010	59,106,741	57,172,594	-3.27%	-21.01%	-4.14%	-15.76%	-3.88%	-5.25%	-3.45%	10.51%	-2.96%	15.76%	-2.83%	26.28%	-2.59%
	2011	58,946,236	58,537,638	-0.69%	-21.07%	-0.88%	-15.80%	-0.82%	-5.27%	-0.73%	10.53%	-0.63%	15.80%	-0.60%	26.35%	-0.55%
	2012-	56,573,404	54,073,193	-4.42%	-21.71%	-5.64%	-16.28%	-5.28%	-5.42%	-4.67%	10.85%	-3.99%	16.27%	-3.80%	27.15%	-3.47%

Country	Year	Base Case			Profitability - 30%		Profitability - 20%		Profitability - 10%		Profitability + 10%		Profitability + 20%		Profitability + 30%	
		General Tax Code Tax Burden	General Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives
	2013															
Lithuania	2009	33,704,118	26,403,045	-21.66%	-23.81%	-28.43%	-17.86%	-26.37%	-5.95%	-23.03%	11.91%	-19.36%	17.86%	-18.38%	29.77%	-16.69%
	2010-2012	25,926,559	20,437,743	-21.17%	-23.27%	-27.59%	-17.45%	-25.65%	-5.82%	-22.48%	11.64%	-18.96%	17.45%	-18.02%	29.09%	-16.40%
	2013	28,234,532	22,745,714	-19.44%	-21.37%	-24.72%	-16.03%	-23.15%	-5.34%	-20.54%	10.69%	-17.56%	16.03%	-16.75%	26.71%	-15.34%
Luxembourg	2009-2010	49,842,395	49,628,686	-0.43%	-24.08%	-0.56%	-18.06%	-0.52%	-6.02%	-0.46%	12.04%	-0.38%	18.06%	-0.36%	30.10%	-0.33%
	2011-2012	50,171,772	49,956,501	-0.43%	-24.09%	-0.57%	-18.07%	-0.52%	-6.02%	-0.46%	12.04%	-0.38%	18.07%	-0.36%	30.11%	-0.33%
	2013	50,838,649	50,339,264	-0.98%	-24.08%	-1.29%	-18.07%	-1.20%	-6.02%	-1.05%	12.04%	-0.88%	18.07%	-0.83%	30.11%	-0.75%
Netherlands	2009	42,059,959	40,866,555	-2.84%	-24.20%	-3.75%	-18.15%	-3.47%	-6.07%	-3.02%	12.13%	-2.53%	18.20%	-2.40%	30.33%	-2.18%
	2010	42,311,240	40,914,447	-3.30%	-24.05%	-4.36%	-18.04%	-4.04%	-6.03%	-3.51%	12.06%	-2.95%	18.09%	-2.80%	30.15%	-2.54%
	2011	41,485,245	40,012,775	-3.55%	-24.06%	-4.68%	-18.05%	-4.34%	-6.03%	-3.78%	12.06%	-3.17%	18.09%	-3.01%	30.15%	-2.73%
	2012	41,501,737	39,439,617	-4.97%	-24.05%	-6.55%	-18.05%	-6.07%	-6.03%	-5.29%	12.06%	-4.43%	18.08%	-4.21%	30.14%	-3.82%
	2013	41,515,570	38,930,286	-6.23%	-24.04%	-8.21%	-18.04%	-7.61%	-6.03%	-6.63%	12.05%	-5.56%	18.08%	-5.27%	30.13%	-4.79%
Poland	2009	32,771,850	32,771,850	-	-23.28%	-	-17.46%	-	-5.82%	-	11.64%	-	17.46%	-	29.10%	-
	2010	32,786,525	32,786,525	-	-23.27%	-	-17.45%	-	-5.82%	-	11.63%	-	17.45%	-	29.08%	-
	2011	32,742,882	32,742,882	-	-23.30%	-	-17.47%	-	-5.82%	-	11.65%	-	17.47%	-	29.12%	-
	2012	32,821,236	32,821,236	-	-23.24%	-	-17.43%	-	-5.81%	-	11.62%	-	17.43%	-	29.05%	-
	2013	32,877,089	32,877,089	-	-23.20%	-	-17.40%	-	-5.80%	-	11.60%	-	17.40%	-	29.00%	-
Romania	2009	27,575,326	26,968,879	-2.20%	-23.32%	-2.87%	-17.49%	-2.67%	-5.83%	-2.34%	11.66%	-1.97%	17.49%	-1.87%	29.15%	-1.70%
	2010	27,369,511	26,763,062	-2.22%	-23.50%	-2.90%	-17.62%	-2.69%	-5.87%	-2.35%	11.75%	-1.98%	17.62%	-1.88%	29.37%	-1.71%
	2011-2012	27,369,254	26,762,805	-2.22%	-23.50%	-2.90%	-17.62%	-2.69%	-5.87%	-2.35%	11.75%	-1.98%	17.62%	-1.88%	29.37%	-1.71%
	2013	27,413,142	25,914,327	-5.47%	-23.46%	-7.14%	-17.60%	-6.63%	-5.87%	-5.81%	11.73%	-4.89%	17.60%	-4.65%	29.33%	-4.23%
Slovenia	2009	34,472,064	33,315,052	-3.36%	-24.43%	-4.44%	-18.32%	-4.11%	-6.11%	-3.57%	12.22%	-2.99%	18.32%	-2.84%	30.54%	-2.57%
	2010-2011	32,844,662	30,915,792	-5.87%	-24.43%	-7.77%	-18.32%	-7.19%	-6.11%	-6.25%	12.22%	-5.23%	18.32%	-4.96%	30.54%	-4.50%
	2012	29,585,644	25,614,483	-13.42%	-24.43%	-17.76%	-18.32%	-16.43%	-6.11%	-14.30%	12.22%	-11.96%	18.32%	-11.34%	30.54%	-10.28%
	2013	27,954,026	24,201,738	-13.42%	-24.43%	-17.76%	-18.33%	-16.43%	-6.11%	-14.30%	12.22%	-11.96%	18.33%	-11.34%	30.54%	-10.28%
Spain	2009-	58,129,031	54,902,168	-5.55%	-24.16%	-7.32%	-18.12%	-6.78%	-6.04%	-5.91%	12.08%	-4.80%	18.12%	-4.46%	30.20%	-4.00%

Country	Year	Base Case			Profitability - 30%		Profitability - 20%		Profitability - 10%		Profitability + 10%		Profitability + 20%		Profitability + 30%	
		General Tax Code Tax Burden	General Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives
	2011															
	2012-2013	58,129,031	54,944,564	-5.48%	-24.16%	-7.22%	-18.12%	-6.69%	-6.04%	-5.83%	12.08%	-4.63%	18.12%	-4.24%	30.20%	-3.77%
Sweden	2009-2012	43,798,954	43,798,954	-	-23.97%	-	-17.99%	-	-6.01%	-	12.01%	-	18.02%	-	30.03%	-
	2013	36,866,963	36,866,963	-	-23.92%	-	-17.94%	-	-5.98%	-	11.96%	-	17.94%	-	29.90%	-
United Kingdom	2009	49,513,867	46,446,354	-6.20%	-22.56%	-8.01%	-16.92%	-7.47%	-5.65%	-6.57%	11.30%	-5.57%	16.95%	-5.30%	28.26%	-4.83%
	2010	49,161,217	46,077,493	-6.27%	-22.72%	-8.13%	-17.05%	-7.57%	-5.69%	-6.65%	11.38%	-5.63%	17.07%	-5.36%	28.46%	-4.88%
	2011	45,971,766	43,075,200	-6.30%	-22.59%	-8.15%	-16.95%	-7.60%	-5.66%	-6.68%	11.31%	-5.66%	16.97%	-5.39%	28.28%	-4.91%
	2012	43,054,344	40,312,482	-6.37%	-22.29%	-8.20%	-16.73%	-7.66%	-5.58%	-6.74%	11.16%	-5.73%	16.74%	-5.46%	27.90%	-4.98%
	2013	41,582,866	38,389,124	-7.68%	-22.14%	-9.88%	-16.62%	-9.21%	-5.54%	-8.13%	11.08%	-6.91%	16.62%	-6.59%	27.70%	-6.01%

Table 5.25 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, large corporation, fiscal years 2009-2013, capital intensity)

Country	Year	Base Case			Capital Intensity - 15%		Capital Intensity - 10%		Capital Intensity - 5%		Capital Intensity + 5%		Capital Intensity + 10%		Capital Intensity + 15%	
		General Tax Code Tax Burden	General Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives
Austria	2009	52,770,907	51,182,721	-3.01%	8.01%	-2.79%	5.31%	-2.86%	2.58%	-2.93%	-2.58%	-3.09%	-5.10%	-3.17%	-7.60%	-3.26%
	2010	52,771,208	51,183,022	-3.01%	8.01%	-2.79%	5.31%	-2.86%	2.58%	-2.93%	-2.58%	-3.09%	-5.10%	-3.17%	-7.60%	-3.26%
	2011-2013	52,771,208	50,785,976	-3.76%	8.01%	-3.48%	5.31%	-3.57%	2.58%	-3.67%	-2.58%	-3.86%	-5.10%	-3.96%	-7.60%	-4.07%
Belgium	2009	54,411,629	53,369,295	-1.92%	10.28%	-1.74%	6.81%	-1.79%	3.31%	-1.85%	-3.28%	-1.98%	-6.44%	-2.05%	-9.55%	-2.12%
	2010	54,411,629	53,383,281	-1.89%	10.28%	-1.71%	6.81%	-1.77%	3.31%	-1.83%	-3.28%	-1.95%	-6.44%	-2.02%	-9.55%	-2.09%
	2011	54,411,629	53,381,796	-1.89%	10.28%	-1.72%	6.81%	-1.77%	3.31%	-1.83%	-3.28%	-1.96%	-6.44%	-2.02%	-9.55%	-2.09%
	2012	54,168,834	53,119,617	-1.94%	10.39%	-1.75%	6.89%	-1.81%	3.35%	-1.87%	-3.32%	-2.00%	-6.51%	-2.07%	-9.66%	-2.14%
	2013	54,168,834	53,126,038	-1.93%	10.39%	-1.74%	6.89%	-1.80%	3.35%	-1.86%	-3.32%	-1.99%	-6.38%	-1.98%	-8.94%	-2.11%
Bulgaria	2009	16,729,850	16,729,850	-	10.16%	-	6.73%	-	3.27%	-	-3.27%	-	-6.47%	-	-9.64%	-
	2010	16,738,736	16,738,736	-	10.15%	-	6.72%	-	3.27%	-	-3.27%	-	-6.46%	-	-9.63%	-
	2011-2012	16,996,330	16,996,330	-	9.77%	-	6.47%	-	3.14%	-	-3.15%	-	-6.22%	-	-9.25%	-
	2013	16,996,329	16,996,329	-	9.77%	-	6.47%	-	3.14%	-	-3.15%	-	-6.22%	-	-9.25%	-
Croatia	2009	32,639,168	13,828,993	-57.63%	11.28%	-56.46%	7.68%	-56.69%	3.72%	-56.83%	-3.44%	-57.92%	-6.79%	-58.21%	-10.12%	-58.53%
	2010-2011	32,609,289	13,802,786	-57.67%	11.28%	-56.50%	7.69%	-56.73%	3.72%	-56.87%	-3.44%	-57.96%	-6.80%	-58.26%	-10.12%	-58.57%
	2012	32,564,896	13,763,843	-57.73%	11.29%	-56.56%	7.69%	-56.79%	3.73%	-56.93%	-3.44%	-58.02%	-6.80%	-58.32%	-10.13%	-58.64%
	2013	32,564,895	27,634,341	-15.14%	11.29%	-13.61%	7.69%	-14.06%	3.73%	-14.51%	-3.44%	-15.68%	-6.80%	-16.23%	-10.13%	-16.83%
Estonia	2009-2013	34,571,589	34,571,589	-	9.64%	-	6.38%	-	3.10%	-	-3.10%	-	-6.13%	-	-9.13%	-
Finland	2009	43,361,043	43,206,057	-0.36%	10.01%	-0.32%	6.63%	-0.34%	3.22%	-0.35%	-3.22%	-0.37%	-6.37%	-0.38%	-9.52%	-0.39%
	2010	43,795,871	43,640,888	-0.35%	9.76%	-0.32%	6.47%	-0.33%	3.14%	-0.34%	-3.14%	-0.37%	-6.21%	-0.38%	-9.29%	-0.39%
	2011	44,147,823	43,912,198	-0.53%	9.56%	-0.49%	6.33%	-0.50%	3.07%	-0.52%	-3.08%	-0.55%	-6.08%	-0.57%	-9.05%	-0.59%
	2012	41,707,356	41,485,232	-0.53%	9.52%	-0.49%	6.31%	-0.50%	3.06%	-0.52%	-3.06%	-0.55%	-6.05%	-0.57%	-9.01%	-0.59%
	2013	41,368,771	38,584,338	-6.73%	9.72%	-6.13%	6.44%	-6.32%	3.13%	-6.53%	-3.13%	-6.95%	-6.18%	-7.17%	-9.24%	-7.38%
France	2009	80,300,859	73,751,232	-8.16%	3.92%	-7.85%	2.58%	-7.95%	1.22%	-8.06%	-1.30%	-8.26%	-2.58%	-8.37%	-4.04%	-8.50%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Capital Intensity - 15%		Capital Intensity - 10%		Capital Intensity - 5%		Capital Intensity + 5%		Capital Intensity + 10%		Capital Intensity + 15%	
		General Tax Code Tax Burden	General Tax Code and R&D incentives		% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives
			Tax Burden	Total Effect												
	2010	83,034,884	76,485,259	-7.89%	6.74%	-7.39%	4.46%	-7.55%	2.17%	-7.72%	-2.17%	-8.06%	-4.29%	-8.24%	-6.38%	-8.43%
	2011	83,544,699	79,299,445	-5.08%	6.54%	-4.77%	4.33%	-4.87%	2.10%	-4.98%	-2.10%	-5.19%	-4.15%	-5.30%	-6.18%	-5.42%
	2012	85,978,680	81,885,601	-4.76%	6.73%	-4.46%	4.46%	-4.56%	2.16%	-4.66%	-2.17%	-4.87%	-4.28%	-4.97%	-6.37%	-5.08%
	2013	78,090,960	74,135,453	-5.07%	7.41%	-4.72%	4.91%	-4.83%	2.38%	-4.95%	-2.38%	-5.19%	-4.71%	-5.32%	-7.01%	-5.45%
Germany	2009	52,562,247	52,562,247	-	9.93%	-	6.58%	-	3.20%	-	-3.20%	-	-6.33%	-	-9.42%	-
	2010	52,543,705	52,543,705	-	9.94%	-	6.58%	-	3.20%	-	-3.20%	-	-6.33%	-	-9.43%	-
	2011	52,892,178	52,892,178	-	9.94%	-	6.59%	-	3.20%	-	-3.20%	-	-6.33%	-	-9.43%	-
	2012	53,045,569	53,045,569	-	9.92%	-	6.57%	-	3.20%	-	-3.20%	-	-6.32%	-	-9.41%	-
	2013	53,434,468	53,434,468	-	9.91%	-	6.56%	-	3.19%	-	-3.19%	-	-6.30%	-	-9.38%	-
Greece	2009	41,467,965	41,295,990	-0.41%	10.16%	-0.38%	6.73%	-0.39%	3.27%	-0.40%	-3.27%	-0.43%	-6.47%	-0.44%	-9.64%	-0.46%
	2010	39,821,717	39,656,560	-0.41%	10.17%	-0.38%	6.74%	-0.39%	3.27%	-0.40%	-3.28%	-0.43%	-6.48%	-0.44%	-9.64%	-0.46%
	2011-2012	33,616,256	33,478,423	-0.41%	10.00%	-0.37%	6.63%	-0.38%	3.22%	-0.40%	-3.22%	-0.42%	-6.37%	-0.44%	-9.48%	-0.45%
	2013	43,896,744	43,035,140	-1.96%	9.84%	-1.79%	6.52%	-1.84%	3.17%	-1.90%	-3.17%	-2.03%	-6.27%	-2.09%	-9.33%	-2.16%
Hungary	2009	59,363,722	59,363,722	-	5.56%	-	3.71%	-	1.84%	-	-2.14%	-	-4.10%	-	-5.76%	-
	2010	64,151,777	64,151,777	-	5.00%	-	3.37%	-	1.73%	-	-1.81%	-	-3.46%	-	-4.94%	-
	2011	61,017,567	61,017,567	-	5.03%	-	3.33%	-	1.71%	-	-1.73%	-	-3.35%	-	-4.91%	-
	2012	62,528,788	62,528,788	-	5.26%	-	3.60%	-	1.79%	-	-1.62%	-	-3.21%	-	-4.72%	-
	2013	62,532,159	62,532,159	-	5.27%	-	3.61%	-	1.79%	-	-1.63%	-	-3.22%	-	-4.74%	-
Ireland	2009	22,567,371	20,978,522	-7.04%	8.55%	-6.49%	5.66%	-6.66%	2.74%	-6.85%	-2.75%	-7.24%	-5.42%	-7.44%	-8.07%	-7.66%
	2010	22,539,546	20,950,696	-7.05%	8.58%	-6.49%	5.68%	-6.67%	2.75%	-6.86%	-2.76%	-7.25%	-5.44%	-7.45%	-8.10%	-7.67%
	2011	22,531,291	20,942,440	-7.05%	8.59%	-6.49%	5.69%	-6.67%	2.76%	-6.86%	-2.76%	-7.25%	-5.45%	-7.46%	-8.11%	-7.67%
	2012	22,508,247	20,658,285	-8.22%	8.61%	-7.57%	5.70%	-7.78%	2.76%	-8.00%	-2.77%	-8.45%	-5.46%	-8.69%	-8.13%	-8.95%
	2013	22,501,512	20,390,438	-9.38%	8.62%	-8.64%	5.71%	-8.88%	2.77%	-9.13%	-2.77%	-9.65%	-5.47%	-9.92%	-8.14%	-10.21%
Italy	2009	60,244,929	58,310,782	-3.21%	8.64%	-2.96%	5.72%	-3.04%	2.79%	-3.12%	-2.79%	-3.30%	-5.53%	-3.40%	-8.25%	-3.50%
	2010	59,106,741	57,172,594	-3.27%	8.80%	-3.01%	5.83%	-3.09%	2.84%	-3.18%	-2.84%	-3.37%	-5.64%	-3.47%	-8.40%	-3.57%
	2011	58,946,236	58,537,638	-0.69%	8.92%	-0.64%	5.91%	-0.65%	2.88%	-0.67%	-2.88%	-0.71%	-5.71%	-0.74%	-8.51%	-0.76%
	2012-2013	56,573,404	54,073,193	-4.42%	9.13%	-4.05%	6.05%	-4.17%	2.94%	-4.29%	-2.95%	-4.55%	-5.84%	-4.69%	-8.72%	-4.84%
Lithuania	2009	33,704,118	26,403,045	-21.66%	9.81%	-19.73%	6.50%	-20.34%	3.16%	-21.00%	-3.16%	-22.37%	-6.24%	-23.10%	-9.29%	-23.88%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Capital Intensity - 15%		Capital Intensity - 10%		Capital Intensity - 5%		Capital Intensity + 5%		Capital Intensity + 10%		Capital Intensity + 15%	
		General Tax Code Tax Burden	General Tax Code and R&D incentives		% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives
			Tax Burden	Total Effect												
	2010-2012	25,926,559	20,437,743	-21.17%	9.25%	-19.38%	6.12%	-19.95%	2.97%	-20.56%	-2.97%	-21.82%	-5.87%	-22.49%	-8.74%	-23.20%
	2013	28,234,532	22,745,714	-19.44%	7.26%	-18.12%	4.81%	-18.55%	2.32%	-19.00%	-2.32%	-19.90%	-4.58%	-20.37%	-6.80%	-20.86%
Luxembourg	2009-2010	49,842,395	49,628,686	-0.43%	9.47%	-0.39%	6.27%	-0.40%	3.04%	-0.42%	-3.02%	-0.44%	-5.85%	-0.46%	-8.64%	-0.47%
	2011-2012	50,171,772	49,956,501	-0.43%	9.47%	-0.39%	6.27%	-0.40%	3.04%	-0.42%	-3.02%	-0.44%	-5.85%	-0.46%	-8.65%	-0.47%
	2013	50,838,649	50,339,264	-0.98%	9.49%	-0.90%	6.28%	-0.92%	3.05%	-0.95%	-3.03%	-1.01%	-5.86%	-1.04%	-8.67%	-1.08%
Netherlands	2009	42,059,959	40,866,555	-2.84%	10.27%	-2.57%	6.80%	-2.66%	3.31%	-2.75%	-3.31%	-2.93%	-6.54%	-3.04%	-9.74%	-3.14%
	2010	42,311,240	40,914,447	-3.30%	10.12%	-3.00%	6.70%	-3.09%	3.26%	-3.20%	-3.26%	-3.41%	-6.44%	-3.53%	-9.60%	-3.65%
	2011	41,485,245	40,012,775	-3.55%	10.10%	-3.22%	6.69%	-3.33%	3.25%	-3.44%	-3.26%	-3.67%	-6.43%	-3.79%	-9.58%	-3.93%
	2012	41,501,737	39,439,617	-4.97%	10.09%	-4.51%	6.69%	-4.66%	3.25%	-4.81%	-3.25%	-5.14%	-6.43%	-5.31%	-9.57%	-5.49%
	2013	41,515,570	38,930,286	-6.23%	10.09%	-5.66%	6.68%	-5.84%	3.25%	-6.03%	-3.25%	-6.44%	-6.42%	-6.65%	-9.56%	-6.89%
Poland	2009	32,771,850	32,771,850	-	9.25%	-	6.13%	-	2.97%	-	-2.98%	-	-5.88%	-	-8.75%	-
	2010	32,786,525	32,786,525	-	9.24%	-	6.12%	-	2.97%	-	-2.97%	-	-5.87%	-	-8.74%	-
	2011	32,742,882	32,742,882	-	9.27%	-	6.14%	-	2.98%	-	-2.98%	-	-5.89%	-	-8.77%	-
	2012	32,821,236	32,821,236	-	9.21%	-	6.10%	-	2.96%	-	-2.96%	-	-5.85%	-	-8.71%	-
	2013	32,877,089	32,877,089	-	9.17%	-	6.08%	-	2.95%	-	-2.95%	-	-5.83%	-	-8.67%	-
Romania	2009	27,575,326	26,968,879	-2.20%	9.30%	-2.01%	6.16%	-2.07%	2.99%	-2.14%	-2.99%	-2.27%	-5.91%	-2.34%	-8.80%	-2.41%
	2010	27,369,511	26,763,062	-2.22%	9.44%	-2.02%	6.25%	-2.09%	3.03%	-2.15%	-3.04%	-2.29%	-6.00%	-2.36%	-8.93%	-2.43%
	2011-2012	27,369,254	26,762,805	-2.22%	9.44%	-2.02%	6.25%	-2.09%	3.03%	-2.15%	-3.04%	-2.29%	-6.00%	-2.36%	-8.93%	-2.43%
	2013	27,413,142	25,914,327	-5.47%	9.40%	-5.00%	6.22%	-5.15%	3.02%	-5.31%	-3.02%	-5.64%	-5.97%	-5.81%	-8.89%	-6.00%
Slovenia	2009	34,472,064	33,315,052	-3.36%	10.46%	-3.04%	6.93%	-3.14%	3.37%	-3.25%	-3.37%	-3.47%	-6.67%	-3.60%	-9.93%	-3.73%
	2010-2011	32,844,662	30,915,792	-5.87%	10.46%	-5.32%	6.93%	-5.49%	3.37%	-5.68%	-3.37%	-6.08%	-6.67%	-6.29%	-9.93%	-6.52%
	2012	29,585,644	25,614,483	-13.42%	10.46%	-12.15%	6.93%	-12.55%	3.37%	-12.98%	-3.37%	-13.89%	-6.67%	-14.38%	-9.93%	-14.90%
	2013	27,954,026	24,201,738	-13.42%	10.46%	-12.15%	6.93%	-12.55%	3.37%	-12.99%	-3.37%	-13.89%	-6.67%	-14.38%	-9.93%	-14.90%
Spain	2009-2011	58,129,031	54,902,168	-5.55%	10.22%	-4.93%	6.77%	-5.09%	3.29%	-5.32%	-3.29%	-5.74%	-6.51%	-5.94%	-9.69%	-6.15%
	2012-	58,129,031	54,944,564	-5.48%	10.22%	-4.79%	6.77%	-4.95%	3.29%	-5.21%	-3.29%	-5.66%	-6.51%	-5.86%	-9.69%	-6.07%

Country	Year	Base Case			Capital Intensity - 15%		Capital Intensity - 10%		Capital Intensity - 5%		Capital Intensity + 5%		Capital Intensity + 10%		Capital Intensity + 15%	
		General Tax Code Tax Burden	General Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives
	2013															
Sweden	2009-2012	43,798,954	43,798,954	-	10.04%	-	6.65%	-	3.23%	-	-3.23%	-	-6.39%	-	-9.52%	-
	2013	36,866,963	36,866,963	-	9.93%	-	6.58%	-	3.20%	-	-3.20%	-	-6.32%	-	-9.42%	-
United Kingdom	2009	49,513,867	46,446,354	-6.20%	8.52%	-5.71%	5.64%	-5.86%	2.73%	-6.03%	-2.73%	-6.37%	-5.40%	-6.55%	-8.03%	-6.74%
	2010	49,161,217	46,077,493	-6.27%	8.69%	-5.77%	5.75%	-5.93%	2.79%	-6.10%	-2.79%	-6.45%	-5.51%	-6.64%	-8.20%	-6.83%
	2011	45,971,766	43,075,200	-6.30%	8.55%	-5.80%	5.66%	-5.96%	2.74%	-6.13%	-2.74%	-6.48%	-5.41%	-6.66%	-8.05%	-6.85%
	2012	43,054,344	40,312,482	-6.37%	8.23%	-5.88%	5.45%	-6.04%	2.64%	-6.20%	-2.64%	-6.54%	-5.21%	-6.72%	-7.74%	-6.90%
	2013	41,582,866	38,389,124	-7.68%	8.06%	-7.11%	5.33%	-7.29%	2.58%	-7.49%	-2.58%	-7.88%	-5.10%	-8.09%	-7.58%	-8.31%

Table 5.26 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, large corporation, fiscal years 2009-2013, equity ratio)

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	General Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives
Austria	2009	52,770,907	51,182,721	-3.01%	-3.97%	-3.13%	-2.65%	-3.09%	-1.32%	-3.05%	1.32%	-2.97%	2.65%	-2.93%	3.97%	-2.89%
	2010	52,771,208	51,183,022	-3.01%	-3.97%	-3.13%	-2.65%	-3.09%	-1.32%	-3.05%	1.32%	-2.97%	2.65%	-2.93%	3.97%	-2.89%
	2011-2013	52,771,208	50,785,976	-3.76%	-3.97%	-3.92%	-2.65%	-3.86%	-1.32%	-3.81%	1.32%	-3.71%	2.65%	-3.66%	3.97%	-3.62%
Belgium	2009	54,411,629	53,369,295	-1.92%	0.88%	-1.93%	-0.08%	-1.93%	-0.32%	-1.92%	0.55%	-1.91%	1.13%	-1.89%	1.70%	-1.88%
	2010	54,411,629	53,383,281	-1.89%	0.88%	-1.91%	-0.08%	-1.91%	-0.32%	-1.90%	0.55%	-1.88%	1.13%	-1.87%	1.70%	-1.86%
	2011	54,411,629	53,381,796	-1.89%	0.88%	-1.91%	-0.08%	-1.91%	-0.32%	-1.90%	0.55%	-1.88%	1.13%	-1.87%	1.70%	-1.86%
	2012	54,168,834	53,119,617	-1.94%	0.87%	-1.95%	-0.08%	-1.95%	-0.32%	-1.94%	0.55%	-1.93%	1.13%	-1.92%	1.71%	-1.90%
	2013	54,168,834	53,126,038	-1.93%	0.87%	-1.94%	-0.08%	-1.94%	-0.32%	-1.93%	0.55%	-1.91%	1.13%	-1.90%	1.71%	-1.89%
Bulgaria	2009	16,729,850	16,729,850	-	-5.04%	-	-3.36%	-	-1.68%	-	1.68%	-	3.36%	-	5.04%	-
	2010	16,738,736	16,738,736	-	-5.04%	-	-3.36%	-	-1.68%	-	1.68%	-	3.36%	-	5.04%	-
	2011-2012	16,996,330	16,996,330	-	-4.97%	-	-3.31%	-	-1.66%	-	1.66%	-	3.31%	-	4.97%	-
	2013	16,996,329	16,996,329	-	-4.97%	-	-3.31%	-	-1.66%	-	1.66%	-	3.31%	-	4.97%	-
Croatia	2009	32,639,168	13,828,993	-57.63%	-5.16%	-58.07%	-3.44%	-57.92%	-1.72%	-57.77%	1.72%	-57.39%	3.44%	-57.15%	5.18%	-56.91%
	2010-2011	32,609,289	13,802,786	-57.67%	-5.16%	-58.11%	-3.44%	-57.96%	-1.72%	-57.81%	1.72%	-57.43%	3.44%	-57.19%	5.18%	-56.95%
	2012	32,564,896	13,763,843	-57.73%	-5.16%	-58.17%	-3.44%	-58.02%	-1.72%	-57.87%	1.72%	-57.50%	3.44%	-57.25%	5.18%	-57.01%
	2013	32,564,895	27,634,341	-15.14%	-5.16%	-15.96%	-3.44%	-15.68%	-1.72%	-15.41%	1.72%	-14.88%	3.44%	-14.63%	5.18%	-14.31%
Estonia	2009-2013	34,571,589	34,571,589	-	-4.91%	-	-3.27%	-	-1.64%	-	1.64%	-	3.27%	-	4.91%	-
Finland	2009	43,361,043	43,206,057	-0.36%	-5.02%	-0.38%	-3.35%	-0.37%	-1.67%	-0.36%	1.67%	-0.35%	3.35%	-0.35%	5.02%	-0.34%
	2010	43,795,871	43,640,888	-0.35%	-4.97%	-0.37%	-3.31%	-0.37%	-1.66%	-0.36%	1.66%	-0.35%	3.31%	-0.34%	4.97%	-0.34%
	2011	44,147,823	43,912,198	-0.53%	-4.93%	-0.56%	-3.29%	-0.55%	-1.64%	-0.54%	1.64%	-0.53%	3.29%	-0.52%	4.93%	-0.51%
	2012	41,707,356	41,485,232	-0.53%	-4.92%	-0.56%	-3.28%	-0.55%	-1.64%	-0.54%	1.64%	-0.52%	3.28%	-0.52%	4.92%	-0.51%
	2013	41,368,771	38,584,338	-6.73%	-4.96%	-7.08%	-3.31%	-6.96%	-1.65%	-6.84%	1.65%	-6.62%	3.31%	-6.52%	4.96%	-6.41%
France	2009	80,300,859	73,751,232	-8.16%	-3.56%	-8.46%	-2.38%	-8.35%	-1.19%	-8.25%	1.19%	-8.06%	2.38%	-7.97%	3.56%	-7.88%

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	General Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives
	2010	83,034,884	76,485,259	-7.89%	-3.45%	-8.17%	-2.30%	-8.07%	-1.15%	-7.98%	1.15%	-7.80%	2.30%	-7.71%	3.45%	-7.63%
	2011	83,544,699	79,299,445	-5.08%	-3.43%	-5.26%	-2.28%	-5.20%	-1.14%	-5.14%	1.14%	-5.02%	2.28%	-4.97%	3.43%	-4.91%
	2012	85,978,680	81,885,601	-4.76%	-3.51%	-4.93%	-2.34%	-4.87%	-1.17%	-4.82%	1.17%	-4.71%	2.34%	-4.65%	3.51%	-4.60%
	2013	78,090,960	74,135,453	-5.07%	-1.70%	-5.17%	-1.71%	-5.16%	-1.08%	-5.12%	1.29%	-5.00%	2.58%	-4.94%	3.86%	-4.88%
Germany	2009	52,562,247	52,562,247	-	-4.35%	-	-2.90%	-	-1.45%	-	1.45%	-	2.90%	-	4.35%	-
	2010	52,543,705	52,543,705	-	-4.35%	-	-2.90%	-	-1.45%	-	1.45%	-	2.90%	-	4.35%	-
	2011	52,892,178	52,892,178	-	-4.34%	-	-2.90%	-	-1.45%	-	1.45%	-	2.90%	-	4.34%	-
	2012	53,045,569	53,045,569	-	-4.34%	-	-2.89%	-	-1.45%	-	1.45%	-	2.89%	-	4.34%	-
	2013	53,434,468	53,434,468	-	-4.30%	-	-2.87%	-	-1.44%	-	1.44%	-	2.88%	-	4.32%	-
Greece	2009	41,467,965	41,295,990	-0.41%	-5.04%	-0.44%	-3.36%	-0.43%	-1.68%	-0.42%	1.68%	-0.41%	3.36%	-0.40%	5.04%	-0.39%
	2010	39,821,717	39,656,560	-0.41%	-5.05%	-0.44%	-3.36%	-0.43%	-1.68%	-0.42%	1.68%	-0.41%	3.36%	-0.40%	5.05%	-0.39%
	2011-2012	33,616,256	33,478,423	-0.41%	-4.99%	-0.43%	-3.33%	-0.42%	-1.66%	-0.42%	1.66%	-0.40%	3.33%	-0.40%	4.99%	-0.39%
	2013	43,896,744	43,035,140	-1.96%	-4.92%	-2.06%	-3.28%	-2.03%	-1.64%	-2.00%	1.64%	-1.93%	3.28%	-1.90%	4.92%	-1.87%
Hungary	2009	59,363,722	59,363,722	-	-1.32%	-	-1.39%	-	-0.74%	-	0.99%	-	1.95%	-	2.88%	-
	2010	64,151,777	64,151,777	-	-1.20%	-	-1.23%	-	-0.66%	-	0.86%	-	1.76%	-	2.61%	-
	2011	61,017,567	61,017,567	-	-1.27%	-	-1.24%	-	-0.69%	-	0.93%	-	1.80%	-	2.66%	-
	2012	62,528,788	62,528,788	-	-0.95%	-	-1.07%	-	-0.62%	-	0.85%	-	1.72%	-	2.65%	-
	2013	62,532,159	62,532,159	-	-0.95%	-	-1.07%	-	-0.62%	-	0.85%	-	1.72%	-	2.65%	-
Ireland	2009	22,567,371	20,978,522	-7.04%	-4.67%	-7.39%	-3.11%	-7.27%	-1.56%	-7.15%	1.56%	-6.93%	3.11%	-6.83%	4.67%	-6.73%
	2010	22,539,546	20,950,696	-7.05%	-4.67%	-7.39%	-3.12%	-7.28%	-1.56%	-7.16%	1.56%	-6.94%	3.12%	-6.84%	4.67%	-6.73%
	2011	22,531,291	20,942,440	-7.05%	-4.68%	-7.40%	-3.12%	-7.28%	-1.56%	-7.16%	1.56%	-6.94%	3.12%	-6.84%	4.68%	-6.74%
	2012	22,508,247	20,658,285	-8.22%	-4.68%	-8.62%	-3.12%	-8.48%	-1.56%	-8.35%	1.56%	-8.09%	3.12%	-7.97%	4.68%	-7.85%
	2013	22,501,512	20,390,438	-9.38%	-4.68%	-9.84%	-3.12%	-9.68%	-1.56%	-9.53%	1.56%	-9.24%	3.12%	-9.10%	4.68%	-8.96%
Italy	2009	60,244,929	58,310,782	-3.21%	-3.80%	-3.34%	-2.53%	-3.29%	-1.27%	-3.25%	1.27%	-3.17%	2.53%	-3.13%	3.80%	-3.09%
	2010	59,106,741	57,172,594	-3.27%	-3.87%	-3.40%	-2.58%	-3.36%	-1.29%	-3.32%	1.29%	-3.23%	2.58%	-3.19%	3.87%	-3.15%
	2011	58,946,236	58,537,638	-0.69%	-3.65%	-0.72%	-2.43%	-0.71%	-1.22%	-0.70%	1.22%	-0.68%	2.43%	-0.68%	3.65%	-0.67%
	2012-2013	56,573,404	54,073,193	-4.42%	-3.74%	-4.59%	-2.49%	-4.53%	-1.25%	-4.48%	1.25%	-4.36%	2.50%	-4.31%	3.74%	-4.26%
Lithuania	2009	33,704,118	26,403,045	-21.66%	-4.98%	-22.80%	-3.32%	-22.41%	-1.66%	-22.03%	1.66%	-21.31%	3.32%	-20.97%	4.98%	-20.63%

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	General Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives
	2010-2012	25,926,559	20,437,743	-21.17%	-4.87%	-22.25%	-3.25%	-21.88%	-1.62%	-21.52%	1.62%	-20.83%	3.25%	-20.50%	4.87%	-20.19%
	2013	28,234,532	22,745,714	-19.44%	-4.47%	-20.35%	-2.98%	-20.04%	-1.49%	-19.73%	1.49%	-19.15%	2.98%	-18.88%	4.47%	-18.61%
Luxembourg	2009-2010	49,842,395	49,628,686	-0.43%	-6.98%	-0.46%	-4.70%	-0.45%	-2.35%	-0.44%	2.35%	-0.42%	4.76%	-0.41%	7.19%	-0.40%
	2011-2012	50,171,772	49,956,501	-0.43%	-6.96%	-0.46%	-4.70%	-0.45%	-2.35%	-0.44%	2.35%	-0.42%	4.75%	-0.41%	7.18%	-0.40%
	2013	50,838,649	50,339,264	-0.98%	-6.93%	-1.06%	-4.68%	-1.03%	-2.34%	-1.01%	2.34%	-0.96%	4.74%	-0.94%	7.15%	-0.92%
Netherlands	2009	42,059,959	40,866,555	-2.84%	-5.08%	-2.99%	-3.39%	-2.94%	-1.69%	-2.89%	1.69%	-2.79%	3.39%	-2.74%	5.08%	-2.70%
	2010	42,311,240	40,914,447	-3.30%	-5.04%	-3.48%	-3.37%	-3.42%	-1.68%	-3.36%	1.68%	-3.25%	3.37%	-3.19%	5.05%	-3.14%
	2011	41,485,245	40,012,775	-3.55%	-5.05%	-3.74%	-3.37%	-3.67%	-1.68%	-3.61%	1.68%	-3.49%	3.37%	-3.43%	5.05%	-3.38%
	2012	41,501,737	39,439,617	-4.97%	-5.05%	-5.23%	-3.36%	-5.14%	-1.68%	-5.05%	1.68%	-4.89%	3.36%	-4.81%	5.05%	-4.73%
	2013	41,515,570	38,930,286	-6.23%	-5.04%	-6.56%	-3.36%	-6.44%	-1.68%	-6.33%	1.68%	-6.12%	3.36%	-6.02%	5.04%	-5.93%
Poland	2009	32,771,850	32,771,850	-	-3.11%	-	-3.25%	-	-1.62%	-	1.62%	-	3.25%	-	4.87%	-
	2010	32,786,525	32,786,525	-	-4.87%	-	-3.25%	-	-1.62%	-	1.62%	-	3.25%	-	4.87%	-
	2011	32,742,882	32,742,882	-	-4.88%	-	-3.25%	-	-1.63%	-	1.63%	-	3.25%	-	4.88%	-
	2012	32,821,236	32,821,236	-	-4.86%	-	-3.24%	-	-1.62%	-	1.62%	-	3.24%	-	4.86%	-
	2013	32,877,089	32,877,089	-	-4.86%	-	-3.24%	-	-1.62%	-	1.62%	-	3.24%	-	4.86%	-
Romania	2009	27,575,326	26,968,879	-2.20%	-4.86%	-2.31%	-3.25%	-2.27%	-1.63%	-2.24%	1.63%	-2.16%	3.25%	-2.13%	4.88%	-2.10%
	2010	27,369,511	26,763,062	-2.22%	-4.91%	-2.33%	-3.27%	-2.29%	-1.64%	-2.25%	1.64%	-2.18%	3.28%	-2.15%	4.92%	-2.11%
	2011-2012	27,369,254	26,762,805	-2.22%	-4.91%	-2.33%	-3.27%	-2.29%	-1.64%	-2.25%	1.64%	-2.18%	3.28%	-2.15%	4.92%	-2.11%
	2013	27,413,142	25,914,327	-5.47%	-4.90%	-5.75%	-3.27%	-5.65%	-1.64%	-5.56%	1.64%	-5.38%	3.27%	-5.29%	4.91%	-5.21%
Slovenia	2009	34,472,064	33,315,052	-3.36%	-5.11%	-3.54%	-3.41%	-3.47%	-1.70%	-3.41%	1.70%	-3.30%	3.41%	-3.25%	5.11%	-3.19%
	2010-2011	32,844,662	30,915,792	-5.87%	-5.11%	-6.19%	-3.41%	-6.08%	-1.70%	-5.97%	1.70%	-5.77%	3.41%	-5.68%	5.11%	-5.59%
	2012	29,585,644	25,614,483	-13.42%	-5.11%	-14.15%	-3.41%	-13.90%	-1.70%	-13.66%	1.70%	-13.20%	3.41%	-12.98%	5.11%	-12.77%
	2013	27,954,026	24,201,738	-13.42%	-5.11%	-14.15%	-3.41%	-13.90%	-1.70%	-13.66%	1.70%	-13.20%	3.41%	-12.98%	5.11%	-12.77%
Spain	2009-2011	58,129,031	54,902,168	-5.55%	-5.05%	-5.85%	-3.37%	-5.74%	-1.68%	-5.65%	1.68%	-5.40%	3.37%	-5.31%	5.05%	-5.23%
	2012-	58,129,031	54,944,564	-5.48%	-5.05%	-5.77%	-3.37%	-5.67%	-1.68%	-5.57%	1.68%	-5.29%	3.37%	-5.21%	5.05%	-5.12%

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	General Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives
	2013															
Sweden	2009-2012	43,798,954	43,798,954	-	-5.03%	-	-3.35%	-	-1.68%	-	1.68%	-	3.35%	-	5.03%	-
	2013	36,866,963	36,866,963	-	-5.01%	-	-3.34%	-	-1.67%	-	1.67%	-	3.34%	-	5.01%	-
United Kingdom	2009	49,513,867	46,446,354	-6.20%	-4.73%	-6.50%	-3.15%	-6.40%	-1.58%	-6.29%	1.58%	-6.10%	3.15%	-6.01%	4.73%	-5.92%
	2010	49,161,217	46,077,493	-6.27%	-4.76%	-6.59%	-3.18%	-6.48%	-1.59%	-6.37%	1.59%	-6.17%	3.18%	-6.08%	4.76%	-5.99%
	2011	45,971,766	43,075,200	-6.30%	-4.74%	-6.61%	-3.16%	-6.51%	-1.58%	-6.40%	1.58%	-6.20%	3.16%	-6.11%	4.74%	-6.02%
	2012	43,054,344	40,312,482	-6.37%	-4.67%	-6.68%	-3.11%	-6.57%	-1.56%	-6.47%	1.56%	-6.27%	3.11%	-6.18%	4.67%	-6.08%
	2013	41,582,866	38,389,124	-7.68%	-4.64%	-8.05%	-3.09%	-7.93%	-1.55%	-7.80%	1.55%	-7.56%	3.09%	-7.45%	4.64%	-7.34%

Table 5.27 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, large corporation, fiscal years 2009-2013, labour intensity)

Country	Year	Base Case			Labour Intensity - 30%		Labour Intensity - 20%		Labour Intensity - 10%		Labour Intensity + 10%		Labour Intensity + 20%		Labour Intensity + 30%	
		General Tax Code Tax Burden	General Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives
Austria	2009	52,770,907	51,182,721	-3.01%	-0.31%	-3.02%	-0.21%	-3.02%	-0.10%	-3.01%	0.10%	-3.01%	0.21%	-3.00%	0.31%	-3.00%
	2010	52,771,208	51,183,022	-3.01%	-0.31%	-3.02%	-0.21%	-3.02%	-0.10%	-3.01%	0.10%	-3.01%	0.21%	-3.00%	0.31%	-3.00%
	2011-2013	52,771,208	50,785,976	-3.76%	-0.31%	-3.77%	-0.21%	-3.77%	-0.10%	-3.77%	0.10%	-3.76%	0.21%	-3.75%	0.31%	-3.75%
Belgium	2009	54,411,629	53,369,295	-1.92%	7.83%	-1.78%	5.22%	-1.82%	2.61%	-1.87%	-2.61%	-1.97%	-5.22%	-2.02%	-7.83%	-2.08%
	2010	54,411,629	53,383,281	-1.89%	7.83%	-1.75%	5.22%	-1.80%	2.61%	-1.84%	-2.61%	-1.94%	-5.22%	-1.99%	-7.83%	-2.05%
	2011	54,411,629	53,381,796	-1.89%	7.83%	-1.76%	5.22%	-1.80%	2.61%	-1.84%	-2.61%	-1.94%	-5.22%	-2.00%	-7.83%	-2.05%
	2012	54,168,834	53,119,617	-1.94%	7.87%	-1.80%	5.24%	-1.84%	2.62%	-1.89%	-2.62%	-1.99%	-5.24%	-2.04%	-7.86%	-2.10%
	2013	54,168,834	53,126,038	-1.93%	7.87%	-1.78%	5.24%	-1.83%	2.62%	-1.88%	-2.62%	-1.98%	-5.24%	-2.03%	-7.86%	-2.09%
Bulgaria	2009	16,729,850	16,729,850	-	7.98%	-	5.32%	-	2.66%	-	-2.66%	-	-5.31%	-	-7.97%	-
	2010	16,738,736	16,738,736	-	7.97%	-	5.32%	-	2.66%	-	-2.66%	-	-5.31%	-	-7.97%	-
	2011-2012	16,996,330	16,996,330	-	7.85%	-	5.24%	-	2.62%	-	-2.62%	-	-5.23%	-	-7.85%	-
	2013	16,996,329	16,996,329	-	7.85%	-	5.24%	-	2.62%	-	-2.62%	-	-5.23%	-	-7.85%	-
Croatia	2009	32,639,168	13,828,993	-57.63%	8.21%	-56.70%	5.45%	-56.99%	2.72%	-57.31%	-2.72%	-57.85%	-5.44%	-58.09%	-8.17%	-58.34%
	2010-2011	32,609,289	13,802,786	-57.67%	8.21%	-56.74%	5.45%	-57.03%	2.72%	-57.35%	-2.72%	-57.90%	-5.44%	-58.13%	-8.17%	-58.38%
	2012	32,564,896	13,763,843	-57.73%	8.21%	-56.80%	5.45%	-57.09%	2.73%	-57.41%	-2.73%	-57.96%	-5.44%	-58.19%	-8.17%	-58.44%
	2013	32,564,895	27,634,341	-15.14%	8.21%	-13.91%	5.45%	-14.34%	2.73%	-14.74%	-2.73%	-15.56%	-5.44%	-16.01%	-8.17%	-16.49%
Estonia	2009-2013	34,571,589	34,571,589	-	7.87%	-	5.24%	-	2.62%	-	-2.62%	-	-5.24%	-	-7.86%	-
Finland	2009	43,361,043	43,206,057	-0.36%	7.96%	-0.33%	5.31%	-0.34%	2.65%	-0.35%	-2.65%	-0.37%	-5.30%	-0.38%	-7.96%	-0.39%
	2010	43,795,871	43,640,888	-0.35%	7.88%	-0.33%	5.26%	-0.34%	2.63%	-0.34%	-2.63%	-0.36%	-5.25%	-0.37%	-7.88%	-0.38%
	2011	44,147,823	43,912,198	-0.53%	7.82%	-0.50%	5.21%	-0.51%	2.61%	-0.52%	-2.61%	-0.55%	-5.21%	-0.56%	-7.82%	-0.58%
	2012	41,707,356	41,485,232	-0.53%	7.80%	-0.49%	5.20%	-0.51%	2.60%	-0.52%	-2.60%	-0.55%	-5.20%	-0.56%	-7.80%	-0.58%
	2013	41,368,771	38,584,338	-6.73%	7.87%	-6.24%	5.25%	-6.40%	2.62%	-6.56%	-2.62%	-6.91%	-5.24%	-7.10%	-7.86%	-7.31%
France	2009	80,300,859	73,751,232	-8.16%	4.34%	-7.82%	2.89%	-7.93%	1.45%	-8.04%	-1.45%	-8.28%	-2.89%	-8.40%	-4.34%	-8.53%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Labour Intensity - 30%		Labour Intensity - 20%		Labour Intensity - 10%		Labour Intensity + 10%		Labour Intensity + 20%		Labour Intensity + 30%	
		General Tax Code Tax Burden	General Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives
	2010	83,034,884	76,485,259	-7.89%	4.06%	-7.58%	2.71%	-7.68%	1.36%	-7.78%	-1.36%	-8.00%	-2.71%	-8.11%	-4.06%	-8.22%
	2011	83,544,699	79,299,445	-5.08%	4.17%	-4.88%	2.78%	-4.94%	1.39%	-5.01%	-1.39%	-5.15%	-2.78%	-5.23%	-4.17%	-5.30%
	2012	85,978,680	81,885,601	-4.76%	4.39%	-4.56%	2.92%	-4.63%	1.46%	-4.69%	-1.46%	-4.83%	-2.92%	-4.90%	-4.38%	-4.98%
	2013	78,090,960	74,135,453	-5.07%	7.86%	-4.70%	5.24%	-4.81%	2.62%	-4.94%	-2.62%	-5.20%	-5.24%	-5.35%	-7.86%	-5.50%
Germany	2009	52,562,247	52,562,247	-	7.73%	-	5.15%	-	2.58%	-	-2.58%	-	-5.15%	-	-7.73%	-
	2010	52,543,705	52,543,705	-	7.73%	-	5.16%	-	2.58%	-	-2.58%	-	-5.15%	-	-7.73%	-
	2011	52,892,178	52,892,178	-	7.73%	-	5.16%	-	2.58%	-	-2.58%	-	-5.15%	-	-7.73%	-
	2012	53,045,569	53,045,569	-	7.73%	-	5.15%	-	2.58%	-	-2.58%	-	-5.15%	-	-7.73%	-
	2013	53,434,468	53,434,468	-	7.71%	-	5.14%	-	2.57%	-	-2.57%	-	-5.13%	-	-7.69%	-
Greece	2009	41,467,965	41,295,990	-0.41%	8.01%	-0.38%	5.34%	-0.39%	2.67%	-0.40%	-2.67%	-0.43%	-5.33%	-0.44%	-8.00%	-0.45%
	2010	39,821,717	39,656,560	-0.41%	8.01%	-0.38%	5.34%	-0.39%	2.67%	-0.40%	-2.67%	-0.43%	-5.33%	-0.44%	-8.00%	-0.45%
	2011-2012	33,616,256	33,478,423	-0.41%	7.92%	-0.38%	5.28%	-0.39%	2.64%	-0.40%	-2.64%	-0.42%	-5.27%	-0.43%	-7.91%	-0.45%
	2013	43,896,744	43,035,140	-1.96%	7.83%	-1.82%	5.22%	-1.87%	2.61%	-1.91%	-2.61%	-2.02%	-5.22%	-2.07%	-7.83%	-2.13%
Hungary	2009	59,363,722	59,363,722	-	4.54%	-	3.05%	-	1.57%	-	-1.57%	-	-3.15%	-	-4.72%	-
	2010	64,151,777	64,151,777	-	4.06%	-	2.75%	-	1.38%	-	-1.38%	-	-2.69%	-	-4.08%	-
	2011	61,017,567	61,017,567	-	4.18%	-	2.82%	-	1.45%	-	-1.46%	-	-2.85%	-	-4.21%	-
	2012	62,528,788	62,528,788	-	4.16%	-	2.73%	-	1.37%	-	-1.37%	-	-2.71%	-	-4.04%	-
	2013	62,532,159	62,532,159	-	4.16%	-	2.73%	-	1.37%	-	-1.37%	-	-2.72%	-	-4.04%	-
Ireland	2009	22,567,371	20,978,522	-7.04%	7.39%	-6.56%	4.93%	-6.71%	2.46%	-6.87%	-2.46%	-7.22%	-4.92%	-7.40%	-7.38%	-7.60%
	2010	22,539,546	20,950,696	-7.05%	7.40%	-6.56%	4.93%	-6.72%	2.47%	-6.88%	-2.47%	-7.23%	-4.93%	-7.41%	-7.39%	-7.61%
	2011	22,531,291	20,942,440	-7.05%	7.40%	-6.57%	4.93%	-6.72%	2.47%	-6.88%	-2.47%	-7.23%	-4.93%	-7.42%	-7.40%	-7.62%
	2012	22,508,247	20,658,285	-8.22%	7.41%	-7.65%	4.94%	-7.83%	2.47%	-8.02%	-2.47%	-8.43%	-4.93%	-8.65%	-7.40%	-8.88%
	2013	22,501,512	20,390,438	-9.38%	7.41%	-8.73%	4.94%	-8.94%	2.47%	-9.16%	-2.47%	-9.62%	-4.94%	-9.87%	-7.41%	-10.13%
Italy	2009	60,244,929	58,310,782	-3.21%	2.24%	-3.14%	1.49%	-3.16%	0.75%	-3.19%	-0.75%	-3.23%	-1.49%	-3.26%	-2.23%	-3.28%
	2010	59,106,741	57,172,594	-3.27%	2.28%	-3.20%	1.52%	-3.22%	0.76%	-3.25%	-0.76%	-3.30%	-1.52%	-3.32%	-2.27%	-3.35%
	2011	58,946,236	58,537,638	-0.69%	2.28%	-0.68%	1.52%	-0.68%	0.76%	-0.69%	-0.76%	-0.70%	-1.52%	-0.70%	-2.28%	-0.71%
	2012-2013	56,573,404	54,073,193	-4.42%	3.46%	-4.27%	2.31%	-4.32%	1.15%	-4.37%	-1.15%	-4.47%	-2.30%	-4.52%	-3.46%	-4.58%
Lithuania	2009	33,704,118	26,403,045	-21.66%	7.90%	-20.08%	5.26%	-20.58%	2.63%	-21.11%	-2.63%	-22.25%	-5.26%	-22.86%	-7.89%	-23.52%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Labour Intensity - 30%		Labour Intensity - 20%		Labour Intensity - 10%		Labour Intensity + 10%		Labour Intensity + 20%		Labour Intensity + 30%	
		General Tax Code Tax Burden	General Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives
	2010-2012	25,926,559	20,437,743	-21.17%	7.71%	-19.65%	5.14%	-20.14%	2.57%	-20.64%	-2.57%	-21.73%	-5.14%	-22.32%	-7.71%	-22.94%
	2013	28,234,532	22,745,714	-19.44%	7.08%	-18.15%	4.72%	-18.56%	2.36%	-18.99%	-2.36%	-19.91%	-4.72%	-20.40%	-7.08%	-20.92%
Luxembourg	2009-2010	49,842,395	49,628,686	-0.43%	7.89%	-0.40%	5.26%	-0.41%	2.63%	-0.42%	-2.63%	-0.44%	-5.25%	-0.45%	-7.88%	-0.47%
	2011-2012	50,171,772	49,956,501	-0.43%	7.89%	-0.40%	5.26%	-0.41%	2.63%	-0.42%	-2.63%	-0.44%	-5.26%	-0.45%	-7.89%	-0.47%
	2013	50,838,649	50,339,264	-0.98%	7.90%	-0.91%	5.26%	-0.93%	2.63%	-0.96%	-2.63%	-1.01%	-5.26%	-1.04%	-7.89%	-1.07%
Netherlands	2009	42,059,959	40,866,555	-2.84%	8.02%	-2.63%	5.35%	-2.69%	2.67%	-2.76%	-2.67%	-2.92%	-5.34%	-3.00%	-8.01%	-3.08%
	2010	42,311,240	40,914,447	-3.30%	7.97%	-3.06%	5.31%	-3.13%	2.66%	-3.22%	-2.66%	-3.39%	-5.31%	-3.49%	-7.96%	-3.59%
	2011	41,485,245	40,012,775	-3.55%	7.97%	-3.29%	5.31%	-3.37%	2.66%	-3.46%	-2.66%	-3.65%	-5.31%	-3.75%	-7.97%	-3.86%
	2012	41,501,737	39,439,617	-4.97%	7.97%	-4.60%	5.31%	-4.72%	2.66%	-4.84%	-2.66%	-5.10%	-5.31%	-5.25%	-7.96%	-5.40%
	2013	41,515,570	38,930,286	-6.23%	7.97%	-5.77%	5.31%	-5.91%	2.66%	-6.07%	-2.66%	-6.40%	-5.31%	-6.58%	-7.96%	-6.77%
Poland	2009	32,771,850	32,771,850	-	7.72%	-	5.14%	-	2.57%	-	-2.57%	-	-5.14%	-	-7.71%	-
	2010	32,786,525	32,786,525	-	7.71%	-	5.14%	-	2.57%	-	-2.57%	-	-5.14%	-	-7.71%	-
	2011	32,742,882	32,742,882	-	7.72%	-	5.15%	-	2.57%	-	-2.57%	-	-5.14%	-	-7.72%	-
	2012	32,821,236	32,821,236	-	7.71%	-	5.14%	-	2.57%	-	-2.57%	-	-5.13%	-	-7.70%	-
	2013	32,877,089	32,877,089	-	7.69%	-	5.13%	-	2.56%	-	-2.56%	-	-5.12%	-	-7.69%	-
Romania	2009	27,575,326	26,968,879	-2.20%	7.73%	-2.04%	5.15%	-2.09%	2.58%	-2.14%	-2.58%	-2.26%	-5.15%	-2.32%	-7.73%	-2.38%
	2010	27,369,511	26,763,062	-2.22%	7.79%	-2.06%	5.19%	-2.11%	2.60%	-2.16%	-2.60%	-2.27%	-5.19%	-2.34%	-7.79%	-2.40%
	2011-2012	27,369,254	26,762,805	-2.22%	7.79%	-2.06%	5.19%	-2.11%	2.60%	-2.16%	-2.60%	-2.27%	-5.19%	-2.34%	-7.79%	-2.40%
	2013	27,413,142	25,914,327	-5.47%	7.78%	-5.07%	5.18%	-5.20%	2.59%	-5.33%	-2.59%	-5.61%	-5.18%	-5.77%	-7.77%	-5.93%
Slovenia	2009	34,472,064	33,315,052	-3.36%	8.10%	-3.10%	5.40%	-3.18%	2.70%	-3.27%	-2.70%	-3.45%	-5.40%	-3.55%	-8.10%	-3.65%
	2010-2011	32,844,662	30,915,792	-5.87%	8.10%	-5.43%	5.40%	-5.57%	2.70%	-5.72%	-2.70%	-6.04%	-5.40%	-6.21%	-8.10%	-6.39%
	2012	29,585,644	25,614,483	-13.42%	8.10%	-12.42%	5.40%	-12.73%	2.70%	-13.07%	-2.70%	-13.80%	-5.40%	-14.19%	-8.10%	-14.61%
	2013	27,954,026	24,201,738	-13.42%	8.10%	-12.42%	5.40%	-12.74%	2.70%	-13.07%	-2.70%	-13.80%	-5.40%	-14.19%	-8.10%	-14.61%
Spain	2009-2011	58,129,031	54,902,168	-5.55%	8.03%	-5.08%	5.35%	-5.21%	2.68%	-5.35%	-2.68%	-5.70%	-5.35%	-5.86%	-8.02%	-6.04%
	2012-	58,129,031	54,944,564	-5.48%	8.03%	-4.98%	5.35%	-5.11%	2.68%	-5.24%	-2.68%	-5.63%	-5.35%	-5.79%	-8.02%	-5.96%

Country	Year	Base Case			Labour Intensity - 30%		Labour Intensity - 20%		Labour Intensity - 10%		Labour Intensity + 10%		Labour Intensity + 20%		Labour Intensity + 30%	
		General Tax Code Tax Burden	General Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives	% change compared to General Tax Code	Effect of R&D incentives
	2013															
Sweden	2009-2012	43,798,954	43,798,954	-	7.97%	-	5.31%	-	2.66%	-	-2.66%	-	-5.31%	-	-7.97%	-
	2013	36,866,963	36,866,963	-	7.93%	-	5.29%	-	2.64%	-	-2.64%	-	-5.28%	-	-7.93%	-
United Kingdom	2009	49,513,867	46,446,354	-6.20%	7.50%	-5.76%	5.00%	-5.90%	2.50%	-6.04%	-2.50%	-6.35%	-5.00%	-6.52%	-7.50%	-6.70%
	2010	49,161,217	46,077,493	-6.27%	7.56%	-5.83%	5.04%	-5.97%	2.52%	-6.12%	-2.52%	-6.43%	-5.03%	-6.61%	-7.55%	-6.79%
	2011	45,971,766	43,075,200	-6.30%	7.51%	-5.86%	5.01%	-6.00%	2.50%	-6.15%	-2.50%	-6.46%	-5.00%	-6.63%	-7.51%	-6.81%
	2012	43,054,344	40,312,482	-6.37%	7.41%	-5.93%	4.94%	-6.07%	2.47%	-6.21%	-2.47%	-6.53%	-4.93%	-6.70%	-7.40%	-6.88%
	2013	41,582,866	38,389,124	-7.68%	7.35%	-7.15%	4.90%	-7.32%	2.45%	-7.50%	-2.45%	-7.87%	-4.90%	-8.08%	-7.35%	-8.29%

Table 5.28 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, large corporation, fiscal years 2009-2013, business sectors)

Country	Year	Base Case			Manufacturing	Energy	Construction	Commerce	Hotels & Restaurants
		General Tax Code Tax Burden	General Tax Code and R&D incentives						
			Tax Burden	Total Effect	Effect of R&D incentives	Effect of R&D incentives	Effect of R&D incentives	Effect of R&D incentives	Effect of R&D incentives
Austria	2009	52,770,907	51,182,721	-3.01%	-3.00%	-3.44%	-0.14%	-0.29%	-0.01%
	2010	52,771,208	51,183,022	-3.01%	-3.00%	-3.44%	-0.14%	-0.29%	-0.01%
	2011-2013	52,771,208	50,785,976	-3.76%	-3.75%	-4.30%	-0.17%	-0.36%	-0.01%
Belgium	2009	54,411,629	53,369,295	-1.92%	-1.92%	-1.56%	-0.31%	-0.28%	-0.12%
	2010	54,411,629	53,383,281	-1.89%	-1.89%	-1.54%	-0.31%	-0.28%	-0.12%
	2011	54,411,629	53,381,796	-1.89%	-1.89%	-1.54%	-0.32%	-0.28%	-0.13%
	2012	54,168,834	53,119,617	-1.94%	-1.94%	-1.58%	-0.33%	-0.29%	-0.13%
	2013	54,168,834	53,126,038	-1.93%	-1.91%	-1.56%	-0.34%	-0.29%	-0.13%
Bulgaria	2009	16,729,850	16,729,850	-	-	-	-	-	-
	2010	16,738,736	16,738,736	-	-	-	-	-	-
	2011-2012	16,996,330	16,996,330	-	-	-	-	-	-
	2013	16,996,329	16,996,329	-	-	-	-	-	-
Croatia	2009	32,639,168	13,828,993	-57.63%	-58.34%	-58.52%	-50.34%	-50.26%	-49.63%
	2010-2011	32,609,289	13,802,786	-57.67%	-58.39%	-58.59%	-50.38%	-50.31%	-49.67%
	2012	32,564,896	13,763,843	-57.73%	-58.47%	-58.70%	-50.45%	-50.37%	-49.74%
	2013	32,564,895	27,634,341	-15.14%	-15.26%	-8.10%	-0.81%	-1.35%	-0.05%
Estonia	2009-2013	34,571,589	34,571,589	-	-	-	-	-	-
Finland	2009	43,361,043	43,206,057	-0.36%	-0.36%	-0.37%	-0.02%	-0.03%	0.00%
	2010	43,795,871	43,640,888	-0.35%	-0.36%	-0.36%	-0.02%	-0.03%	0.00%
	2011	44,147,823	43,912,198	-0.53%	-0.53%	-0.53%	-0.03%	-0.05%	0.00%
	2012	41,707,356	41,485,232	-0.53%	-0.53%	-0.53%	-0.03%	-0.05%	0.00%
	2013	41,368,771	38,584,338	-6.73%	-6.83%	-6.80%	-0.37%	-0.60%	-0.02%
France	2009	80,300,859	73,751,232	-8.16%	-8.19%	-8.81%	-0.47%	-0.79%	-0.03%
	2010	83,034,884	76,485,259	-7.89%	-8.17%	-8.58%	-0.47%	-0.62%	-0.03%
	2011	83,544,699	79,299,445	-5.08%	-5.30%	-5.42%	-0.30%	-0.40%	-0.02%
	2012	85,978,680	81,885,601	-4.76%	-4.97%	-4.92%	-0.28%	-0.37%	-0.02%
	2013	78,090,960	74,135,453	-5.07%	-5.41%	-4.75%	-0.33%	-0.38%	-0.02%
Germany	2009	52,562,247	52,562,247	-	-	-	-	-	-
	2010	52,543,705	52,543,705	-	-	-	-	-	-
	2011	52,892,178	52,892,178	-	-	-	-	-	-
	2012	53,045,569	53,045,569	-	-	-	-	-	-
	2013	53,434,468	53,434,468	-	-	-	-	-	-
Greece	2009	41,467,965	41,295,990	-0.41%	-0.42%	-0.38%	-0.03%	-0.04%	0.00%
	2010	39,821,717	39,656,560	-0.41%	-0.42%	-0.37%	-0.02%	-0.04%	0.00%
	2011-2012	33,616,256	33,478,423	-0.41%	-0.42%	-0.39%	-0.03%	-0.04%	0.00%
	2013	43,896,744	43,035,140	-1.96%	-1.96%	-1.57%	-0.11%	-0.18%	-0.01%
Hungary	2009	59,363,722	59,363,722	-	-	-	-	-	-
	2010	64,151,777	64,151,777	-	-	-	-	-	-
	2011	61,017,567	61,017,567	-	-	-	-	-	-
	2012	62,528,788	62,528,788	-	-	-	-	-	-
	2013	62,532,159	62,532,159	-	-	-	-	-	-
Ireland	2009	22,567,371	20,978,522	-7.04%	-7.06%	-5.73%	-0.45%	-0.64%	-0.02%
	2010	22,539,546	20,950,696	-7.05%	-7.07%	-5.75%	-0.45%	-0.64%	-0.02%
	2011	22,531,291	20,942,440	-7.05%	-7.08%	-5.75%	-0.45%	-0.64%	-0.02%
	2012	22,508,247	20,658,285	-8.22%	-8.37%	-6.22%	-1.46%	-1.74%	-0.09%
	2013	22,501,512	20,390,438	-9.38%	-9.66%	-6.67%	-1.46%	-2.46%	-0.09%
Italy	2009	60,244,929	58,310,782	-3.21%	-3.19%	-3.16%	-0.16%	-0.30%	-0.01%

Country	Year	Base Case			Manufacturing	Energy	Construction	Commerce	Hotels & Restaurants
		General Tax Code Tax Burden	General Tax Code and R&D incentives						
			Tax Burden	Total Effect	Effect of R&D incentives	Effect of R&D incentives	Effect of R&D incentives	Effect of R&D incentives	Effect of R&D incentives
	2010	59,106,741	57,172,594	-3.27%	-3.25%	-3.19%	-0.16%	-0.30%	-0.01%
	2011	58,946,236	58,537,638	-0.69%	-0.69%	-0.68%	-0.03%	-0.06%	0.00%
	2012-2013	56,573,404	54,073,193	-4.42%	-4.76%	-2.19%	-0.37%	-0.68%	-0.02%
Lithuania	2009	33,704,118	26,403,045	-21.66%	-21.66%	-22.45%	-1.18%	-1.94%	-0.07%
	2010-2012	25,926,559	20,437,743	-21.17%	-21.25%	-21.81%	-1.16%	-1.90%	-0.07%
	2013	28,234,532	22,745,714	-19.44%	-19.48%	-17.70%	-1.10%	-1.76%	-0.06%
Luxembourg	2009-2010	49,842,395	49,628,686	-0.43%	-0.42%	-0.45%	-0.02%	-0.04%	0.00%
	2011-2012	50,171,772	49,956,501	-0.43%	-0.42%	-0.45%	-0.02%	-0.04%	0.00%
	2013	50,838,649	50,339,264	-0.98%	-0.97%	-1.03%	-0.05%	-0.09%	0.00%
Netherlands	2009	42,059,959	40,866,555	-2.84%	-2.94%	-2.21%	-0.29%	-0.49%	-0.02%
	2010	42,311,240	40,914,447	-3.30%	-3.46%	-2.38%	-0.29%	-0.48%	-0.02%
	2011	41,485,245	40,012,775	-3.55%	-3.67%	-2.79%	-0.35%	-0.59%	-0.02%
	2012	41,501,737	39,439,617	-4.97%	-5.05%	-4.42%	-0.43%	-0.71%	-0.02%
	2013	41,515,570	38,930,286	-6.23%	-6.36%	-5.40%	-0.44%	-0.73%	-0.03%
Poland	2009	32,771,850	32,771,850	-	-	-	-	-	-
	2010	32,786,525	32,786,525	-	-	-	-	-	-
	2011	32,742,882	32,742,882	-	-	-	-	-	-
	2012	32,821,236	32,821,236	-	-	-	-	-	-
	2013	32,877,089	32,877,089	-	-	-	-	-	-
Romania	2009	27,575,326	26,968,879	-2.20%	-2.21%	-2.19%	-0.12%	-0.20%	-0.01%
	2010	27,369,511	26,763,062	-2.22%	-2.22%	-2.21%	-0.12%	-0.20%	-0.01%
	2011-2012	27,369,254	26,762,805	-2.22%	-2.22%	-2.21%	-0.12%	-0.20%	-0.01%
	2013	27,413,142	25,914,327	-5.47%	-5.49%	-5.44%	-0.30%	-0.49%	-0.02%
Slovenia	2009	34,472,064	33,315,052	-3.36%	-3.37%	-3.45%	-0.18%	-0.30%	-0.01%
	2010-2011	32,844,662	30,915,792	-5.87%	-5.89%	-6.03%	-0.32%	-0.53%	-0.02%
	2012	29,585,644	25,614,483	-13.42%	-13.45%	-13.80%	-0.72%	-1.21%	-0.04%
	2013	27,954,026	24,201,738	-13.42%	-13.45%	-13.82%	-0.72%	-1.21%	-0.04%
Spain	2009-2011	58,129,031	54,902,168	-5.55%	-5.54%	-5.26%	-0.28%	-0.46%	-0.02%
	2012-2013	58,129,031	54,944,564	-5.48%	-5.38%	-2.15%	-0.26%	-0.43%	-0.01%
Sweden	2009-2012	43,798,954	43,798,954	-	-	-	-	-	-
	2013	36,866,963	36,866,963	-	-	-	-	-	-
United Kingdom	2009	49,513,867	46,446,354	-6.20%	-6.20%	-5.64%	-0.35%	-0.56%	-0.02%
	2010	49,161,217	46,077,493	-6.27%	-6.28%	-5.77%	-0.35%	-0.57%	-0.02%
	2011	45,971,766	43,075,200	-6.30%	-6.32%	-5.75%	-0.35%	-0.57%	-0.02%
	2012	43,054,344	40,312,482	-6.37%	-6.38%	-5.70%	-0.36%	-0.58%	-0.02%
	2013	41,582,866	38,389,124	-7.68%	-7.70%	-6.80%	-0.43%	-0.70%	-0.02%

5.6 Sensitivity analysis (Effective Tax Burden, medium-sized corporation, corporate level)

Table 5.29 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, medium-sized corporation, fiscal years 2009-2013, profitability)

Country	Year	Base Case			Profitability - 30%		Profitability - 20%		Profitability - 10%		Profitability + 10%		Profitability + 20%		Profitability + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Austria	2009	5,535,625	5,386,774	-2.69%	-18.35%	-3.30%	-13.77%	-3.12%	-4.59%	-2.82%	4.59%	-2.57%	13.77%	-2.36%	18.36%	-2.27%
	2010	5,535,665	5,386,812	-2.69%	-18.35%	-3.30%	-13.77%	-3.12%	-4.59%	-2.82%	4.59%	-2.57%	13.77%	-2.36%	18.36%	-2.27%
	2011-2013	5,535,665	5,349,599	-3.36%	-18.35%	-4.12%	-13.77%	-3.90%	-4.59%	-3.52%	4.59%	-3.21%	13.77%	-2.95%	18.36%	-2.84%
Belgium	2009	5,480,270	5,378,799	-1.85%	-23.29%	-2.48%	-17.46%	-2.32%	-5.82%	-1.98%	5.82%	-1.75%	17.50%	-1.57%	23.33%	-1.50%
	2010	5,480,270	5,379,964	-1.83%	-23.29%	-2.45%	-17.46%	-2.30%	-5.82%	-1.95%	5.82%	-1.73%	17.50%	-1.55%	23.33%	-1.48%
	2011	5,480,270	5,379,752	-1.83%	-23.29%	-2.46%	-17.46%	-2.30%	-5.82%	-1.96%	5.82%	-1.73%	17.50%	-1.56%	23.33%	-1.48%
	2012	5,453,582	5,351,122	-1.88%	-23.40%	-2.52%	-17.55%	-2.36%	-5.85%	-2.00%	5.85%	-1.77%	17.58%	-1.59%	23.45%	-1.52%
	2013	5,453,582	5,351,627	-1.87%	-23.40%	-2.51%	-17.55%	-2.35%	-5.85%	-1.99%	5.85%	-1.76%	17.58%	-1.59%	23.45%	-1.51%
Bulgaria	2009	1,669,791	1,669,791	-	-24.52%	-	-18.39%	-	-6.13%	-	6.13%	-	18.39%	-	24.52%	-
	2010	1,670,769	1,670,769	-	-24.51%	-	-18.38%	-	-6.13%	-	6.13%	-	18.38%	-	24.51%	-
	2011-2013	1,699,083	1,699,083	-	-24.10%	-	-18.07%	-	-6.02%	-	6.02%	-	18.07%	-	24.10%	-
Croatia	2009	3,268,858	2,808,577	-14.08%	-25.34%	-18.97%	-19.09%	-17.51%	-6.59%	-15.07%	6.44%	-13.31%	18.94%	-11.91%	25.19%	-11.32%
	2010-2011	3,265,951	2,806,029	-14.08%	-25.34%	-18.97%	-19.10%	-17.51%	-6.59%	-15.08%	6.44%	-13.31%	18.94%	-11.91%	25.19%	-11.32%
	2012	3,261,629	2,802,246	-14.08%	-25.35%	-18.97%	-19.10%	-17.51%	-6.59%	-15.08%	6.44%	-13.31%	18.94%	-11.91%	25.19%	-11.32%
	2013	3,261,631	2,802,246	-14.08%	-25.35%	-18.97%	-19.10%	-17.51%	-6.59%	-15.08%	6.44%	-13.31%	18.94%	-11.91%	25.19%	-11.32%
Estonia	2009-2013	3,440,541	3,440,541	-	-23.96%	-	-17.97%	-	-5.99%	-	5.99%	-	17.97%	-	23.96%	-
Finland	2009	4,330,601	4,315,964	-0.34%	-24.40%	-0.45%	-18.30%	-0.41%	-6.10%	-0.36%	6.10%	-0.32%	18.30%	-0.29%	24.40%	-0.27%
	2010	4,378,402	4,363,767	-0.33%	-24.13%	-0.44%	-18.10%	-0.41%	-6.03%	-0.36%	6.03%	-0.32%	18.10%	-0.28%	24.13%	-0.27%
	2011	4,411,118	4,388,860	-0.50%	-23.95%	-0.66%	-17.96%	-0.61%	-5.99%	-0.54%	5.99%	-0.48%	17.96%	-0.43%	23.95%	-0.41%
	2012	4,168,051	4,147,070	-0.50%	-23.90%	-0.66%	-17.93%	-0.61%	-5.98%	-0.54%	5.98%	-0.47%	17.93%	-0.43%	23.90%	-0.41%
	2013	4,136,579	3,875,510	-6.31%	-24.09%	-8.31%	-18.06%	-7.70%	-6.02%	-6.72%	6.02%	-5.95%	18.06%	-5.35%	24.09%	-5.09%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Profitability - 30%		Profitability - 20%		Profitability - 10%		Profitability + 10%		Profitability + 20%		Profitability + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
France	2009	7,967,877	7,308,893	-8.27%	-16.72%	-10.12%	-12.62%	-9.61%	-4.25%	-8.64%	4.25%	-7.93%	12.74%	-7.34%	16.98%	-7.06%
	2010	8,230,478	7,571,494	-8.01%	-16.54%	-9.82%	-12.50%	-9.30%	-4.22%	-8.36%	4.22%	-7.68%	12.66%	-7.11%	16.88%	-6.84%
	2011	8,194,959	7,797,044	-4.86%	-16.62%	-5.98%	-12.55%	-5.64%	-4.24%	-5.07%	4.24%	-4.66%	12.71%	-4.31%	16.94%	-4.15%
	2012	8,434,730	8,007,489	-5.07%	-17.03%	-6.27%	-12.86%	-5.91%	-4.34%	-5.30%	4.34%	-4.85%	13.02%	-4.48%	17.36%	-4.32%
	2013	7,462,469	7,048,155	-5.55%	-19.53%	-7.01%	-14.72%	-6.51%	-4.91%	-5.84%	4.91%	-5.29%	14.72%	-4.83%	19.64%	-4.63%
Germany	2009	5,191,695	5,191,695	-	-24.17%	-	-18.13%	-	-6.04%	-	6.04%	-	18.13%	-	24.17%	-
	2010	5,189,958	5,189,958	-	-24.18%	-	-18.13%	-	-6.04%	-	6.04%	-	18.13%	-	24.18%	-
	2011	5,223,990	5,223,990	-	-24.18%	-	-18.14%	-	-6.05%	-	6.05%	-	18.14%	-	24.18%	-
	2012	5,239,381	5,239,381	-	-24.16%	-	-18.12%	-	-6.04%	-	6.04%	-	18.12%	-	24.16%	-
	2013	5,279,368	5,279,368	-	-24.04%	-	-18.04%	-	-6.02%	-	6.02%	-	18.07%	-	24.09%	-
Greece	2009	4,136,439	4,120,245	-0.39%	-24.57%	-0.52%	-18.43%	-0.48%	-6.14%	-0.42%	6.14%	-0.37%	18.43%	-0.33%	24.57%	-0.31%
	2010	3,972,989	3,957,518	-0.39%	-24.57%	-0.52%	-18.43%	-0.48%	-6.14%	-0.41%	6.14%	-0.37%	18.43%	-0.33%	24.57%	-0.31%
	2011-2012	3,345,834	3,332,853	-0.39%	-24.36%	-0.51%	-18.27%	-0.47%	-6.09%	-0.41%	6.09%	-0.37%	18.27%	-0.33%	24.36%	-0.31%
	2013	4,360,005	4,278,726	-1.86%	-24.13%	-2.46%	-18.10%	-2.28%	-6.03%	-1.98%	6.05%	-1.76%	18.17%	-1.58%	24.23%	-1.50%
Hungary	2009	5,673,890	5,673,890	-	-15.10%	-	-11.50%	-	-3.83%	-	3.72%	-	11.18%	-	14.92%	-
	2010	5,857,223	5,857,223	-	-13.33%	-	-9.91%	-	-3.55%	-	3.56%	-	10.52%	-	14.04%	-
	2011	5,082,287	5,082,287	-	-11.19%	-	-8.61%	-	-2.88%	-	2.86%	-	8.42%	-	11.20%	-
	2012	5,249,731	5,249,731	-	-10.63%	-	-8.16%	-	-2.63%	-	2.67%	-	8.40%	-	11.10%	-
	2013	5,249,676	5,249,676	-	-10.64%	-	-8.16%	-	-2.63%	-	2.75%	-	8.48%	-	11.18%	-
Ireland	2009	2,241,892	2,087,330	-6.89%	-22.80%	-8.93%	-17.10%	-8.32%	-5.70%	-7.31%	5.70%	-6.52%	17.10%	-5.89%	22.80%	-5.61%
	2010	2,238,827	2,084,266	-6.90%	-22.83%	-8.95%	-17.12%	-8.33%	-5.71%	-7.32%	5.71%	-6.53%	17.12%	-5.89%	22.83%	-5.62%
	2011	2,237,927	2,083,362	-6.91%	-22.84%	-8.95%	-17.13%	-8.33%	-5.71%	-7.32%	5.71%	-6.53%	17.13%	-5.90%	22.84%	-5.62%
	2012	2,235,393	1,819,722	-18.59%	-22.86%	-24.11%	-17.15%	-22.44%	-5.72%	-19.72%	5.72%	-17.59%	17.15%	-15.87%	22.86%	-15.13%
	2013	2,234,652	1,670,630	-25.24%	-22.87%	-32.72%	-17.15%	-30.47%	-5.72%	-26.77%	5.72%	-23.87%	17.15%	-21.54%	22.87%	-20.54%
Italy	2009	6,215,286	6,034,016	-2.92%	-20.28%	-3.66%	-15.21%	-3.44%	-5.07%	-3.07%	5.07%	-2.78%	15.21%	-2.53%	20.30%	-2.42%
	2010	6,052,173	5,870,901	-3.00%	-20.83%	-3.78%	-15.62%	-3.55%	-5.21%	-3.16%	5.21%	-2.85%	15.63%	-2.59%	20.85%	-2.47%
	2011	6,039,413	6,001,118	-0.63%	-20.87%	-0.80%	-15.65%	-0.75%	-5.22%	-0.67%	5.22%	-0.60%	15.67%	-0.55%	20.90%	-0.52%
	2012-2013	5,754,110	5,360,271	-6.84%	-21.65%	-8.74%	-16.24%	-8.17%	-5.41%	-7.24%	5.41%	-6.49%	16.26%	-5.88%	21.69%	-5.61%

Country	Year	Base Case			Profitability - 30%		Profitability - 20%		Profitability - 10%		Profitability + 10%		Profitability + 20%		Profitability + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Lithuania	2009	3,368,670	2,684,384	-20.31%	-24.19%	-26.80%	-18.15%	-24.82%	-6.05%	-21.62%	6.05%	-19.15%	18.15%	-17.19%	24.19%	-16.36%
	2010-2012	2,597,408	2,082,964	-19.81%	-23.59%	-25.92%	-17.69%	-24.06%	-5.90%	-21.05%	5.90%	-18.70%	17.69%	-16.83%	23.59%	-16.03%
	2013	2,851,156	2,336,714	-18.04%	-21.49%	-22.98%	-16.12%	-21.51%	-5.37%	-19.07%	5.37%	-17.12%	16.12%	-15.54%	21.49%	-14.85%
Luxembourg	2009-2010	4,958,584	4,938,458	-0.41%	-24.59%	-0.54%	-18.44%	-0.50%	-6.15%	-0.43%	6.15%	-0.38%	18.44%	-0.34%	24.59%	-0.33%
	2011-2012	4,991,354	4,971,077	-0.41%	-24.59%	-0.54%	-18.45%	-0.50%	-6.15%	-0.43%	6.15%	-0.38%	18.45%	-0.34%	24.59%	-0.33%
	2013	5,069,557	5,022,551	-0.93%	-24.52%	-1.23%	-18.39%	-1.14%	-6.13%	-0.99%	6.13%	-0.87%	18.40%	-0.78%	24.53%	-0.74%
Netherlands	2009	4,144,031	3,931,024	-5.14%	-24.95%	-6.86%	-18.73%	-6.34%	-6.25%	-5.48%	6.25%	-4.84%	18.75%	-4.33%	25.01%	-4.11%
	2010	4,171,658	3,958,650	-5.11%	-24.79%	-6.80%	-18.60%	-6.28%	-6.21%	-5.44%	6.21%	-4.81%	18.63%	-4.30%	24.84%	-4.09%
	2011	4,046,696	3,793,058	-6.27%	-25.07%	-8.38%	-18.81%	-7.73%	-6.28%	-6.69%	6.28%	-5.90%	18.83%	-5.27%	25.11%	-5.01%
	2012	4,048,512	3,743,166	-7.54%	-25.05%	-10.08%	-18.81%	-9.31%	-6.27%	-8.05%	6.27%	-7.10%	18.82%	-6.35%	25.10%	-6.03%
	2013	4,050,031	3,732,677	-7.84%	-25.04%	-10.47%	-18.80%	-9.67%	-6.27%	-8.36%	6.27%	-7.37%	18.82%	-6.59%	25.09%	-6.26%
Poland	2009	3,278,465	3,278,465	-	-23.63%	-	-17.72%	-	-5.91%	-	5.91%	-	17.72%	-	23.63%	-
	2010	3,280,075	3,280,075	-	-23.62%	-	-17.71%	-	-5.90%	-	5.90%	-	17.71%	-	23.62%	-
	2011	3,275,277	3,101,337	-5.31%	-23.65%	-6.96%	-17.74%	-6.46%	-5.91%	-5.64%	5.91%	-5.01%	17.74%	-4.51%	23.65%	-4.29%
	2012	3,283,900	3,109,962	-5.30%	-23.59%	-6.93%	-17.69%	-6.44%	-5.90%	-5.63%	5.90%	-5.00%	17.69%	-4.50%	23.59%	-4.29%
	2013	3,290,040	3,116,102	-5.29%	-23.55%	-6.91%	-17.66%	-6.42%	-5.89%	-5.62%	5.89%	-4.99%	17.66%	-4.49%	23.55%	-4.28%
Romania	2009	2,762,067	2,705,216	-2.06%	-23.64%	-2.70%	-17.73%	-2.50%	-5.91%	-2.19%	5.91%	-1.94%	17.73%	-1.75%	23.65%	-1.66%
	2010	2,739,759	2,682,909	-2.08%	-23.84%	-2.72%	-17.88%	-2.53%	-5.96%	-2.21%	5.96%	-1.96%	17.88%	-1.76%	23.84%	-1.68%
	2011-2012	2,739,735	2,682,885	-2.08%	-23.84%	-2.72%	-17.88%	-2.53%	-5.96%	-2.21%	5.96%	-1.96%	17.88%	-1.76%	23.84%	-1.68%
	2013	2,744,562	2,604,070	-5.12%	-23.80%	-6.72%	-17.85%	-6.23%	-5.95%	-5.44%	5.95%	-4.83%	17.85%	-4.34%	23.80%	-4.13%
Slovenia	2009	3,430,875	3,322,272	-3.17%	-24.93%	-4.22%	-18.69%	-3.89%	-6.23%	-3.38%	6.23%	-2.98%	18.69%	-2.67%	24.93%	-2.53%
	2010-2011	3,268,918	3,087,979	-5.54%	-24.93%	-7.37%	-18.69%	-6.81%	-6.23%	-5.90%	6.23%	-5.21%	18.70%	-4.66%	24.93%	-4.43%
	2012	2,944,577	2,572,239	-12.64%	-24.93%	-16.84%	-18.70%	-15.55%	-6.23%	-13.49%	6.23%	-11.90%	18.70%	-10.65%	24.93%	-10.12%
	2013	2,782,195	2,430,377	-12.65%	-24.93%	-16.84%	-18.70%	-15.55%	-6.23%	-13.49%	6.23%	-11.90%	18.70%	-10.65%	24.93%	-10.12%
Spain	2009-2011	5,784,801	5,488,311	-5.13%	-24.65%	-7.00%	-18.49%	-6.48%	-6.16%	-5.52%	6.16%	-4.78%	18.49%	-4.15%	24.65%	-3.90%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Profitability - 30%		Profitability - 20%		Profitability - 10%		Profitability + 10%		Profitability + 20%		Profitability + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2012-2013	5,784,801	5,496,368	-4.99%	-24.65%	-6.96%	-18.49%	-6.43%	-6.16%	-5.41%	6.16%	-4.61%	18.49%	-3.91%	24.65%	-3.65%
Sweden	2009-2012	4,371,929	4,371,929	-	-24.39%	-	-18.31%	-	-6.11%	-	6.11%	-	18.33%	-	24.44%	-
	2013	3,681,747	3,681,747	-	-24.32%	-	-18.24%	-	-6.08%	-	6.08%	-	18.24%	-	24.32%	-
United Kingdom	2009	4,967,898	4,130,084	-16.86%	-22.84%	-23.72%	-17.14%	-21.65%	-5.72%	-18.26%	5.72%	-15.62%	17.16%	-13.49%	22.88%	-12.58%
	2010	4,929,120	4,283,492	-13.10%	-23.02%	-18.80%	-17.28%	-17.06%	-5.76%	-14.24%	5.76%	-12.08%	17.29%	-10.40%	23.06%	-9.72%
	2011	4,613,203	3,888,279	-15.71%	-22.87%	-22.00%	-17.17%	-20.07%	-5.72%	-16.97%	5.72%	-14.62%	17.17%	-12.79%	22.90%	-12.01%
	2012	4,325,393	3,490,792	-19.30%	-22.54%	-26.11%	-16.92%	-24.04%	-5.64%	-20.67%	5.64%	-18.06%	16.92%	-15.96%	22.56%	-15.09%
	2013	4,180,444	3,428,102	-18.00%	-22.37%	-24.09%	-16.79%	-22.23%	-5.60%	-19.24%	5.60%	-16.89%	16.79%	-15.01%	22.38%	-14.23%

Table 5.30 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, medium-sized corporation, fiscal years 2009-2013, capital intensity)

Country	Year	Base Case			Capital Intensity - 15%		Capital Intensity - 10%		Capital Intensity - 5%		Capital Intensity + 5%		Capital Intensity + 10%		Capital Intensity + 15%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Austria	2009	5,535,625	5,386,774	-2.69%	7.02%	-2.51%	4.65%	-2.57%	2.37%	-2.63%	-2.29%	-2.75%	-4.44%	-2.81%	-6.54%	-2.88%
	2010	5,535,665	5,386,812	-2.69%	7.02%	-2.51%	4.65%	-2.57%	2.36%	-2.63%	-2.29%	-2.75%	-4.44%	-2.81%	-6.54%	-2.88%
	2011-2013	5,535,665	5,349,599	-3.36%	7.02%	-3.14%	4.65%	-3.21%	2.36%	-3.28%	-2.29%	-3.44%	-4.44%	-3.52%	-6.54%	-3.60%
Belgium	2009	5,480,270	5,378,799	-1.85%	9.24%	-1.69%	6.12%	-1.74%	3.11%	-1.80%	-3.00%	-1.92%	-5.76%	-2.00%	-8.45%	-2.08%
	2010	5,480,270	5,379,964	-1.83%	9.24%	-1.68%	6.12%	-1.72%	3.11%	-1.78%	-3.00%	-1.89%	-5.76%	-1.98%	-8.45%	-2.06%
	2011	5,480,270	5,379,752	-1.83%	9.24%	-1.68%	6.12%	-1.73%	3.11%	-1.78%	-3.00%	-1.90%	-5.76%	-1.98%	-8.45%	-2.06%
	2012	5,453,582	5,351,122	-1.88%	9.36%	-1.72%	6.20%	-1.77%	3.15%	-1.82%	-3.04%	-1.94%	-5.84%	-2.03%	-8.56%	-2.11%
	2013	5,453,582	5,351,627	-1.87%	9.36%	-1.71%	6.20%	-1.76%	3.15%	-1.81%	-3.04%	-1.93%	-5.84%	-2.02%	-8.56%	-2.10%
Bulgaria	2009	1,669,791	1,669,791	-	9.34%	-	6.19%	-	3.15%	-	-3.04%	-	-5.91%	-	-8.71%	-
	2010	1,670,769	1,670,769	-	9.33%	-	6.18%	-	3.14%	-	-3.04%	-	-5.90%	-	-8.69%	-
	2011-2013	1,699,083	1,699,083	-	8.92%	-	5.91%	-	3.01%	-	-2.91%	-	-5.64%	-	-8.30%	-
Croatia	2009	3,268,858	2,808,577	-14.08%	9.99%	-12.88%	6.68%	-13.28%	3.50%	-13.69%	-3.54%	-14.69%	-6.56%	-15.16%	-9.50%	-15.65%
	2010-2011	3,265,951	2,806,029	-14.08%	10.00%	-12.88%	6.69%	-13.28%	3.50%	-13.69%	-3.55%	-14.69%	-6.56%	-15.16%	-9.50%	-15.65%
	2012	3,261,629	2,802,246	-14.08%	10.00%	-12.88%	6.69%	-13.28%	3.50%	-13.69%	-3.55%	-14.69%	-6.57%	-15.16%	-9.51%	-15.66%
	2013	3,261,631	2,802,246	-14.08%	10.00%	-12.88%	6.69%	-13.28%	3.50%	-13.69%	-3.55%	-14.69%	-6.57%	-15.16%	-9.51%	-15.66%
Estonia	2009-2013	3,440,541	3,440,541	-	8.85%	-	5.86%	-	2.99%	-	-2.88%	-	-5.59%	-	-8.23%	-
Finland	2009	4,330,601	4,315,964	-0.34%	9.17%	-0.31%	6.07%	-0.32%	3.09%	-0.33%	-2.99%	-0.35%	-5.80%	-0.36%	-8.57%	-0.37%
	2010	4,378,402	4,363,767	-0.33%	8.91%	-0.31%	5.90%	-0.32%	3.00%	-0.32%	-2.90%	-0.34%	-5.63%	-0.35%	-8.32%	-0.36%
	2011	4,411,118	4,388,860	-0.50%	8.73%	-0.46%	5.78%	-0.48%	2.94%	-0.49%	-2.84%	-0.52%	-5.51%	-0.53%	-8.11%	-0.55%
	2012	4,168,051	4,147,070	-0.50%	8.68%	-0.46%	5.75%	-0.48%	2.93%	-0.49%	-2.83%	-0.52%	-5.48%	-0.53%	-8.06%	-0.55%
	2013	4,136,579	3,875,510	-6.31%	8.86%	-5.80%	5.87%	-5.96%	2.99%	-6.13%	-2.88%	-6.50%	-5.60%	-6.69%	-8.27%	-6.85%
France	2009	7,967,877	7,308,893	-8.27%	3.31%	-8.01%	2.19%	-8.09%	1.15%	-8.18%	-1.14%	-8.37%	-2.17%	-8.45%	-3.32%	-8.55%
	2010	8,230,478	7,571,494	-8.01%	5.84%	-7.57%	3.87%	-7.71%	1.98%	-7.85%	-1.95%	-8.17%	-3.78%	-8.32%	-5.56%	-8.48%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Capital Intensity - 15%		Capital Intensity - 10%		Capital Intensity - 5%		Capital Intensity + 5%		Capital Intensity + 10%		Capital Intensity + 15%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives		% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
			Tax Burden	Total Effect												
	2011	8,194,959	7,797,044	-4.86%	5.83%	-4.59%	3.86%	-4.68%	1.97%	-4.76%	-1.90%	-4.95%	-3.67%	-5.04%	-5.40%	-5.13%
	2012	8,434,730	8,007,489	-5.07%	6.03%	-4.78%	3.99%	-4.87%	2.03%	-4.96%	-1.96%	-5.17%	-3.80%	-5.27%	-5.59%	-5.37%
	2013	7,462,469	7,048,155	-5.55%	6.82%	-5.20%	4.51%	-5.31%	2.30%	-5.43%	-2.22%	-5.68%	-4.30%	-5.80%	-6.32%	-5.93%
Germany	2009	5,191,695	5,191,695	-	9.24%	-	6.12%	-	3.11%	-	-3.01%	-	-5.85%	-	-8.62%	-
	2010	5,189,958	5,189,958	-	9.25%	-	6.12%	-	3.12%	-	-3.01%	-	-5.85%	-	-8.62%	-
	2011	5,223,990	5,223,990	-	9.25%	-	6.12%	-	3.12%	-	-3.01%	-	-5.85%	-	-8.62%	-
	2012	5,239,381	5,239,381	-	9.23%	-	6.11%	-	3.11%	-	-3.01%	-	-5.84%	-	-8.60%	-
	2013	5,279,368	5,279,368	-	9.20%	-	6.09%	-	3.10%	-	-3.00%	-	-5.82%	-	-8.57%	-
Greece	2009	4,136,439	4,120,245	-0.39%	9.34%	-0.36%	6.19%	-0.37%	3.15%	-0.38%	-3.04%	-0.40%	-5.91%	-0.42%	-8.70%	-0.43%
	2010	3,972,989	3,957,518	-0.39%	9.34%	-0.36%	6.19%	-0.37%	3.15%	-0.38%	-3.04%	-0.40%	-5.91%	-0.41%	-8.70%	-0.43%
	2011-2012	3,345,834	3,332,853	-0.39%	9.20%	-0.36%	6.09%	-0.37%	3.10%	-0.38%	-3.00%	-0.40%	-5.82%	-0.41%	-8.57%	-0.42%
	2013	4,360,005	4,278,726	-1.86%	9.09%	-1.71%	6.02%	-1.76%	3.06%	-1.81%	-2.96%	-1.92%	-5.74%	-1.98%	-8.46%	-2.04%
Hungary	2009	5,673,890	5,673,890	-	4.89%	-	3.17%	-	1.66%	-	-1.88%	-	-3.52%	-	-5.18%	-
	2010	5,857,223	5,857,223	-	4.44%	-	2.86%	-	1.52%	-	-1.55%	-	-2.71%	-	-3.82%	-
	2011	5,082,287	5,082,287	-	2.65%	-	1.77%	-	0.95%	-	-1.04%	-	-2.00%	-	-3.15%	-
	2012	5,249,731	5,249,731	-	2.83%	-	1.92%	-	0.94%	-	-1.01%	-	-2.06%	-	-2.88%	-
	2013	5,249,676	5,249,676	-	2.92%	-	2.01%	-	0.95%	-	-1.01%	-	-2.07%	-	-2.89%	-
Ireland	2009	2,241,892	2,087,330	-6.89%	7.77%	-6.40%	5.14%	-6.56%	2.62%	-6.72%	-2.52%	-7.07%	-4.88%	-7.25%	-7.17%	-7.43%
	2010	2,238,827	2,084,266	-6.90%	7.80%	-6.40%	5.16%	-6.57%	2.63%	-6.73%	-2.53%	-7.08%	-4.90%	-7.26%	-7.20%	-7.44%
	2011	2,237,927	2,083,362	-6.91%	7.81%	-6.41%	5.16%	-6.57%	2.63%	-6.73%	-2.54%	-7.09%	-4.91%	-7.26%	-7.21%	-7.44%
	2012	2,235,393	1,819,722	-18.59%	7.83%	-17.24%	5.18%	-17.68%	2.64%	-18.12%	-2.54%	-19.08%	-4.92%	-19.56%	-7.24%	-20.05%
	2013	2,234,652	1,670,630	-25.24%	7.84%	-23.40%	5.19%	-24.00%	2.65%	-24.59%	-2.55%	-25.90%	-4.93%	-26.55%	-7.24%	-27.21%
Italy	2009	6,215,286	6,034,016	-2.92%	7.70%	-2.71%	5.10%	-2.78%	2.59%	-2.84%	-2.52%	-2.99%	-4.90%	-3.07%	-7.23%	-3.14%
	2010	6,052,173	5,870,901	-3.00%	7.91%	-2.78%	5.24%	-2.85%	2.66%	-2.92%	-2.59%	-3.07%	-5.04%	-3.15%	-7.43%	-3.24%
	2011	6,039,413	6,001,118	-0.63%	8.01%	-0.59%	5.30%	-0.60%	2.70%	-0.62%	-2.62%	-0.65%	-5.10%	-0.67%	-7.52%	-0.69%
	2012-2013	5,754,110	5,360,271	-6.84%	8.24%	-6.32%	5.46%	-6.49%	2.77%	-6.66%	-2.69%	-7.03%	-5.25%	-7.22%	-7.74%	-7.42%
Lithuania	2009	3,368,670	2,684,384	-20.31%	8.96%	-18.64%	5.93%	-19.18%	3.02%	-19.72%	-2.92%	-20.92%	-5.66%	-21.53%	-8.34%	-22.16%
	2010-	2,597,408	2,082,964	-19.81%	8.37%	-18.28%	5.54%	-18.77%	2.82%	-19.26%	-2.72%	-20.36%	-5.27%	-20.91%	-7.75%	-21.47%

Country	Year	Base Case			Capital Intensity - 15%		Capital Intensity - 10%		Capital Intensity - 5%		Capital Intensity + 5%		Capital Intensity + 10%		Capital Intensity + 15%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives		% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
			Tax Burden	Total Effect												
	2012															
	2013	2,851,156	2,336,714	-18.04%	6.29%	-16.98%	4.16%	-17.32%	2.13%	-17.67%	-2.03%	-18.42%	-3.91%	-18.78%	-5.73%	-19.14%
Luxembourg	2009-2010	4,958,584	4,938,458	-0.41%	8.76%	-0.37%	5.80%	-0.38%	2.95%	-0.39%	-2.78%	-0.42%	-5.31%	-0.43%	-7.76%	-0.44%
	2011-2012	4,991,354	4,971,077	-0.41%	8.76%	-0.37%	5.80%	-0.38%	2.96%	-0.39%	-2.78%	-0.42%	-5.31%	-0.43%	-7.77%	-0.44%
	2013	5,069,557	5,022,551	-0.93%	8.76%	-0.85%	5.79%	-0.88%	2.95%	-0.90%	-2.78%	-0.95%	-5.31%	-0.98%	-7.77%	-1.01%
Netherlands	2009	4,144,031	3,931,024	-5.14%	9.58%	-4.69%	6.35%	-4.83%	3.23%	-4.98%	-3.12%	-5.31%	-6.07%	-5.47%	-8.93%	-5.64%
	2010	4,171,658	3,958,650	-5.11%	9.42%	-4.67%	6.24%	-4.81%	3.18%	-4.95%	-3.07%	-5.27%	-5.96%	-5.43%	-8.78%	-5.60%
	2011	4,046,696	3,793,058	-6.27%	9.51%	-5.72%	6.29%	-5.90%	3.20%	-6.07%	-3.10%	-6.47%	-6.01%	-6.67%	-8.86%	-6.88%
	2012	4,048,512	3,743,166	-7.54%	9.50%	-6.89%	6.29%	-7.10%	3.20%	-7.31%	-3.09%	-7.78%	-6.01%	-8.02%	-8.84%	-8.27%
	2013	4,050,031	3,732,677	-7.84%	9.49%	-7.16%	6.28%	-7.37%	3.20%	-7.59%	-3.09%	-8.09%	-6.00%	-8.34%	-8.84%	-8.60%
Poland	2009	3,278,465	3,278,465	-	8.40%	-	5.56%	-	2.83%	-	-2.73%	-	-5.29%	-	-7.79%	-
	2010	3,280,075	3,280,075	-	8.39%	-	5.55%	-	2.83%	-	-2.73%	-	-5.29%	-	-7.78%	-
	2011	3,275,277	3,101,337	-5.31%	8.42%	-4.90%	5.57%	-5.03%	2.84%	-5.16%	-2.74%	-5.46%	-5.31%	-5.61%	-7.81%	-5.76%
	2012	3,283,900	3,109,962	-5.30%	8.36%	-4.89%	5.53%	-5.02%	2.82%	-5.15%	-2.72%	-5.44%	-5.27%	-5.59%	-7.75%	-5.74%
	2013	3,290,040	3,116,102	-5.29%	8.32%	-4.88%	5.50%	-5.01%	2.81%	-5.14%	-2.71%	-5.43%	-5.24%	-5.58%	-7.71%	-5.73%
Romania	2009	2,762,067	2,705,216	-2.06%	8.43%	-1.90%	5.58%	-1.95%	2.84%	-2.00%	-2.74%	-2.12%	-5.31%	-2.17%	-7.81%	-2.23%
	2010	2,739,759	2,682,909	-2.08%	8.57%	-1.91%	5.67%	-1.96%	2.89%	-2.02%	-2.79%	-2.13%	-5.40%	-2.19%	-7.95%	-2.25%
	2011-2012	2,739,735	2,682,885	-2.08%	8.57%	-1.91%	5.67%	-1.96%	2.89%	-2.02%	-2.79%	-2.13%	-5.40%	-2.19%	-7.95%	-2.25%
	2013	2,744,562	2,604,070	-5.12%	8.52%	-4.72%	5.64%	-4.85%	2.87%	-4.98%	-2.77%	-5.26%	-5.37%	-5.41%	-7.91%	-5.56%
Slovenia	2009	3,430,875	3,322,272	-3.17%	9.68%	-2.89%	6.41%	-2.97%	3.26%	-3.07%	-3.15%	-3.27%	-6.13%	-3.37%	-9.03%	-3.48%
	2010-2011	3,268,918	3,087,979	-5.54%	9.68%	-5.05%	6.41%	-5.20%	3.26%	-5.36%	-3.16%	-5.72%	-6.13%	-5.90%	-9.03%	-6.08%
	2012	2,944,577	2,572,239	-12.64%	9.68%	-11.53%	6.41%	-11.88%	3.26%	-12.25%	-3.16%	-13.06%	-6.13%	-13.47%	-9.04%	-13.90%
	2013	2,782,195	2,430,377	-12.65%	9.68%	-11.53%	6.41%	-11.88%	3.26%	-12.25%	-3.16%	-13.06%	-6.13%	-13.47%	-9.04%	-13.90%
Spain	2009-2011	5,784,801	5,488,311	-5.13%	9.43%	-4.63%	6.25%	-4.77%	3.18%	-4.91%	-3.07%	-5.34%	-5.97%	-5.51%	-8.79%	-5.73%
	2012-2013	5,784,801	5,496,368	-4.99%	9.43%	-4.47%	6.25%	-4.61%	3.18%	-4.74%	-3.07%	-5.24%	-5.97%	-5.40%	-8.79%	-5.65%

Country	Year	Base Case			Capital Intensity - 15%		Capital Intensity - 10%		Capital Intensity - 5%		Capital Intensity + 5%		Capital Intensity + 10%		Capital Intensity + 15%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives		% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
			Tax Burden	Total Effect												
Sweden	2009-2012	4,371,929	4,371,929	-	9.22%	-	6.10%	-	3.11%	-	-3.00%	-	-5.83%	-	-8.59%	-
	2013	3,681,747	3,681,747	-	9.11%	-	6.03%	-	3.07%	-	-2.97%	-	-5.76%	-	-8.48%	-
United Kingdom	2009	4,967,898	4,130,084	-16.86%	7.63%	-15.14%	5.05%	-15.69%	2.58%	-16.25%	-2.48%	-17.48%	-4.79%	-18.10%	-7.03%	-18.72%
	2010	4,929,120	4,283,492	-13.10%	7.81%	-11.68%	5.17%	-12.13%	2.64%	-12.59%	-2.54%	-13.61%	-4.91%	-14.11%	-7.21%	-14.63%
	2011	4,613,203	3,888,279	-15.71%	7.65%	-14.24%	5.06%	-14.71%	2.58%	-15.19%	-2.48%	-16.26%	-4.80%	-16.81%	-7.05%	-17.37%
	2012	4,325,393	3,490,792	-19.30%	7.32%	-17.66%	4.84%	-18.19%	2.47%	-18.72%	-2.37%	-19.88%	-4.59%	-20.45%	-6.73%	-21.04%
	2013	4,180,444	3,428,102	-18.00%	7.14%	-16.56%	4.72%	-17.02%	2.41%	-17.49%	-2.32%	-18.51%	-4.47%	-19.01%	-6.56%	-19.52%

Table 5.31 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, medium-sized corporation, fiscal years 2009-2013, equity ratio)

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Austria	2009	5,535,625	5,386,774	-2.69%	-3.64%	-2.79%	-2.42%	-2.76%	-1.21%	-2.72%	1.21%	-2.66%	2.42%	-2.63%	3.64%	-2.59%
	2010	5,535,665	5,386,812	-2.69%	-3.64%	-2.79%	-2.42%	-2.76%	-1.21%	-2.72%	1.21%	-2.66%	2.42%	-2.63%	3.64%	-2.59%
	2011-2013	5,535,665	5,349,599	-3.36%	-3.64%	-3.49%	-2.42%	-3.44%	-1.21%	-3.40%	1.21%	-3.32%	2.42%	-3.28%	3.64%	-3.24%
Belgium	2009	5,480,270	5,378,799	-1.85%	0.52%	-1.88%	-0.03%	-1.86%	-0.30%	-1.86%	0.50%	-1.84%	1.05%	-1.83%	1.61%	-1.82%
	2010	5,480,270	5,379,964	-1.83%	0.52%	-1.85%	-0.03%	-1.84%	-0.30%	-1.84%	0.50%	-1.82%	1.05%	-1.81%	1.61%	-1.80%
	2011	5,480,270	5,379,752	-1.83%	0.52%	-1.86%	-0.03%	-1.85%	-0.30%	-1.84%	0.50%	-1.82%	1.05%	-1.81%	1.61%	-1.80%
	2012	5,453,582	5,351,122	-1.88%	0.51%	-1.90%	-0.04%	-1.89%	-0.30%	-1.88%	0.51%	-1.87%	1.06%	-1.85%	1.62%	-1.84%
	2013	5,453,582	5,351,627	-1.87%	0.51%	-1.89%	-0.04%	-1.88%	-0.30%	-1.88%	0.51%	-1.86%	1.06%	-1.85%	1.62%	-1.84%
Bulgaria	2009	1,669,791	1,669,791	-	-4.86%	-	-3.24%	-	-1.62%	-	1.62%	-	3.24%	-	4.86%	-
	2010	1,670,769	1,670,769	-	-4.86%	-	-3.24%	-	-1.62%	-	1.62%	-	3.24%	-	4.86%	-
	2011-2013	1,699,083	1,699,083	-	-4.77%	-	-3.18%	-	-1.59%	-	1.59%	-	3.18%	-	4.77%	-
Croatia	2009	3,268,858	2,808,577	-14.08%	-5.25%	-14.86%	-3.50%	-14.59%	-1.75%	-14.33%	1.75%	-13.84%	3.50%	-13.69%	5.15%	-13.47%
	2010-2011	3,265,951	2,806,029	-14.08%	-5.25%	-14.86%	-3.50%	-14.59%	-1.75%	-14.33%	1.75%	-13.84%	3.50%	-13.69%	5.15%	-13.47%
	2012	3,261,629	2,802,246	-14.08%	-5.25%	-14.86%	-3.50%	-14.60%	-1.75%	-14.34%	1.75%	-13.84%	3.50%	-13.69%	5.15%	-13.48%
	2013	3,261,631	2,802,246	-14.08%	-5.25%	-14.86%	-3.50%	-14.60%	-1.75%	-14.34%	1.75%	-13.84%	3.50%	-13.69%	5.15%	-13.48%
Estonia	2009-2013	3,440,541	3,440,541	-	-4.74%	-	-3.16%	-	-1.58%	-	1.58%	-	3.16%	-	4.74%	-
Finland	2009	4,330,601	4,315,964	-0.34%	-4.83%	-0.36%	-3.22%	-0.35%	-1.61%	-0.34%	1.61%	-0.33%	3.22%	-0.33%	4.83%	-0.32%
	2010	4,378,402	4,363,767	-0.33%	-4.78%	-0.35%	-3.19%	-0.35%	-1.59%	-0.34%	1.59%	-0.33%	3.19%	-0.32%	4.78%	-0.32%
	2011	4,411,118	4,388,860	-0.50%	-4.74%	-0.53%	-3.16%	-0.52%	-1.58%	-0.51%	1.58%	-0.50%	3.16%	-0.49%	4.74%	-0.48%
	2012	4,168,051	4,147,070	-0.50%	-4.73%	-0.53%	-3.16%	-0.52%	-1.58%	-0.51%	1.58%	-0.50%	3.16%	-0.49%	4.73%	-0.48%
	2013	4,136,579	3,875,510	-6.31%	-4.77%	-6.63%	-3.18%	-6.52%	-1.59%	-6.41%	1.59%	-6.21%	3.18%	-6.12%	4.77%	-6.02%
France	2009	7,967,877	7,308,893	-8.27%	-3.34%	-8.56%	-2.23%	-8.46%	-1.11%	-8.36%	1.11%	-8.18%	2.23%	-8.09%	3.34%	-8.00%
	2010	8,230,478	7,571,494	-8.01%	-3.24%	-8.27%	-2.16%	-8.18%	-1.08%	-8.09%	1.08%	-7.92%	2.16%	-7.84%	3.24%	-7.76%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2011	8,194,959	7,797,044	-4.86%	-3.25%	-5.02%	-2.17%	-4.96%	-1.08%	-4.91%	1.08%	-4.80%	2.17%	-4.75%	3.25%	-4.70%
	2012	8,434,730	8,007,489	-5.07%	-3.34%	-5.24%	-2.23%	-5.18%	-1.11%	-5.12%	1.11%	-5.01%	2.23%	-4.95%	3.34%	-4.90%
	2013	7,462,469	7,048,155	-5.55%	-3.77%	-5.77%	-2.52%	-5.70%	-1.26%	-5.62%	1.26%	-5.48%	2.52%	-5.42%	3.77%	-5.35%
Germany	2009	5,191,695	5,191,695	-	-4.23%	-	-2.82%	-	-1.41%	-	1.41%	-	2.82%	-	4.23%	-
	2010	5,189,958	5,189,958	-	-4.23%	-	-2.82%	-	-1.41%	-	1.41%	-	2.82%	-	4.23%	-
	2011	5,223,990	5,223,990	-	-4.23%	-	-2.82%	-	-1.41%	-	1.41%	-	2.82%	-	4.23%	-
	2012	5,239,381	5,239,381	-	-4.22%	-	-2.82%	-	-1.41%	-	1.41%	-	2.82%	-	4.22%	-
	2013	5,279,368	5,279,368	-	-4.21%	-	-2.80%	-	-1.40%	-	1.40%	-	2.80%	-	4.21%	-
Greece	2009	4,136,439	4,120,245	-0.39%	-4.86%	-0.41%	-3.24%	-0.40%	-1.62%	-0.40%	1.62%	-0.39%	3.24%	-0.38%	4.86%	-0.37%
	2010	3,972,989	3,957,518	-0.39%	-4.86%	-0.41%	-3.24%	-0.40%	-1.62%	-0.40%	1.62%	-0.38%	3.24%	-0.38%	4.86%	-0.37%
	2011-2012	3,345,834	3,332,853	-0.39%	-4.82%	-0.41%	-3.21%	-0.40%	-1.61%	-0.39%	1.61%	-0.38%	3.21%	-0.38%	4.82%	-0.37%
	2013	4,360,005	4,278,726	-1.86%	-4.77%	-1.96%	-3.18%	-1.93%	-1.59%	-1.89%	1.59%	-1.83%	3.19%	-1.81%	4.79%	-1.78%
Hungary	2009	5,673,890	5,673,890	-	-1.12%	-	-1.08%	-	-0.69%	-	0.96%	-	1.90%	-	2.77%	-
	2010	5,857,223	5,857,223	-	-0.99%	-	-0.96%	-	-0.60%	-	0.84%	-	1.70%	-	2.57%	-
	2011	5,082,287	5,082,287	-	-0.73%	-	-0.77%	-	-0.50%	-	0.67%	-	1.33%	-	1.96%	-
	2012	5,249,731	5,249,731	-	-0.73%	-	-0.68%	-	-0.44%	-	0.60%	-	1.19%	-	1.78%	-
	2013	5,249,676	5,249,676	-	-0.73%	-	-0.68%	-	-0.44%	-	0.60%	-	1.19%	-	1.84%	-
Ireland	2009	2,241,892	2,087,330	-6.89%	-4.52%	-7.22%	-3.01%	-7.11%	-1.51%	-7.00%	1.51%	-6.79%	3.01%	-6.69%	4.52%	-6.60%
	2010	2,238,827	2,084,266	-6.90%	-4.52%	-7.23%	-3.02%	-7.12%	-1.51%	-7.01%	1.51%	-6.80%	3.02%	-6.70%	4.52%	-6.61%
	2011	2,237,927	2,083,362	-6.91%	-4.53%	-7.23%	-3.02%	-7.12%	-1.51%	-7.01%	1.51%	-6.80%	3.02%	-6.70%	4.53%	-6.61%
	2012	2,235,393	1,819,722	-18.59%	-4.53%	-19.48%	-3.02%	-19.17%	-1.51%	-18.88%	1.51%	-18.32%	3.02%	-18.05%	4.53%	-17.79%
	2013	2,234,652	1,670,630	-25.24%	-4.53%	-26.44%	-3.02%	-26.03%	-1.51%	-25.63%	1.51%	-24.86%	3.02%	-24.50%	4.53%	-24.15%
Italy	2009	6,215,286	6,034,016	-2.92%	-3.54%	-3.02%	-2.36%	-2.99%	-1.18%	-2.95%	1.18%	-2.88%	2.36%	-2.85%	3.54%	-2.82%
	2010	6,052,173	5,870,901	-3.00%	-3.64%	-3.11%	-2.42%	-3.07%	-1.21%	-3.03%	1.21%	-2.96%	2.42%	-2.92%	3.64%	-2.89%
	2011	6,039,413	6,001,118	-0.63%	-3.43%	-0.66%	-2.28%	-0.65%	-1.14%	-0.64%	1.14%	-0.63%	2.28%	-0.62%	3.42%	-0.61%
	2012-2013	5,754,110	5,360,271	-6.84%	-3.55%	-7.10%	-2.36%	-7.01%	-1.18%	-6.93%	1.18%	-6.76%	2.36%	-6.69%	3.54%	-6.60%
Lithuania	2009	3,368,670	2,684,384	-20.31%	-4.79%	-21.34%	-3.19%	-20.98%	-1.60%	-20.64%	1.60%	-19.99%	3.20%	-19.68%	4.79%	-19.38%
	2010-	2,597,408	2,082,964	-19.81%	-4.67%	-20.78%	-3.12%	-20.44%	-1.56%	-20.12%	1.56%	-19.50%	3.12%	-19.21%	4.67%	-18.92%

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives		% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
			Tax Burden	Total Effect												
	2012															
	2013	2,851,156	2,336,714	-18.04%	-4.26%	-18.85%	-2.84%	-18.57%	-1.42%	-18.30%	1.42%	-17.79%	2.84%	-17.55%	4.26%	-17.31%
Luxembourg	2009-2010	4,958,584	4,938,458	-0.41%	-6.69%	-0.44%	-4.51%	-0.43%	-2.27%	-0.42%	2.27%	-0.40%	4.57%	-0.39%	6.92%	-0.38%
	2011-2012	4,991,354	4,971,077	-0.41%	-6.67%	-0.44%	-4.51%	-0.43%	-2.27%	-0.42%	2.27%	-0.40%	4.56%	-0.39%	6.91%	-0.38%
	2013	5,069,557	5,022,551	-0.93%	-6.63%	-0.99%	-4.48%	-0.97%	-2.26%	-0.95%	2.25%	-0.91%	4.54%	-0.89%	6.86%	-0.87%
Netherlands	2009	4,144,031	3,931,024	-5.14%	-4.95%	-5.41%	-3.30%	-5.32%	-1.65%	-5.23%	1.65%	-5.06%	3.30%	-4.98%	4.95%	-4.90%
	2010	4,171,658	3,958,650	-5.11%	-4.92%	-5.37%	-3.28%	-5.28%	-1.64%	-5.19%	1.64%	-5.02%	3.28%	-4.94%	4.92%	-4.87%
	2011	4,046,696	3,793,058	-6.27%	-4.97%	-6.60%	-3.32%	-6.48%	-1.66%	-6.37%	1.66%	-6.17%	3.32%	-6.07%	4.97%	-5.97%
	2012	4,048,512	3,743,166	-7.54%	-4.97%	-7.94%	-3.32%	-7.80%	-1.66%	-7.67%	1.66%	-7.42%	3.31%	-7.30%	4.97%	-7.18%
	2013	4,050,031	3,732,677	-7.84%	-4.97%	-8.25%	-3.31%	-8.10%	-1.66%	-7.97%	1.66%	-7.71%	3.31%	-7.58%	4.97%	-7.46%
Poland	2009	3,278,465	3,278,465	-	-1.48%	-	-3.12%	-	-1.56%	-	1.56%	-	3.12%	-	4.68%	-
	2010	3,280,075	3,280,075	-	-4.68%	-	-3.12%	-	-1.56%	-	1.56%	-	3.12%	-	4.68%	-
	2011	3,275,277	3,101,337	-5.31%	-4.68%	-5.57%	-3.12%	-5.48%	-1.56%	-5.39%	1.56%	-5.23%	3.12%	-5.15%	4.69%	-5.07%
	2012	3,283,900	3,109,962	-5.30%	-4.67%	-5.56%	-3.12%	-5.47%	-1.56%	-5.38%	1.56%	-5.22%	3.12%	-5.14%	4.67%	-5.06%
	2013	3,290,040	3,116,102	-5.29%	-4.66%	-5.55%	-3.11%	-5.46%	-1.55%	-5.37%	1.55%	-5.21%	3.11%	-5.13%	4.66%	-5.05%
Romania	2009	2,762,067	2,705,216	-2.06%	-4.66%	-2.16%	-3.11%	-2.12%	-1.56%	-2.09%	1.56%	-2.03%	3.12%	-2.00%	4.69%	-1.97%
	2010	2,739,759	2,682,909	-2.08%	-4.71%	-2.18%	-3.14%	-2.14%	-1.57%	-2.11%	1.57%	-2.04%	3.15%	-2.01%	4.72%	-1.98%
	2011-2012	2,739,735	2,682,885	-2.08%	-4.71%	-2.18%	-3.14%	-2.14%	-1.57%	-2.11%	1.57%	-2.04%	3.15%	-2.01%	4.72%	-1.98%
	2013	2,744,562	2,604,070	-5.12%	-4.70%	-5.37%	-3.14%	-5.28%	-1.57%	-5.20%	1.57%	-5.04%	3.14%	-4.96%	4.72%	-4.89%
Slovenia	2009	3,430,875	3,322,272	-3.17%	-4.94%	-3.33%	-3.29%	-3.27%	-1.65%	-3.22%	1.65%	-3.11%	3.29%	-3.06%	4.94%	-3.02%
	2010-2011	3,268,918	3,087,979	-5.54%	-4.94%	-5.82%	-3.29%	-5.72%	-1.65%	-5.63%	1.65%	-5.45%	3.29%	-5.36%	4.94%	-5.27%
	2012	2,944,577	2,572,239	-12.64%	-4.94%	-13.30%	-3.29%	-13.08%	-1.65%	-12.86%	1.65%	-12.44%	3.29%	-12.24%	4.94%	-12.05%
	2013	2,782,195	2,430,377	-12.65%	-4.94%	-13.30%	-3.29%	-13.08%	-1.65%	-12.86%	1.65%	-12.44%	3.29%	-12.24%	4.94%	-12.05%
Spain	2009-2011	5,784,801	5,488,311	-5.13%	-4.88%	-5.45%	-3.25%	-5.35%	-1.63%	-5.21%	1.63%	-5.04%	3.25%	-4.96%	4.88%	-4.83%
	2012-2013	5,784,801	5,496,368	-4.99%	-4.88%	-5.34%	-3.25%	-5.25%	-1.63%	-5.07%	1.63%	-4.91%	3.25%	-4.83%	4.88%	-4.67%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Sweden	2009-2012	4,371,929	4,371,929	-	-4.84%	-	-3.23%	-	-1.61%	-	1.61%	-	3.23%	-	4.84%	-
	2013	3,681,747	3,681,747	-	-4.82%	-	-3.21%	-	-1.61%	-	1.61%	-	3.21%	-	4.82%	-
United Kingdom	2009	4,967,898	4,130,084	-16.86%	-4.53%	-17.96%	-3.02%	-17.58%	-1.51%	-17.22%	1.51%	-16.52%	3.02%	-16.19%	4.53%	-15.87%
	2010	4,929,120	4,283,492	-13.10%	-4.57%	-13.99%	-3.05%	-13.68%	-1.52%	-13.39%	1.52%	-12.82%	3.05%	-12.55%	4.57%	-12.28%
	2011	4,613,203	3,888,279	-15.71%	-4.54%	-16.69%	-3.02%	-16.35%	-1.51%	-16.03%	1.51%	-15.41%	3.02%	-15.12%	4.54%	-14.83%
	2012	4,325,393	3,490,792	-19.30%	-4.47%	-20.37%	-2.98%	-20.00%	-1.49%	-19.64%	1.49%	-18.96%	2.98%	-18.63%	4.47%	-18.31%
	2013	4,180,444	3,428,102	-18.00%	-4.43%	-18.97%	-2.96%	-18.63%	-1.48%	-18.31%	1.48%	-17.69%	2.96%	-17.40%	4.43%	-17.11%

Table 5.32 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, medium-sized corporation, fiscal years 2009-2013, labour intensity)

Country	Year	Base Case			Labour Intensity - 30%		Labour Intensity - 20%		Labour Intensity - 10%		Labour Intensity + 10%		Labour Intensity + 20%		Labour Intensity + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Austria	2009	5,535,625	5,386,774	-2.69%	-0.45%	-2.70%	-0.30%	-2.70%	-0.15%	-2.69%	0.15%	-2.68%	0.30%	-2.68%	0.45%	-2.68%
	2010	5,535,665	5,386,812	-2.69%	-0.45%	-2.70%	-0.30%	-2.70%	-0.15%	-2.69%	0.15%	-2.68%	0.30%	-2.68%	0.45%	-2.68%
	2011-2013	5,535,665	5,349,599	-3.36%	-0.45%	-3.38%	-0.30%	-3.37%	-0.15%	-3.37%	0.15%	-3.36%	0.30%	-3.35%	0.45%	-3.35%
Belgium	2009	5,480,270	5,378,799	-1.85%	9.47%	-1.69%	6.30%	-1.74%	3.15%	-1.80%	-3.15%	-1.91%	-6.30%	-1.98%	-9.45%	-2.06%
	2010	5,480,270	5,379,964	-1.83%	9.47%	-1.67%	6.30%	-1.72%	3.15%	-1.77%	-3.15%	-1.89%	-6.30%	-1.96%	-9.45%	-2.04%
	2011	5,480,270	5,379,752	-1.83%	9.47%	-1.67%	6.30%	-1.72%	3.15%	-1.78%	-3.15%	-1.89%	-6.30%	-1.96%	-9.45%	-2.04%
	2012	5,453,582	5,351,122	-1.88%	9.51%	-1.71%	6.34%	-1.76%	3.17%	-1.82%	-3.16%	-1.94%	-6.33%	-2.01%	-9.50%	-2.09%
	2013	5,453,582	5,351,627	-1.87%	9.51%	-1.70%	6.34%	-1.75%	3.17%	-1.81%	-3.16%	-1.93%	-6.33%	-2.00%	-9.50%	-2.08%
Bulgaria	2009	1,669,791	1,669,791	-	9.73%	-	6.49%	-	3.25%	-	-3.24%	-	-6.48%	-	-9.72%	-
	2010	1,670,769	1,670,769	-	9.73%	-	6.48%	-	3.24%	-	-3.24%	-	-6.48%	-	-9.72%	-
	2011-2013	1,699,083	1,699,083	-	9.56%	-	6.37%	-	3.19%	-	-3.18%	-	-6.37%	-	-9.56%	-
Croatia	2009	3,268,858	2,808,577	-14.08%	10.13%	-12.86%	6.82%	-13.26%	3.45%	-13.63%	-3.44%	-14.58%	-6.88%	-15.12%	-10.28%	-15.75%
	2010-2011	3,265,951	2,806,029	-14.08%	10.13%	-12.86%	6.82%	-13.26%	3.45%	-13.64%	-3.44%	-14.58%	-6.88%	-15.12%	-10.28%	-15.76%
	2012	3,261,629	2,802,246	-14.08%	10.13%	-12.87%	6.82%	-13.26%	3.45%	-13.64%	-3.44%	-14.59%	-6.89%	-15.13%	-10.28%	-15.76%
	2013	3,261,631	2,802,246	-14.08%	10.13%	-12.87%	6.82%	-13.26%	3.45%	-13.64%	-3.44%	-14.59%	-6.89%	-15.13%	-10.28%	-15.76%
Estonia	2009-2013	3,440,541	3,440,541	-	9.62%	-	6.41%	-	3.21%	-	-3.20%	-	-6.41%	-	-9.61%	-
Finland	2009	4,330,601	4,315,964	-0.34%	9.70%	-0.31%	6.47%	-0.32%	3.24%	-0.49%	-3.23%	-0.35%	-6.46%	-0.36%	-9.70%	-0.37%
	2010	4,378,402	4,363,767	-0.33%	9.60%	-0.31%	6.40%	-0.31%	3.20%	-0.32%	-3.19%	-0.35%	-6.39%	-0.36%	-9.59%	-0.37%
	2011	4,411,118	4,388,860	-0.50%	9.53%	-0.46%	6.35%	-0.47%	3.18%	-0.49%	-3.17%	-0.52%	-6.34%	-0.54%	-9.52%	-0.56%
	2012	4,168,051	4,147,070	-0.50%	9.51%	-0.46%	6.34%	-0.47%	3.17%	-0.49%	-3.16%	-0.52%	-6.33%	-0.54%	-9.50%	-0.56%
	2013	4,136,579	3,875,510	-6.31%	9.58%	-5.76%	6.38%	-5.93%	3.19%	-6.12%	-3.19%	-6.52%	-6.38%	-6.74%	-9.57%	-6.98%
France	2009	7,967,877	7,308,893	-8.27%	5.12%	-7.87%	3.41%	-8.00%	1.71%	-8.13%	-1.70%	-8.41%	-3.41%	-8.56%	-5.12%	-8.72%
	2010	8,230,478	7,571,494	-8.01%	4.79%	-7.64%	3.19%	-7.76%	1.60%	-7.88%	-1.59%	-8.14%	-3.19%	-8.27%	-4.79%	-8.41%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Labour Intensity - 30%		Labour Intensity - 20%		Labour Intensity - 10%		Labour Intensity + 10%		Labour Intensity + 20%		Labour Intensity + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives		% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
			Tax Burden	Total Effect												
	2011	8,194,959	7,797,044	-4.86%	4.98%	-4.63%	3.32%	-4.70%	1.66%	-4.78%	-1.66%	-4.94%	-3.31%	-5.02%	-4.97%	-5.11%
	2012	8,434,730	8,007,489	-5.07%	5.25%	-4.81%	3.50%	-4.89%	1.75%	-4.98%	-1.75%	-5.16%	-3.50%	-5.25%	-5.25%	-5.35%
	2013	7,462,469	7,048,155	-5.55%	9.85%	-5.05%	6.56%	-5.21%	3.28%	-5.38%	-3.28%	-5.74%	-6.56%	-5.94%	-9.84%	-6.16%
Germany	2009	5,191,695	5,191,695	-	9.53%	-	6.35%	-	3.18%	-	-3.17%	-	-6.34%	-	-9.52%	-
	2010	5,189,958	5,189,958	-	9.53%	-	6.35%	-	3.18%	-	-3.17%	-	-6.35%	-	-9.53%	-
	2011	5,223,990	5,223,990	-	9.53%	-	6.35%	-	3.18%	-	-3.17%	-	-6.35%	-	-9.53%	-
	2012	5,239,381	5,239,381	-	9.53%	-	6.35%	-	3.18%	-	-3.17%	-	-6.34%	-	-9.52%	-
	2013	5,279,368	5,279,368	-	9.50%	-	6.33%	-	3.17%	-	-3.16%	-	-6.32%	-	-9.49%	-
Greece	2009	4,136,439	4,120,245	-0.39%	9.77%	-0.36%	6.51%	-0.37%	3.26%	-0.38%	-3.25%	-0.40%	-6.51%	-0.42%	-9.77%	-0.43%
	2010	3,972,989	3,957,518	-0.39%	9.77%	-0.35%	6.51%	-0.37%	3.26%	-0.38%	-3.25%	-0.40%	-6.51%	-0.42%	-9.76%	-0.43%
	2011-2012	3,345,834	3,332,853	-0.39%	9.68%	-0.35%	6.45%	-0.36%	3.23%	-0.38%	-3.22%	-0.40%	-6.45%	-0.41%	-9.68%	-0.43%
	2013	4,360,005	4,278,726	-1.86%	9.64%	-1.70%	6.42%	-1.75%	3.21%	-1.81%	-3.19%	-1.93%	-6.39%	-1.99%	-9.59%	-2.06%
Hungary	2009	5,673,890	5,673,890	-	5.55%	-	3.75%	-	1.93%	-	-1.93%	-	-3.82%	-	-5.71%	-
	2010	5,857,223	5,857,223	-	5.16%	-	3.45%	-	1.73%	-	-1.72%	-	-3.45%	-	-5.10%	-
	2011	5,082,287	5,082,287	-	4.52%	-	3.04%	-	1.53%	-	-1.52%	-	-3.05%	-	-4.53%	-
	2012	5,249,731	5,249,731	-	4.32%	-	2.83%	-	1.41%	-	-1.41%	-	-2.82%	-	-4.24%	-
	2013	5,249,676	5,249,676	-	4.40%	-	2.87%	-	1.41%	-	-1.41%	-	-2.82%	-	-4.24%	-
Ireland	2009	2,241,892	2,087,330	-6.89%	9.05%	-6.32%	6.04%	-6.50%	3.02%	-6.69%	-3.01%	-7.11%	-6.03%	-7.34%	-9.05%	-7.58%
	2010	2,238,827	2,084,266	-6.90%	9.07%	-6.33%	6.04%	-6.51%	3.02%	-6.70%	-3.02%	-7.12%	-6.04%	-7.35%	-9.06%	-7.59%
	2011	2,237,927	2,083,362	-6.91%	9.07%	-6.33%	6.05%	-6.51%	3.03%	-6.70%	-3.02%	-7.12%	-6.04%	-7.35%	-9.06%	-7.60%
	2012	2,235,393	1,819,722	-18.59%	9.08%	-17.05%	6.05%	-17.53%	3.03%	-18.05%	-3.02%	-19.17%	-6.05%	-19.79%	-9.07%	-20.45%
	2013	2,234,652	1,670,630	-25.24%	9.08%	-23.14%	6.05%	-23.80%	3.03%	-24.50%	-3.02%	-26.03%	-6.05%	-26.86%	-9.08%	-27.76%
Italy	2009	6,215,286	6,034,016	-2.92%	2.58%	-2.84%	1.72%	-2.87%	0.86%	-2.89%	-0.86%	-2.94%	-1.71%	-2.97%	-2.57%	-2.99%
	2010	6,052,173	5,870,901	-3.00%	2.65%	-2.92%	1.76%	-2.94%	0.88%	-2.97%	-0.88%	-3.02%	-1.76%	-3.05%	-2.64%	-3.08%
	2011	6,039,413	6,001,118	-0.63%	2.65%	-0.62%	1.77%	-0.62%	0.89%	-0.63%	-0.88%	-0.64%	-1.76%	-0.65%	-2.65%	-0.65%
	2012-2013	5,754,110	5,360,271	-6.84%	4.10%	-6.56%	2.73%	-6.66%	1.37%	-6.75%	-1.36%	-6.94%	-2.72%	-7.04%	-4.09%	-7.14%
Lithuania	2009	3,368,670	2,684,384	-20.31%	9.62%	-18.53%	6.41%	-19.09%	3.21%	-19.68%	-3.20%	-20.98%	-6.40%	-21.70%	-9.61%	-22.47%
	2010-	2,597,408	2,082,964	-19.81%	9.37%	-18.11%	6.25%	-18.64%	3.13%	-19.21%	-3.12%	-20.44%	-6.24%	-21.12%	-9.36%	-21.85%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Labour Intensity - 30%		Labour Intensity - 20%		Labour Intensity - 10%		Labour Intensity + 10%		Labour Intensity + 20%		Labour Intensity + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives		% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
			Tax Burden	Total Effect												
	2012															
	2013	2,851,156	2,336,714	-18.04%	8.54%	-16.62%	5.69%	-17.07%	2.85%	-17.54%	-2.84%	-18.57%	-5.68%	-19.13%	-8.53%	-19.73%
Luxembourg	2009-2010	4,958,584	4,938,458	-0.41%	9.66%	-0.37%	6.44%	-0.38%	3.22%	-0.39%	-3.21%	-0.42%	-6.43%	-0.43%	-9.65%	-0.45%
	2011-2012	4,991,354	4,971,077	-0.41%	9.66%	-0.37%	6.44%	-0.38%	3.22%	-0.39%	-3.22%	-0.42%	-6.43%	-0.43%	-9.65%	-0.45%
	2013	5,069,557	5,022,551	-0.93%	9.64%	-0.85%	6.43%	-0.87%	3.22%	-0.90%	-3.21%	-0.96%	-6.42%	-0.99%	-9.63%	-1.03%
Netherlands	2009	4,144,031	3,931,024	-5.14%	9.91%	-4.68%	6.60%	-4.82%	3.30%	-4.98%	-3.30%	-5.32%	-6.60%	-5.50%	-9.90%	-5.70%
	2010	4,171,658	3,958,650	-5.11%	9.84%	-4.65%	6.56%	-4.79%	3.28%	-4.94%	-3.28%	-5.28%	-6.55%	-5.46%	-9.83%	-5.66%
	2011	4,046,696	3,793,058	-6.27%	9.95%	-5.70%	6.63%	-5.88%	3.32%	-6.07%	-3.31%	-6.48%	-6.62%	-6.71%	-9.94%	-6.96%
	2012	4,048,512	3,743,166	-7.54%	9.94%	-6.86%	6.63%	-7.07%	3.32%	-7.30%	-3.31%	-7.80%	-6.62%	-8.08%	-9.94%	-8.37%
	2013	4,050,031	3,732,677	-7.84%	9.94%	-7.13%	6.62%	-7.35%	3.31%	-7.58%	-3.31%	-8.10%	-6.62%	-8.39%	-9.93%	-8.70%
Poland	2009	3,278,465	3,278,465	-	9.39%	-	6.26%	-	3.13%	-	-3.13%	-	-6.25%	-	-9.38%	-
	2010	3,280,075	3,280,075	-	9.39%	-	6.26%	-	3.13%	-	-3.12%	-	-6.25%	-	-9.38%	-
	2011	3,275,277	3,101,337	-5.31%	9.40%	-4.85%	6.27%	-5.00%	3.14%	-5.15%	-3.13%	-5.48%	-6.26%	-5.67%	-9.39%	-5.86%
	2012	3,283,900	3,109,962	-5.30%	9.38%	-4.84%	6.25%	-4.99%	3.13%	-5.14%	-3.12%	-5.47%	-6.24%	-5.65%	-9.37%	-5.84%
	2013	3,290,040	3,116,102	-5.29%	9.36%	-4.83%	6.24%	-4.98%	3.12%	-5.13%	-3.11%	-5.46%	-6.23%	-5.64%	-9.35%	-5.83%
Romania	2009	2,762,067	2,705,216	-2.06%	9.39%	-1.88%	6.26%	-1.94%	3.13%	-2.00%	-3.13%	-2.12%	-6.25%	-2.20%	-9.39%	-2.27%
	2010	2,739,759	2,682,909	-2.08%	9.47%	-1.90%	6.31%	-1.95%	3.16%	-2.01%	-3.15%	-2.14%	-6.31%	-2.21%	-9.47%	-2.29%
	2011-2012	2,739,735	2,682,885	-2.08%	9.47%	-1.90%	6.31%	-1.95%	3.16%	-2.01%	-3.15%	-2.14%	-6.31%	-2.21%	-9.47%	-2.29%
	2013	2,744,562	2,604,070	-5.12%	9.46%	-4.68%	6.30%	-4.82%	3.15%	-4.96%	-3.15%	-5.29%	-6.30%	-5.46%	-9.45%	-5.65%
Slovenia	2009	3,430,875	3,322,272	-3.17%	9.91%	-2.88%	6.61%	-2.97%	3.31%	-3.06%	-3.30%	-3.27%	-6.60%	-3.39%	-9.90%	-3.51%
	2010-2011	3,268,918	3,087,979	-5.54%	9.91%	-5.04%	6.61%	-5.19%	3.31%	-5.36%	-3.30%	-5.72%	-6.60%	-5.93%	-9.90%	-6.14%
	2012	2,944,577	2,572,239	-12.64%	9.91%	-11.50%	6.60%	-11.86%	3.30%	-12.24%	-3.30%	-13.08%	-6.60%	-13.54%	-9.90%	-14.03%
	2013	2,782,195	2,430,377	-12.65%	9.91%	-11.51%	6.60%	-11.86%	3.30%	-12.24%	-3.30%	-13.08%	-6.60%	-13.54%	-9.90%	-14.04%
Spain	2009-2011	5,784,801	5,488,311	-5.13%	9.82%	-4.62%	6.54%	-4.76%	3.27%	-4.96%	-3.27%	-5.30%	-6.54%	-5.54%	-9.81%	-5.80%
	2012-2013	5,784,801	5,496,368	-4.99%	9.82%	-4.46%	6.54%	-4.59%	3.27%	-4.83%	-3.27%	-5.15%	-6.54%	-5.43%	-9.81%	-5.73%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Labour Intensity - 30%		Labour Intensity - 20%		Labour Intensity - 10%		Labour Intensity + 10%		Labour Intensity + 20%		Labour Intensity + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Sweden	2009-2012	4,371,929	4,371,929	-	9.72%	-	6.48%	-	3.24%	-	-3.24%	-	-6.47%	-	-9.71%	-
	2013	3,681,747	3,681,747	-	9.67%	-	6.44%	-	3.22%	-	-3.22%	-	-6.44%	-	-9.66%	-
United Kingdom	2009	4,967,898	4,130,084	-16.86%	9.10%	-14.94%	6.07%	-15.55%	3.04%	-16.19%	-3.03%	-17.58%	-6.06%	-18.35%	-9.10%	-19.17%
	2010	4,929,120	4,283,492	-13.10%	9.18%	-11.60%	6.12%	-12.04%	3.06%	-12.54%	-3.05%	-13.69%	-6.11%	-14.33%	-9.17%	-15.00%
	2011	4,613,203	3,888,279	-15.71%	9.11%	-14.13%	6.07%	-14.63%	3.04%	-15.15%	-3.03%	-16.36%	-6.07%	-17.06%	-9.10%	-17.81%
	2012	4,325,393	3,490,792	-19.30%	8.98%	-17.44%	5.98%	-18.00%	2.99%	-18.62%	-2.99%	-20.01%	-5.98%	-20.77%	-8.97%	-21.58%
	2013	4,180,444	3,428,102	-18.00%	8.90%	-16.33%	5.93%	-16.84%	2.97%	-17.39%	-2.96%	-18.64%	-5.93%	-19.32%	-8.90%	-20.05%

Table 5.33 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, medium-sized corporation, fiscal years 2009-2013, business sectors)

Country	Year	Base Case			Manufacturing	Energy	Construction	Commerce	Hotels & Restaurants
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives						
			Tax Burden	Total Effect	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives
Austria	2009	5,535,625	5,386,774	-2.69%	-2.86%	-2.55%	-0.14%	-0.24%	-0.02%
	2010	5,535,665	5,386,812	-2.69%	-2.86%	-2.55%	-0.14%	-0.24%	-0.02%
	2011-2013	5,535,665	5,349,599	-3.36%	-3.57%	-3.19%	-0.17%	-0.30%	-0.02%
Belgium	2009	5,480,270	5,378,799	-1.85%	-2.13%	-1.61%	-0.33%	-0.29%	0.41%
	2010	5,480,270	5,379,964	-1.83%	-2.11%	-1.58%	-0.33%	-0.30%	-0.62%
	2011	5,480,270	5,379,752	-1.83%	-2.12%	-1.58%	-0.34%	-0.30%	-0.62%
	2012	5,453,582	5,351,122	-1.88%	-2.17%	-1.63%	-0.35%	-0.31%	-0.67%
	2013	5,453,582	5,351,627	-1.87%	-2.16%	-1.61%	-0.36%	-0.31%	-0.77%
Bulgaria	2009	1,669,791	1,669,791	-	-	-	-	-	-
	2010	1,670,769	1,670,769	-	-	-	-	-	-
	2011-2013	1,699,083	1,699,083	-	-	-	-	-	-
Croatia	2009	3,268,858	2,808,577	-14.08%	-15.87%	-7.37%	-0.76%	-1.20%	-0.10%
	2010-2011	3,265,951	2,806,029	-14.08%	-15.87%	-7.38%	-0.76%	-1.20%	-0.10%
	2012	3,261,629	2,802,246	-14.08%	-15.87%	-7.38%	-0.76%	-1.20%	-0.10%
	2013	3,261,631	2,802,246	-14.08%	-15.87%	-7.38%	-0.76%	-1.20%	-0.10%
Estonia	2009-2013	3,440,541	3,440,541	-	-	-	-	-	-
Finland	2009	4,330,601	4,315,964	-0.34%	-0.38%	-0.37%	-0.02%	-0.03%	0.00%
	2010	4,378,402	4,363,767	-0.33%	-0.37%	-0.36%	-0.02%	-0.03%	0.00%
	2011	4,411,118	4,388,860	-0.50%	-0.56%	-0.52%	-0.03%	-0.04%	0.00%
	2012	4,168,051	4,147,070	-0.50%	-0.56%	-0.52%	-0.03%	-0.04%	0.00%
	2013	4,136,579	3,875,510	-6.31%	-7.06%	-6.63%	-0.35%	-0.54%	-0.04%
France	2009	7,967,877	7,308,893	-8.27%	-8.94%	-8.48%	-0.48%	-0.76%	-2.44%
	2010	8,230,478	7,571,494	-8.01%	-8.88%	-9.03%	-0.51%	-0.61%	-2.29%
	2011	8,194,959	7,797,044	-4.86%	-5.41%	-5.74%	-0.29%	-0.37%	-1.95%
	2012	8,434,730	8,007,489	-5.07%	-5.65%	-5.90%	-0.31%	-0.39%	-37.92%
	2013	7,462,469	7,048,155	-5.55%	-6.29%	-6.92%	-0.35%	-0.41%	-2.34%
Germany	2009	5,191,695	5,191,695	-	-	-	-	-	-
	2010	5,189,958	5,189,958	-	-	-	-	-	-
	2011	5,223,990	5,223,990	-	-	-	-	-	-
	2012	5,239,381	5,239,381	-	-	-	-	-	-
	2013	5,279,368	5,279,368	-	-	-	-	-	-
Greece	2009	4,136,439	4,120,245	-0.39%	-0.44%	-0.43%	-0.03%	-0.03%	0.00%
	2010	3,972,989	3,957,518	-0.39%	-0.44%	-0.41%	-0.02%	-0.03%	0.00%
	2011-2012	3,345,834	3,332,853	-0.39%	-0.43%	-0.43%	-0.03%	-0.03%	0.00%
	2013	4,360,005	4,278,726	-1.86%	-2.07%	-1.59%	-0.11%	-0.16%	-0.01%
Hungary	2009	5,673,890	5,673,890	-	-	-	-	-	-
	2010	5,857,223	5,857,223	-	-	-	-	-	-
	2011	5,082,287	5,082,287	-	-	-	-	-	-
	2012	5,249,731	5,249,731	-	-	-	-	-	-
	2013	5,249,676	5,249,676	-	-	-	-	-	-
Ireland	2009	2,241,892	2,087,330	-6.89%	-7.46%	-6.72%	-0.48%	-0.58%	-0.04%
	2010	2,238,827	2,084,266	-6.90%	-7.47%	-6.74%	-0.48%	-0.58%	-0.04%
	2011	2,237,927	2,083,362	-6.91%	-7.47%	-6.75%	-0.48%	-0.58%	-0.04%
	2012	2,235,393	1,819,722	-18.59%	-20.81%	-13.51%	-1.42%	-2.19%	-0.14%
	2013	2,234,652	1,670,630	-25.24%	-28.33%	-20.25%	-1.42%	-2.19%	-0.14%
Italy	2009	6,215,286	6,034,016	-2.92%	-3.16%	-2.65%	-0.15%	-0.25%	-0.02%
	2010	6,052,173	5,870,901	-3.00%	-3.26%	-2.66%	-0.16%	-0.26%	-0.02%

Country	Year	Base Case			Manufacturing	Energy	Construction	Commerce	Hotels & Restaurants
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives						
			Tax Burden	Total Effect	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives
	2011	6,039,413	6,001,118	-0.63%	-0.69%	-0.57%	-0.03%	-0.06%	0.00%
	2012-2013	5,754,110	5,360,271	-6.84%	-7.50%	-6.06%	-0.36%	-0.59%	-0.04%
Lithuania	2009	3,368,670	2,684,384	-20.31%	-22.74%	-21.85%	-1.11%	-1.74%	-0.13%
	2010-2012	2,597,408	2,082,964	-19.81%	-22.19%	-20.88%	-1.10%	-1.71%	-0.12%
	2013	2,851,156	2,336,714	-18.04%	-20.27%	-16.47%	-1.03%	-1.59%	-0.08%
Luxembourg	2009-2010	4,958,584	4,938,458	-0.41%	-0.45%	-0.44%	-0.02%	-0.03%	0.00%
	2011-2012	4,991,354	4,971,077	-0.41%	-0.45%	-0.44%	-0.02%	-0.03%	0.00%
	2013	5,069,557	5,022,551	-0.93%	-1.03%	-1.00%	-0.05%	-0.08%	-0.01%
Netherlands	2009	4,144,031	3,931,024	-5.14%	-5.74%	-5.42%	-0.28%	-0.44%	-0.04%
	2010	4,171,658	3,958,650	-5.11%	-5.70%	-5.33%	-0.28%	-0.44%	-0.04%
	2011	4,046,696	3,793,058	-6.27%	-7.01%	-6.50%	-0.34%	-0.54%	-0.04%
	2012	4,048,512	3,743,166	-7.54%	-8.44%	-7.82%	-0.41%	-0.65%	-0.05%
	2013	4,050,031	3,732,677	-7.84%	-8.77%	-8.13%	-0.43%	-0.67%	-0.05%
Poland	2009	3,278,465	3,278,465	-	-	-	-	-	-
	2010	3,280,075	3,280,075	-	-	-	-	-	-
	2011	3,275,277	3,101,337	-5.31%	-5.94%	-5.24%	-0.29%	-0.46%	-0.03%
	2012	3,283,900	3,109,962	-5.30%	-5.93%	-5.21%	-0.29%	-0.46%	-0.03%
	2013	3,290,040	3,116,102	-5.29%	-5.92%	-5.18%	-0.29%	-0.46%	-0.03%
Romania	2009	2,762,067	2,705,216	-2.06%	-2.30%	-2.12%	-0.11%	-0.18%	-0.01%
	2010	2,739,759	2,682,909	-2.08%	-2.32%	-2.14%	-0.11%	-0.18%	-0.01%
	2011-2012	2,739,735	2,682,885	-2.08%	-2.32%	-2.14%	-0.11%	-0.18%	-0.01%
	2013	2,744,562	2,604,070	-5.12%	-5.73%	-5.27%	-0.28%	-0.44%	-0.03%
Slovenia	2009	3,430,875	3,322,272	-3.17%	-3.53%	-3.47%	-0.17%	-0.27%	-0.02%
	2010-2011	3,268,918	3,087,979	-5.54%	-6.18%	-6.06%	-0.30%	-0.47%	-0.04%
	2012	2,944,577	2,572,239	-12.64%	-14.13%	-13.88%	-0.69%	-1.08%	-0.09%
	2013	2,782,195	2,430,377	-12.65%	-14.13%	-13.90%	-0.69%	-1.08%	-0.09%
Spain	2009-2011	5,784,801	5,488,311	-5.13%	-5.85%	-5.33%	-0.26%	-0.41%	-2.48%
	2012-2013	5,784,801	5,496,368	-4.99%	-5.77%	-1.80%	-0.24%	-0.38%	-5.80%
Sweden	2009-2012	4,371,929	4,371,929	-	-	-	-	-	-
	2013	3,681,747	3,681,747	-	-	-	-	-	-
United Kingdom	2009	4,967,898	4,130,084	-16.86%	-19.63%	-13.22%	-5.18%	-2.96%	-9.41%
	2010	4,929,120	4,283,492	-13.10%	-15.32%	-11.22%	-2.98%	-2.06%	-6.81%
	2011	4,613,203	3,888,279	-15.71%	-18.27%	-13.52%	-2.66%	-2.15%	-6.07%
	2012	4,325,393	3,490,792	-19.30%	-22.06%	-16.45%	-2.35%	-1.64%	-4.54%
	2013	4,180,444	3,428,102	-18.00%	-20.48%	-14.22%	-1.66%	-1.64%	-1.83%

5.7 Sensitivity analysis (Effective Tax Burden, small corporation, corporate level)

Table 5.34 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, small corporation, fiscal years 2009-2013, profitability)

Country	Year	Base Case			Profitability - 30%		Profitability - 20%		Profitability - 10%		Profitability + 10%		Profitability + 20%		Profitability + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Austria	2009	1,512,178	1,475,746	-2.41%	-20.55%	-3.03%	-12.33%	-2.75%	-8.22%	-2.63%	8.22%	-2.23%	12.33%	-2.15%	20.55%	-2.00%
	2010	1,512,187	1,475,753	-2.41%	-20.55%	-3.03%	-12.33%	-2.75%	-8.22%	-2.63%	8.22%	-2.23%	12.33%	-2.15%	20.55%	-2.00%
	2011-2013	1,512,187	1,466,642	-3.01%	-20.55%	-3.79%	-12.33%	-3.44%	-8.22%	-3.28%	8.22%	-2.78%	12.33%	-2.68%	20.55%	-2.50%
Belgium	2009	1,541,179	1,506,557	-2.25%	-25.34%	-3.65%	-15.21%	-3.00%	-10.15%	-2.71%	10.16%	-1.79%	15.23%	-1.61%	25.39%	-1.35%
	2010	1,541,179	1,478,222	-4.08%	-25.34%	-5.41%	-15.21%	-4.88%	-10.15%	-4.59%	10.16%	-3.62%	15.23%	-3.41%	25.39%	-3.11%
	2011	1,541,179	1,477,032	-4.16%	-25.34%	-5.42%	-15.21%	-4.88%	-10.15%	-4.60%	10.16%	-3.62%	15.23%	-3.41%	25.39%	-3.12%
	2012	1,533,802	1,469,211	-4.21%	-25.47%	-5.63%	-15.29%	-5.13%	-10.20%	-4.78%	10.21%	-3.70%	15.31%	-3.48%	25.51%	-3.19%
	2013	1,533,802	1,469,347	-4.20%	-25.46%	-5.54%	-15.29%	-5.12%	-10.20%	-4.78%	10.21%	-3.70%	15.31%	-3.48%	25.51%	-3.19%
Bulgaria	2009	478,170	478,170	-	-26.18%	-	-15.71%	-	-10.47%	-	10.47%	-	15.71%	-	26.18%	-
	2010	478,444	478,444	-	-26.17%	-	-15.70%	-	-10.47%	-	10.47%	-	15.70%	-	26.17%	-
	2011-2013	486,286	486,286	-	-25.75%	-	-15.45%	-	-10.30%	-	10.30%	-	15.45%	-	25.75%	-
Croatia	2009	938,209	824,884	-12.08%	-27.00%	-16.43%	-15.97%	-14.38%	-10.65%	-13.52%	10.65%	-10.92%	15.97%	-10.42%	26.63%	-9.54%
	2010-2011	937,372	824,134	-12.08%	-27.01%	-16.44%	-15.98%	-14.38%	-10.65%	-13.52%	10.65%	-10.92%	15.98%	-10.42%	26.63%	-9.54%
	2012-2013	936,131	823,021	-12.08%	-27.01%	-16.44%	-15.98%	-14.38%	-10.65%	-13.52%	10.65%	-10.92%	15.98%	-10.42%	26.63%	-9.54%
Estonia	2009-2013	981,644	981,644	-	-25.67%	-	-15.40%	-	-10.27%	-	10.27%	-	15.40%	-	25.67%	-
Finland	2009	1,239,697	1,236,122	-0.29%	-26.06%	-0.39%	-15.64%	-0.34%	-10.42%	-0.32%	10.42%	-0.26%	15.64%	-0.25%	26.06%	-0.23%
	2010	1,252,937	1,249,358	-0.29%	-25.79%	-0.38%	-15.47%	-0.34%	-10.31%	-0.32%	10.31%	-0.26%	15.47%	-0.25%	25.78%	-0.23%
	2011	1,261,994	1,256,550	-0.43%	-25.60%	-0.58%	-15.36%	-0.51%	-10.24%	-0.48%	10.24%	-0.39%	15.36%	-0.37%	25.60%	-0.34%
	2012	1,192,427	1,187,293	-0.43%	-25.55%	-0.58%	-15.33%	-0.51%	-10.22%	-0.48%	10.22%	-0.39%	15.33%	-0.37%	25.55%	-0.34%
	2013	1,183,714	1,119,822	-5.40%	-25.74%	-7.27%	-15.44%	-6.38%	-10.29%	-6.02%	10.29%	-4.89%	15.44%	-4.68%	25.74%	-4.29%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Profitability - 30%		Profitability - 20%		Profitability - 10%		Profitability + 10%		Profitability + 20%		Profitability + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
France	2009	1,770,912	1,537,705	-13.17%	-23.34%	-17.22%	-14.01%	-15.33%	-9.35%	-14.53%	9.35%	-12.04%	14.02%	-11.55%	23.37%	-10.67%
	2010	1,803,115	1,569,910	-12.93%	-22.92%	-16.82%	-13.76%	-15.02%	-9.18%	-14.25%	9.18%	-11.85%	13.77%	-11.37%	22.96%	-10.52%
	2011	2,002,573	1,833,067	-8.46%	-20.98%	-10.91%	-12.67%	-9.71%	-8.45%	-9.26%	8.47%	-7.80%	12.70%	-7.51%	21.18%	-6.98%
	2012	2,080,513	1,906,009	-8.39%	-21.31%	-10.85%	-12.87%	-9.64%	-8.58%	-9.19%	8.60%	-7.72%	12.90%	-7.43%	21.50%	-6.90%
	2013	1,852,668	1,681,351	-9.25%	-24.11%	-12.20%	-14.47%	-10.82%	-9.66%	-10.24%	9.66%	-8.43%	14.49%	-8.08%	24.15%	-7.45%
Germany	2009-2010	1,456,315	1,456,315	-	-26.34%	-	-15.80%	-	-10.53%	-	10.53%	-	15.80%	-	26.34%	-
	2011	1,465,863	1,465,863	-	-26.34%	-	-15.80%	-	-10.54%	-	10.54%	-	15.80%	-	26.34%	-
	2012	1,470,102	1,470,102	-	-26.32%	-	-15.79%	-	-10.53%	-	10.53%	-	15.79%	-	26.32%	-
	2013	1,480,901	1,480,901	-	-26.25%	-	-15.75%	-	-10.50%	-	10.50%	-	15.75%	-	26.25%	-
Greece	2009	1,184,274	1,180,278	-0.34%	-26.24%	-0.46%	-15.75%	-0.40%	-10.50%	-0.38%	10.50%	-0.31%	15.75%	-0.29%	26.24%	-0.27%
	2010	1,137,471	1,133,683	-0.33%	-26.24%	-0.45%	-15.75%	-0.39%	-10.50%	-0.37%	10.50%	-0.30%	15.75%	-0.29%	26.24%	-0.26%
	2011-2012	956,652	953,452	-0.33%	-26.05%	-0.45%	-15.63%	-0.40%	-10.42%	-0.37%	10.42%	-0.30%	15.63%	-0.29%	26.05%	-0.27%
	2013	1,246,258	1,226,346	-1.60%	-25.90%	-2.16%	-15.55%	-1.89%	-10.37%	-1.78%	10.37%	-1.45%	15.55%	-1.38%	25.92%	-1.27%
Hungary	2009	1,459,240	1,459,240	-	-15.50%	-	-9.76%	-	-6.52%	-	6.60%	-	10.06%	-	17.40%	-
	2010	1,392,650	1,392,650	-	-11.64%	-	-6.99%	-	-4.66%	-	4.82%	-	7.47%	-	12.77%	-
	2011	1,265,775	1,265,775	-	-11.85%	-	-7.11%	-	-4.74%	-	4.82%	-	7.44%	-	12.28%	-
	2012	1,307,975	1,307,975	-	-11.47%	-	-6.87%	-	-4.58%	-	4.61%	-	7.14%	-	11.88%	-
	2013	1,306,846	1,306,846	-	-11.48%	-	-6.88%	-	-4.59%	-	4.61%	-	7.15%	-	11.89%	-
Ireland	2009	638,581	548,396	-14.12%	-24.47%	-22.87%	-14.68%	-22.15%	-9.79%	-19.79%	9.79%	-9.47%	14.68%	-7.44%	24.47%	-4.72%
	2010	637,732	547,596	-14.13%	-24.50%	-22.92%	-14.70%	-22.18%	-9.80%	-19.81%	9.80%	-9.47%	14.70%	-7.44%	24.50%	-4.72%
	2011	637,483	547,366	-14.14%	-24.51%	-25.66%	-14.71%	-22.51%	-9.81%	-19.81%	9.81%	-9.47%	14.71%	-7.44%	24.51%	-4.73%
	2012	636,780	446,260	-29.92%	-24.54%	-28.73%	-14.72%	-33.10%	-9.82%	-37.32%	9.82%	-23.84%	14.72%	-21.19%	24.54%	-17.41%
	2013	636,567	446,061	-29.93%	-24.55%	-46.64%	-14.73%	-41.05%	-9.82%	-37.33%	9.82%	-23.85%	14.73%	-21.20%	24.55%	-17.41%
Italy	2009	1,714,673	1,670,385	-2.58%	-22.50%	-3.34%	-13.50%	-2.99%	-9.00%	-2.84%	9.02%	-2.37%	13.53%	-2.28%	22.55%	-2.11%
	2010	1,676,694	1,632,403	-2.64%	-23.01%	-3.44%	-13.81%	-3.07%	-9.21%	-2.91%	9.22%	-2.42%	13.84%	-2.32%	23.06%	-2.15%
	2011	1,671,828	1,662,471	-0.56%	-23.08%	-0.73%	-13.86%	-0.65%	-9.25%	-0.62%	9.25%	-0.51%	13.88%	-0.49%	23.13%	-0.45%
	2012-2013	1,603,376	1,507,156	-6.00%	-23.80%	-7.89%	-14.29%	-7.01%	-9.53%	-6.63%	9.53%	-5.48%	14.30%	-5.25%	23.84%	-4.85%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Profitability - 30%		Profitability - 20%		Profitability - 10%		Profitability + 10%		Profitability + 20%		Profitability + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Lithuania	2009	964,253	796,774	-17.37%	-25.85%	-23.42%	-15.51%	-20.56%	-10.34%	-19.37%	10.34%	-15.74%	15.51%	-15.04%	25.85%	-13.80%
	2010-2012	742,970	617,061	-16.95%	-25.22%	-22.66%	-15.13%	-19.97%	-10.09%	-18.85%	10.09%	-15.39%	15.13%	-14.72%	25.22%	-13.53%
	2013	813,281	687,372	-15.48%	-23.04%	-20.12%	-13.82%	-17.96%	-9.21%	-17.05%	9.21%	-14.18%	13.82%	-13.60%	23.04%	-12.58%
Luxembourg	2009-2010	1,425,927	1,421,011	-0.34%	-26.15%	-0.47%	-15.69%	-0.41%	-10.46%	-0.39%	10.46%	-0.31%	15.69%	-0.30%	26.15%	-0.27%
	2011-2012	1,435,303	1,430,345	-0.35%	-26.15%	-0.47%	-15.69%	-0.41%	-10.46%	-0.39%	10.46%	-0.31%	15.69%	-0.30%	26.15%	-0.27%
	2013	1,456,114	1,444,617	-0.79%	-26.12%	-1.07%	-15.67%	-0.94%	-10.45%	-0.88%	10.45%	-0.71%	15.67%	-0.68%	26.12%	-0.63%
Netherlands	2009	1,148,310	1,096,169	-4.54%	-27.20%	-6.24%	-16.37%	-5.43%	-10.94%	-5.10%	10.96%	-4.09%	16.44%	-3.90%	27.48%	-3.56%
	2010	1,155,976	1,103,834	-4.51%	-27.01%	-6.18%	-16.26%	-5.39%	-10.87%	-5.06%	10.88%	-4.07%	16.33%	-3.88%	27.30%	-3.54%
	2011	1,088,059	1,025,969	-5.71%	-27.62%	-7.89%	-16.65%	-6.85%	-11.17%	-6.43%	11.21%	-5.13%	16.83%	-4.88%	28.25%	-4.45%
	2012	1,088,567	1,014,250	-6.83%	-27.61%	-9.37%	-16.65%	-8.14%	-11.16%	-7.64%	11.20%	-6.14%	16.82%	-5.86%	28.24%	-5.35%
	2013	1,088,987	1,011,885	-7.08%	-27.60%	-9.70%	-16.64%	-8.43%	-11.16%	-7.91%	11.20%	-6.37%	16.82%	-6.08%	28.23%	-5.56%
Poland	2009	937,802	937,802	-	-25.26%	-	-15.15%	-	-10.10%	-	10.10%	-	15.15%	-	25.26%	-
	2010	938,249	938,249	-	-25.25%	-	-15.15%	-	-10.10%	-	10.10%	-	15.15%	-	25.25%	-
	2011	936,915	894,340	-4.54%	-25.28%	-6.08%	-15.17%	-5.36%	-10.11%	-5.06%	10.11%	-4.13%	15.17%	-3.95%	25.28%	-3.63%
	2012	939,304	896,729	-4.53%	-25.22%	-6.06%	-15.13%	-5.34%	-10.09%	-5.04%	10.09%	-4.12%	15.13%	-3.94%	25.22%	-3.62%
	2013	941,007	898,431	-4.52%	-25.17%	-6.05%	-15.10%	-5.33%	-10.07%	-5.03%	10.07%	-4.11%	15.10%	-3.93%	25.17%	-3.61%
Romania	2009	790,263	776,349	-1.76%	-25.27%	-2.36%	-15.16%	-2.07%	-10.11%	-1.96%	10.11%	-1.60%	15.16%	-1.53%	25.27%	-1.41%
	2010	784,243	770,331	-1.77%	-25.46%	-2.38%	-15.28%	-2.09%	-10.19%	-1.98%	10.19%	-1.61%	15.28%	-1.54%	25.46%	-1.41%
	2011-2012	784,235	770,322	-1.77%	-25.46%	-2.38%	-15.28%	-2.09%	-10.19%	-1.97%	10.19%	-1.61%	15.28%	-1.54%	25.46%	-1.41%
	2013	785,565	751,182	-4.38%	-25.42%	-5.87%	-15.25%	-5.17%	-10.17%	-4.87%	10.17%	-3.97%	15.25%	-3.80%	25.42%	-3.49%
Slovenia	2009	983,000	956,426	-2.70%	-26.60%	-3.68%	-15.96%	-3.22%	-10.64%	-3.03%	10.64%	-2.44%	15.96%	-2.33%	26.60%	-2.14%
	2010-2011	936,624	892,346	-4.73%	-26.60%	-6.44%	-15.96%	-5.63%	-10.64%	-5.29%	10.64%	-4.27%	15.96%	-4.08%	26.60%	-3.73%
	2012	843,742	752,617	-10.80%	-26.60%	-14.71%	-15.96%	-12.85%	-10.64%	-12.09%	10.64%	-9.76%	15.96%	-9.31%	26.60%	-8.53%
	2013	797,236	711,133	-10.80%	-26.60%	-14.72%	-15.96%	-12.85%	-10.64%	-12.09%	10.64%	-9.76%	15.96%	-9.31%	26.60%	-8.53%
Spain	2009-2010	1,655,304	1,180,482	-28.68%	-26.34%	-33.69%	-15.80%	-31.41%	-10.54%	-30.40%	10.54%	-27.30%	15.80%	-26.66%	26.34%	-25.51%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Profitability - 30%		Profitability - 20%		Profitability - 10%		Profitability + 10%		Profitability + 20%		Profitability + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2011	1,655,304	1,100,056	-33.54%	-26.34%	-38.48%	-15.80%	-36.45%	-10.54%	-35.43%	10.54%	-31.82%	15.80%	-31.06%	26.34%	-29.65%
	2012-2013	1,655,304	1,105,021	-33.24%	-26.34%	-38.07%	-15.80%	-36.09%	-10.54%	-35.10%	10.54%	-31.54%	15.80%	-30.80%	26.34%	-29.41%
Sweden	2009-2012	1,251,778	1,251,778	-	-26.10%	-	-15.66%	-	-10.44%	-	10.44%	-	15.66%	-	26.10%	-
	2013	1,054,122	1,054,122	-	-25.98%	-	-15.59%	-	-10.39%	-	10.39%	-	15.59%	-	25.98%	-
United Kingdom	2009	1,419,642	1,014,043	-28.57%	-24.48%	-30.69%	-14.69%	-29.70%	-9.79%	-29.28%	9.79%	-27.70%	14.69%	-27.12%	24.48%	-25.82%
	2010	1,408,896	1,046,202	-25.74%	-24.67%	-28.37%	-14.80%	-27.58%	-9.87%	-27.09%	9.87%	-23.66%	14.80%	-22.63%	24.67%	-20.63%
	2011	1,318,394	978,534	-25.78%	-24.50%	-29.31%	-14.70%	-27.85%	-9.80%	-27.10%	9.80%	-24.16%	14.70%	-23.24%	24.50%	-21.27%
	2012	1,235,658	926,884	-24.99%	-24.15%	-28.79%	-14.49%	-27.20%	-9.66%	-26.52%	9.66%	-23.62%	14.49%	-22.88%	24.15%	-21.26%
	2013	1,193,995	931,307	-22.00%	-23.96%	-25.88%	-14.38%	-24.27%	-9.59%	-23.49%	9.59%	-20.61%	14.38%	-19.88%	23.96%	-18.34%

Table 5.35 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, small corporation, fiscal years 2009-2013, capital intensity)

Country	Year	Base Case			Capital Intensity - 15%		Capital Intensity - 10%		Capital Intensity - 5%		Capital Intensity + 5%		Capital Intensity + 10%		Capital Intensity + 15%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Austria	2009	1,512,178	1,475,746	-2.41%	7.14%	-2.25%	4.72%	-2.30%	2.29%	-2.36%	-2.32%	-2.47%	-4.38%	-2.52%	-6.71%	-2.58%
	2010	1,512,187	1,475,753	-2.41%	7.14%	-2.25%	4.72%	-2.30%	2.29%	-2.36%	-2.32%	-2.47%	-4.38%	-2.52%	-6.71%	-2.58%
	2011-2013	1,512,187	1,466,642	-3.01%	7.14%	-2.81%	4.72%	-2.88%	2.29%	-2.94%	-2.32%	-3.08%	-4.38%	-3.15%	-6.71%	-3.23%
Belgium	2009	1,541,179	1,506,557	-2.25%	8.94%	-1.76%	5.91%	-1.92%	2.87%	-2.09%	-2.90%	-2.36%	-5.44%	-2.47%	-8.34%	-2.56%
	2010	1,541,179	1,478,222	-4.08%	8.94%	-3.41%	5.91%	-3.63%	2.87%	-3.87%	-2.90%	-4.27%	-5.44%	-4.46%	-8.34%	-4.60%
	2011	1,541,179	1,477,032	-4.16%	8.94%	-3.41%	5.91%	-3.63%	2.87%	-3.87%	-2.90%	-4.28%	-5.44%	-4.46%	-8.34%	-4.61%
	2012	1,533,802	1,469,211	-4.21%	9.06%	-3.49%	5.99%	-3.72%	2.91%	-3.96%	-2.93%	-4.44%	-5.51%	-4.64%	-8.45%	-4.88%
	2013	1,533,802	1,469,347	-4.20%	9.06%	-3.48%	5.99%	-3.71%	2.91%	-3.95%	-2.93%	-4.43%	-5.51%	-4.63%	-8.45%	-4.87%
Bulgaria	2009	478,170	478,170	-	9.07%	-	6.00%	-	2.91%	-	-2.95%	-	-5.56%	-	-8.52%	-
	2010	478,444	478,444	-	9.05%	-	5.99%	-	2.90%	-	-2.95%	-	-5.55%	-	-8.51%	-
	2011-2013	486,286	486,286	-	8.67%	-	5.73%	-	2.78%	-	-2.82%	-	-5.29%	-	-8.12%	-
Croatia	2009	938,209	824,884	-12.08%	9.49%	-11.03%	6.28%	-11.37%	3.05%	-11.72%	-3.09%	-12.46%	-5.83%	-12.83%	-9.38%	-13.25%
	2010-2011	937,372	824,134	-12.08%	9.49%	-11.03%	6.28%	-11.37%	3.05%	-11.72%	-3.09%	-12.47%	-5.83%	-12.83%	-9.38%	-13.25%
	2012-2013	936,131	823,021	-12.08%	9.49%	-11.03%	6.28%	-11.37%	3.05%	-11.73%	-3.09%	-12.47%	-5.83%	-12.83%	-9.38%	-13.25%
Estonia	2009-2013	981,644	981,644	-	8.62%	-	5.70%	-	2.76%	-	-2.81%	-	-5.27%	-	-8.09%	-
Finland	2009	1,239,697	1,236,122	-0.29%	8.90%	-0.27%	5.89%	-0.27%	2.86%	-0.28%	-2.90%	-0.30%	-5.45%	-0.31%	-8.36%	-0.32%
	2010	1,252,937	1,249,358	-0.29%	8.65%	-0.26%	5.72%	-0.27%	2.77%	-0.28%	-2.81%	-0.29%	-5.29%	-0.30%	-8.11%	-0.31%
	2011	1,261,994	1,256,550	-0.43%	8.48%	-0.40%	5.61%	-0.41%	2.72%	-0.42%	-2.76%	-0.44%	-5.18%	-0.46%	-7.94%	-0.47%
	2012	1,192,427	1,187,293	-0.43%	8.43%	-0.40%	5.58%	-0.41%	2.70%	-0.42%	-2.74%	-0.44%	-5.15%	-0.45%	-7.90%	-0.47%
	2013	1,183,714	1,119,822	-5.40%	8.61%	-4.97%	5.69%	-5.11%	2.76%	-5.25%	-2.80%	-5.55%	-5.26%	-5.70%	-8.07%	-5.87%
France	2009	1,770,912	1,537,705	-13.17%	7.90%	-12.21%	5.22%	-12.52%	2.53%	-12.84%	-2.57%	-13.52%	-4.83%	-13.84%	-7.41%	-14.22%
	2010	1,803,115	1,569,910	-12.93%	7.58%	-12.02%	5.01%	-12.32%	2.43%	-12.63%	-2.46%	-13.26%	-4.62%	-13.56%	-7.10%	-13.92%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Capital Intensity - 15%		Capital Intensity - 10%		Capital Intensity - 5%		Capital Intensity + 5%		Capital Intensity + 10%		Capital Intensity + 15%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives		% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
			Tax Burden	Total Effect												
	2011	2,002,573	1,833,067	-8.46%	6.63%	-7.95%	4.38%	-8.12%	2.12%	-8.29%	-2.15%	-8.65%	-4.03%	-8.82%	-6.19%	-9.02%
	2012	2,080,513	1,906,009	-8.39%	6.80%	-7.87%	4.49%	-8.04%	2.17%	-8.21%	-2.21%	-8.57%	-4.13%	-8.75%	-6.34%	-8.95%
	2013	1,852,668	1,681,351	-9.25%	7.62%	-8.59%	5.03%	-8.80%	2.44%	-9.03%	-2.47%	-9.48%	-4.64%	-9.70%	-7.12%	-9.96%
Germany	2009-2010	1,456,315	1,456,315	-	9.16%	-	6.06%	-	2.94%	-	-2.98%	-	-5.61%	-	-8.60%	-
	2011	1,465,863	1,465,863	-	9.16%	-	6.06%	-	2.94%	-	-2.98%	-	-5.62%	-	-8.61%	-
	2012	1,470,102	1,470,102	-	9.14%	-	6.05%	-	2.94%	-	-2.98%	-	-5.61%	-	-8.59%	-
	2013	1,480,901	1,480,901	-	9.11%	-	6.03%	-	2.92%	-	-2.97%	-	-5.58%	-	-8.56%	-
Greece	2009	1,184,274	1,180,278	-0.34%	9.07%	-0.31%	6.00%	-0.32%	2.91%	-0.33%	-2.95%	-0.35%	-5.56%	-0.36%	-8.52%	-0.37%
	2010	1,137,471	1,133,683	-0.33%	9.07%	-0.31%	6.00%	-0.31%	2.91%	-0.32%	-2.95%	-0.34%	-5.56%	-0.35%	-8.52%	-0.36%
	2011-2012	956,652	953,452	-0.33%	8.94%	-0.31%	5.92%	-0.32%	2.87%	-0.33%	-2.91%	-0.34%	-5.48%	-0.35%	-8.40%	-0.37%
	2013	1,246,258	1,226,346	-1.60%	8.83%	-1.47%	5.84%	-1.51%	2.83%	-1.55%	-2.87%	-1.65%	-5.40%	-1.69%	-8.28%	-1.74%
Hungary	2009	1,459,240	1,459,240	-	5.18%	-	3.41%	-	1.53%	-	-1.55%	-	-2.82%	-	-4.31%	-
	2010	1,392,650	1,392,650	-	3.02%	-	2.06%	-	0.83%	-	-0.86%	-	-1.57%	-	-2.45%	-
	2011	1,265,775	1,265,775	-	3.40%	-	2.39%	-	0.98%	-	-0.96%	-	-1.80%	-	-2.77%	-
	2012	1,307,975	1,307,975	-	3.30%	-	2.32%	-	0.92%	-	-0.93%	-	-1.75%	-	-2.68%	-
	2013	1,306,846	1,306,846	-	3.32%	-	2.33%	-	0.93%	-	-0.94%	-	-1.76%	-	-2.70%	-
Ireland	2009	638,581	548,396	-14.12%	7.58%	-10.54%	5.01%	-11.70%	2.42%	-12.91%	-2.46%	-15.38%	-4.60%	-16.57%	-7.07%	-17.94%
	2010	637,732	547,596	-14.13%	7.61%	-10.55%	5.03%	-11.70%	2.43%	-12.92%	-2.47%	-15.40%	-4.62%	-16.58%	-7.09%	-17.96%
	2011	637,483	547,366	-14.14%	7.61%	-10.55%	5.03%	-11.70%	2.43%	-12.92%	-2.47%	-15.40%	-4.62%	-16.59%	-7.10%	-17.97%
	2012	636,780	446,260	-29.92%	7.64%	-25.21%	5.05%	-26.72%	2.44%	-28.32%	-2.48%	-31.59%	-4.64%	-33.14%	-7.13%	-34.97%
	2013	636,567	446,061	-29.93%	7.65%	-25.21%	5.06%	-26.73%	2.45%	-28.33%	-2.48%	-31.59%	-4.64%	-33.15%	-7.13%	-34.98%
Italy	2009	1,714,673	1,670,385	-2.58%	7.75%	-2.40%	5.13%	-2.46%	2.49%	-2.52%	-2.53%	-2.65%	-4.79%	-2.71%	-7.33%	-2.79%
	2010	1,676,694	1,632,403	-2.64%	7.92%	-2.45%	5.24%	-2.51%	2.55%	-2.58%	-2.59%	-2.71%	-4.90%	-2.78%	-7.50%	-2.86%
	2011	1,671,828	1,662,471	-0.56%	8.03%	-0.52%	5.31%	-0.53%	2.58%	-0.55%	-2.62%	-0.57%	-4.96%	-0.59%	-7.60%	-0.61%
	2012-2013	1,603,376	1,507,156	-6.00%	8.21%	-5.55%	5.43%	-5.69%	2.64%	-5.85%	-2.68%	-6.17%	-5.07%	-6.32%	-7.77%	-6.51%
Lithuania	2009	964,253	796,774	-17.37%	8.70%	-15.98%	5.75%	-16.42%	2.79%	-16.90%	-2.83%	-17.87%	-5.32%	-18.34%	-8.16%	-18.91%
	2010-2012	742,970	617,061	-16.95%	8.13%	-15.67%	5.37%	-16.08%	2.60%	-16.52%	-2.64%	-17.41%	-4.95%	-17.83%	-7.60%	-18.34%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Capital Intensity - 15%		Capital Intensity - 10%		Capital Intensity - 5%		Capital Intensity + 5%		Capital Intensity + 10%		Capital Intensity + 15%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2013	813,281	687,372	-15.48%	6.13%	-14.59%	4.04%	-14.88%	1.95%	-15.19%	-1.98%	-15.79%	-3.66%	-16.07%	-5.65%	-16.41%
Luxembourg	2009-2010	1,425,927	1,421,011	-0.34%	8.47%	-0.32%	5.60%	-0.33%	2.71%	-0.34%	-2.66%	-0.35%	-4.91%	-0.36%	-7.50%	-0.37%
	2011-2012	1,435,303	1,430,345	-0.35%	8.47%	-0.32%	5.60%	-0.33%	2.71%	-0.34%	-2.67%	-0.35%	-4.91%	-0.36%	-7.51%	-0.37%
	2013	1,456,114	1,444,617	-0.79%	8.47%	-0.73%	5.60%	-0.75%	2.71%	-0.77%	-2.67%	-0.81%	-4.92%	-0.83%	-7.52%	-0.85%
Netherlands	2009	1,148,310	1,096,169	-4.54%	9.50%	-4.15%	6.28%	-4.27%	3.05%	-4.41%	-3.09%	-4.69%	-5.81%	-4.82%	-8.86%	-4.98%
	2010	1,155,976	1,103,834	-4.51%	9.33%	-4.13%	6.17%	-4.25%	2.99%	-4.38%	-3.03%	-4.65%	-5.70%	-4.78%	-8.70%	-4.94%
	2011	1,088,059	1,025,969	-5.71%	9.52%	-5.21%	6.28%	-5.37%	3.05%	-5.54%	-3.09%	-5.89%	-5.79%	-6.06%	-8.78%	-6.26%
	2012	1,088,567	1,014,250	-6.83%	9.51%	-6.25%	6.28%	-6.42%	3.04%	-6.63%	-3.09%	-7.04%	-5.78%	-7.20%	-8.77%	-7.44%
	2013	1,088,987	1,011,885	-7.08%	9.50%	-6.48%	6.27%	-6.66%	3.04%	-6.87%	-3.08%	-7.31%	-5.78%	-7.46%	-8.76%	-7.70%
Poland	2009	937,802	937,802	-	8.16%	-	5.40%	-	2.61%	-	-2.65%	-	-4.97%	-	-7.63%	-
	2010	938,249	938,249	-	8.15%	-	5.39%	-	2.61%	-	-2.65%	-	-4.96%	-	-7.62%	-
	2011	936,915	894,340	-4.54%	8.18%	-4.20%	5.41%	-4.31%	2.62%	-4.43%	-2.66%	-4.67%	-4.99%	-4.78%	-7.65%	-4.92%
	2012	939,304	896,729	-4.53%	8.12%	-4.19%	5.37%	-4.30%	2.60%	-4.42%	-2.64%	-4.66%	-4.95%	-4.77%	-7.59%	-4.91%
	2013	941,007	898,431	-4.52%	8.08%	-4.19%	5.34%	-4.29%	2.59%	-4.41%	-2.62%	-4.65%	-4.92%	-4.76%	-7.55%	-4.89%
Romania	2009	790,263	776,349	-1.76%	8.19%	-1.63%	5.41%	-1.67%	2.62%	-1.72%	-2.66%	-1.81%	-4.99%	-1.85%	-7.66%	-1.91%
	2010	784,243	770,331	-1.77%	8.32%	-1.64%	5.50%	-1.68%	2.66%	-1.73%	-2.70%	-1.82%	-5.07%	-1.87%	-7.78%	-1.92%
	2011-2012	784,235	770,322	-1.77%	8.31%	-1.64%	5.50%	-1.68%	2.66%	-1.73%	-2.70%	-1.82%	-5.07%	-1.87%	-7.78%	-1.92%
	2013	785,565	751,182	-4.38%	8.28%	-4.04%	5.47%	-4.15%	2.65%	-4.26%	-2.69%	-4.50%	-5.04%	-4.61%	-7.74%	-4.74%
Slovenia	2009	983,000	956,426	-2.70%	9.39%	-2.47%	6.21%	-2.55%	3.02%	-2.62%	-3.06%	-2.79%	-5.76%	-2.87%	-8.83%	-2.97%
	2010-2011	936,624	892,346	-4.73%	9.39%	-4.32%	6.21%	-4.45%	3.02%	-4.59%	-3.06%	-4.88%	-5.76%	-5.02%	-8.83%	-5.19%
	2012	843,742	752,617	-10.80%	9.39%	-9.87%	6.21%	-10.17%	3.02%	-10.48%	-3.06%	-11.14%	-5.76%	-11.46%	-8.83%	-11.85%
	2013	797,236	711,133	-10.80%	9.39%	-9.87%	6.21%	-10.17%	3.02%	-10.48%	-3.06%	-11.14%	-5.76%	-11.46%	-8.83%	-11.85%
Spain	2009-2010	1,655,304	1,180,482	-28.68%	9.16%	-27.48%	6.06%	-27.91%	2.94%	-28.30%	-2.98%	-29.10%	-5.62%	-29.48%	-8.61%	-29.93%
	2011	1,655,304	1,100,056	-33.54%	9.16%	-32.16%	6.06%	-32.60%	2.94%	-33.07%	-2.98%	-34.04%	-5.62%	-34.47%	-8.61%	-34.95%
	2012-2013	1,655,304	1,105,021	-33.24%	9.16%	-31.88%	6.06%	-32.32%	2.94%	-32.78%	-2.98%	-33.73%	-5.62%	-34.15%	-8.61%	-34.62%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Capital Intensity - 15%		Capital Intensity - 10%		Capital Intensity - 5%		Capital Intensity + 5%		Capital Intensity + 10%		Capital Intensity + 15%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Sweden	2009-2012	1,251,778	1,251,778	-	8.95%	-	5.92%	-	2.87%	-	-2.91%	-	-5.48%	-	-8.40%	-
	2013	1,054,122	1,054,122	-	8.84%	-	5.85%	-	2.84%	-	-2.88%	-	-5.41%	-	-8.30%	-
United Kingdom	2009	1,419,642	1,014,043	-28.57%	7.42%	-27.99%	4.90%	-28.29%	2.37%	-28.51%	-2.41%	-28.63%	-4.49%	-28.68%	-6.91%	-28.74%
	2010	1,408,896	1,046,202	-25.74%	7.59%	-24.18%	5.02%	-24.78%	2.43%	-25.34%	-2.46%	-26.09%	-4.60%	-26.34%	-7.08%	-26.52%
	2011	1,318,394	978,534	-25.78%	7.44%	-24.65%	4.92%	-25.10%	2.38%	-25.48%	-2.41%	-26.08%	-4.50%	-26.30%	-6.93%	-26.60%
	2012	1,235,658	926,884	-24.99%	7.12%	-24.07%	4.71%	-24.38%	2.27%	-24.69%	-2.31%	-25.31%	-4.30%	-25.56%	-6.62%	-25.80%
	2013	1,193,995	931,307	-22.00%	6.95%	-21.07%	4.59%	-21.41%	2.22%	-21.73%	-2.25%	-22.30%	-4.19%	-22.56%	-6.45%	-22.83%

Table 5.36 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, small corporation, fiscal years 2009-2013, equity ratio)

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Austria	2009	1,512,178	1,475,746	-2.41%	-4.29%	-2.52%	-2.86%	-2.48%	-1.43%	-2.44%	1.43%	-2.38%	2.86%	-2.34%	4.29%	-2.31%
	2010	1,512,187	1,475,753	-2.41%	-4.29%	-2.52%	-2.86%	-2.48%	-1.43%	-2.44%	1.43%	-2.38%	2.86%	-2.34%	4.29%	-2.31%
	2011-2013	1,512,187	1,466,642	-3.01%	-4.29%	-3.15%	-2.86%	-3.10%	-1.43%	-3.06%	1.43%	-2.97%	2.86%	-2.93%	4.29%	-2.89%
Belgium	2009	1,541,179	1,506,557	-2.25%	-1.15%	-2.28%	-1.01%	-2.30%	-0.63%	-2.27%	0.65%	-2.22%	1.29%	-2.19%	1.93%	-2.16%
	2010	1,541,179	1,478,222	-4.08%	-1.15%	-3.32%	-1.01%	-3.61%	-0.63%	-3.85%	0.65%	-4.31%	1.29%	-4.54%	1.93%	-4.76%
	2011	1,541,179	1,477,032	-4.16%	-1.15%	-3.32%	-1.01%	-3.61%	-0.63%	-3.85%	0.65%	-4.31%	1.29%	-4.54%	1.93%	-4.76%
	2012	1,533,802	1,469,211	-4.21%	-1.16%	-3.50%	-1.01%	-3.74%	-0.63%	-3.98%	0.65%	-4.43%	1.30%	-4.65%	1.94%	-4.87%
	2013	1,533,802	1,469,347	-4.20%	-1.16%	-3.49%	-1.01%	-3.73%	-0.63%	-3.97%	0.65%	-4.42%	1.30%	-4.64%	1.94%	-4.86%
Bulgaria	2009	478,170	478,170	-	-5.47%	-	-3.65%	-	-1.82%	-	1.82%	-	3.65%	-	5.47%	-
	2010	478,444	478,444	-	-5.46%	-	-3.64%	-	-1.82%	-	1.82%	-	3.64%	-	5.47%	-
	2011-2013	486,286	486,286	-	-5.38%	-	-3.58%	-	-1.79%	-	1.79%	-	3.58%	-	5.38%	-
Croatia	2009	938,209	824,884	-12.08%	-5.56%	-12.79%	-3.71%	-12.54%	-1.85%	-12.31%	1.85%	-11.86%	3.71%	-11.65%	5.56%	-11.44%
	2010-2011	937,372	824,134	-12.08%	-5.56%	-12.79%	-3.71%	-12.55%	-1.85%	-12.31%	1.85%	-11.86%	3.71%	-11.65%	5.56%	-11.44%
	2012-2013	936,131	823,021	-12.08%	-5.56%	-12.79%	-3.71%	-12.55%	-1.85%	-12.31%	1.85%	-11.86%	3.71%	-11.65%	5.56%	-11.45%
Estonia	2009-2013	981,644	981,644	-	-5.35%	-	-3.57%	-	-1.78%	-	1.78%	-	3.57%	-	5.35%	-
Finland	2009	1,239,697	1,236,122	-0.29%	-5.44%	-0.31%	-3.63%	-0.30%	-1.81%	-0.29%	1.81%	-0.28%	3.63%	-0.28%	5.44%	-0.27%
	2010	1,252,937	1,249,358	-0.29%	-5.38%	-0.30%	-3.59%	-0.30%	-1.79%	-0.29%	1.79%	-0.28%	3.59%	-0.28%	5.38%	-0.27%
	2011	1,261,994	1,256,550	-0.43%	-5.34%	-0.46%	-3.56%	-0.45%	-1.78%	-0.44%	1.78%	-0.42%	3.56%	-0.42%	5.34%	-0.41%
	2012	1,192,427	1,187,293	-0.43%	-5.33%	-0.45%	-3.56%	-0.45%	-1.78%	-0.44%	1.78%	-0.42%	3.56%	-0.42%	5.33%	-0.41%
	2013	1,183,714	1,119,822	-5.40%	-5.37%	-5.70%	-3.58%	-5.60%	-1.79%	-5.50%	1.79%	-5.30%	3.58%	-5.21%	5.37%	-5.12%
France	2009	1,770,912	1,537,705	-13.17%	-4.86%	-13.84%	-3.24%	-13.61%	-1.62%	-13.39%	1.62%	-12.96%	3.24%	-12.76%	4.87%	-12.56%
	2010	1,803,115	1,569,910	-12.93%	-4.78%	-13.59%	-3.19%	-13.36%	-1.59%	-13.14%	1.59%	-12.73%	3.19%	-12.53%	4.78%	-12.34%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2011	2,002,573	1,833,067	-8.46%	-4.29%	-8.86%	-2.86%	-8.72%	-1.43%	-8.59%	1.43%	-8.34%	2.87%	-8.23%	4.30%	-8.11%
	2012	2,080,513	1,906,009	-8.39%	-4.36%	-8.78%	-2.91%	-8.65%	-1.45%	-8.52%	1.46%	-8.27%	2.92%	-8.15%	4.38%	-8.03%
	2013	1,852,668	1,681,351	-9.25%	-4.92%	-9.73%	-3.28%	-9.56%	-1.64%	-9.40%	1.64%	-9.10%	3.28%	-8.95%	4.92%	-8.81%
Germany	2009-2010	1,456,315	1,456,315	-	-5.10%	-	-3.48%	-	-1.82%	-	1.83%	-	3.67%	-	5.50%	-
	2011	1,465,863	1,465,863	-	-5.14%	-	-3.52%	-	-1.83%	-	1.83%	-	3.67%	-	5.50%	-
	2012	1,470,102	1,470,102	-	-5.13%	-	-3.52%	-	-1.83%	-	1.83%	-	3.66%	-	5.50%	-
	2013	1,480,901	1,480,901	-	-5.12%	-	-3.51%	-	-1.83%	-	1.83%	-	3.65%	-	5.48%	-
Greece	2009	1,184,274	1,180,278	-0.34%	-5.48%	-0.36%	-3.65%	-0.35%	-1.83%	-0.34%	1.83%	-0.33%	3.65%	-0.33%	5.48%	-0.32%
	2010	1,137,471	1,133,683	-0.33%	-5.48%	-0.35%	-3.65%	-0.35%	-1.83%	-0.34%	1.82%	-0.33%	3.65%	-0.32%	5.47%	-0.32%
	2011-2012	956,652	953,452	-0.33%	-5.44%	-0.35%	-3.62%	-0.35%	-1.81%	-0.34%	1.81%	-0.33%	3.62%	-0.32%	5.44%	-0.32%
	2013	1,246,258	1,226,346	-1.60%	-5.41%	-1.69%	-3.61%	-1.66%	-1.80%	-1.63%	1.80%	-1.57%	3.61%	-1.54%	5.41%	-1.52%
Hungary	2009	1,459,240	1,459,240	-	-2.63%	-	-2.06%	-	-1.05%	-	1.05%	-	2.09%	-	3.14%	-
	2010	1,392,650	1,392,650	-	-1.71%	-	-1.34%	-	-0.68%	-	0.68%	-	1.36%	-	2.08%	-
	2011	1,265,775	1,265,775	-	-1.71%	-	-1.37%	-	-0.69%	-	0.69%	-	1.38%	-	2.06%	-
	2012	1,307,975	1,307,975	-	-1.65%	-	-1.32%	-	-0.66%	-	0.66%	-	1.33%	-	1.99%	-
	2013	1,306,846	1,306,846	-	-1.65%	-	-1.32%	-	-0.67%	-	0.67%	-	1.33%	-	2.00%	-
Ireland	2009	638,581	548,396	-14.12%	-5.11%	-17.02%	-3.41%	-16.02%	-1.70%	-15.06%	1.70%	-13.22%	3.41%	-12.35%	5.11%	-11.50%
	2010	637,732	547,596	-14.13%	-5.12%	-17.04%	-3.41%	-16.04%	-1.71%	-15.07%	1.71%	-13.23%	3.41%	-12.36%	5.12%	-11.51%
	2011	637,483	547,366	-14.14%	-5.12%	-17.04%	-3.41%	-16.04%	-1.71%	-15.07%	1.71%	-13.23%	3.41%	-12.36%	5.12%	-11.51%
	2012	636,780	446,260	-29.92%	-5.13%	-33.68%	-3.42%	-32.38%	-1.71%	-31.13%	1.71%	-28.75%	3.42%	-27.62%	5.13%	-26.52%
	2013	636,567	446,061	-29.93%	-5.13%	-33.69%	-3.42%	-32.39%	-1.71%	-31.14%	1.71%	-28.76%	3.42%	-27.63%	5.13%	-26.53%
Italy	2009	1,714,673	1,670,385	-2.58%	-4.14%	-2.70%	-2.77%	-2.66%	-1.39%	-2.62%	1.39%	-2.55%	2.77%	-2.51%	4.16%	-2.48%
	2010	1,676,694	1,632,403	-2.64%	-4.24%	-2.76%	-2.83%	-2.72%	-1.42%	-2.68%	1.42%	-2.60%	2.83%	-2.57%	4.25%	-2.53%
	2011	1,671,828	1,662,471	-0.56%	-4.00%	-0.58%	-2.67%	-0.58%	-1.34%	-0.57%	1.34%	-0.55%	2.68%	-0.55%	4.01%	-0.54%
	2012-2013	1,603,376	1,507,156	-6.00%	-4.12%	-6.26%	-2.75%	-6.17%	-1.37%	-6.08%	1.37%	-5.92%	2.75%	-5.84%	4.12%	-5.76%
Lithuania	2009	964,253	796,774	-17.37%	-5.40%	-18.36%	-3.60%	-18.02%	-1.80%	-17.69%	1.80%	-17.06%	3.60%	-16.77%	5.40%	-16.48%
	2010-2012	742,970	617,061	-16.95%	-5.27%	-17.89%	-3.51%	-17.56%	-1.76%	-17.25%	1.76%	-16.66%	3.51%	-16.37%	5.27%	-16.10%

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2013	813,281	687,372	-15.48%	-4.81%	-16.26%	-3.21%	-15.99%	-1.60%	-15.73%	1.60%	-15.24%	3.21%	-15.00%	4.81%	-14.77%
Luxembourg	2009-2010	1,425,927	1,421,011	-0.34%	-7.64%	-0.37%	-5.09%	-0.36%	-2.55%	-0.35%	2.60%	-0.34%	5.23%	-0.33%	7.86%	-0.32%
	2011-2012	1,435,303	1,430,345	-0.35%	-7.63%	-0.37%	-5.09%	-0.36%	-2.54%	-0.35%	2.60%	-0.34%	5.22%	-0.33%	7.85%	-0.32%
	2013	1,456,114	1,444,617	-0.79%	-7.59%	-0.85%	-5.06%	-0.83%	-2.53%	-0.81%	2.59%	-0.77%	5.20%	-0.75%	7.81%	-0.73%
Netherlands	2009	1,148,310	1,096,169	-4.54%	-5.72%	-4.82%	-3.81%	-4.72%	-1.91%	-4.63%	1.91%	-4.46%	3.81%	-4.37%	5.72%	-4.30%
	2010	1,155,976	1,103,834	-4.51%	-5.68%	-4.78%	-3.79%	-4.69%	-1.89%	-4.60%	1.89%	-4.43%	3.79%	-4.35%	5.68%	-4.27%
	2011	1,088,059	1,025,969	-5.71%	-5.85%	-6.06%	-3.90%	-5.94%	-1.95%	-5.82%	1.95%	-5.60%	3.90%	-5.49%	5.85%	-5.39%
	2012	1,088,567	1,014,250	-6.83%	-5.84%	-7.25%	-3.90%	-7.10%	-1.95%	-6.96%	1.95%	-6.70%	3.90%	-6.57%	5.84%	-6.45%
	2013	1,088,987	1,011,885	-7.08%	-5.84%	-7.52%	-3.89%	-7.37%	-1.95%	-7.22%	1.95%	-6.94%	3.89%	-6.81%	5.84%	-6.69%
Poland	2009	937,802	937,802	-	-2.20%	-	-3.52%	-	-1.76%	-	1.76%	-	3.52%	-	5.27%	-
	2010	938,249	938,249	-	-5.27%	-	-3.51%	-	-1.76%	-	1.76%	-	3.51%	-	5.27%	-
	2011	936,915	894,340	-4.54%	-5.28%	-4.80%	-3.52%	-4.71%	-1.76%	-4.63%	1.76%	-4.47%	3.52%	-4.39%	5.28%	-4.32%
	2012	939,304	896,729	-4.53%	-5.27%	-4.78%	-3.51%	-4.70%	-1.76%	-4.61%	1.76%	-4.45%	3.51%	-4.38%	5.27%	-4.31%
	2013	941,007	898,431	-4.52%	-5.26%	-4.78%	-3.50%	-4.69%	-1.75%	-4.61%	1.75%	-4.45%	3.50%	-4.37%	5.26%	-4.30%
Romania	2009	790,263	776,349	-1.76%	-5.27%	-1.86%	-3.52%	-1.83%	-1.76%	-1.79%	1.76%	-1.73%	3.52%	-1.70%	5.28%	-1.67%
	2010	784,243	770,331	-1.77%	-5.31%	-1.87%	-3.55%	-1.84%	-1.77%	-1.81%	1.77%	-1.74%	3.55%	-1.71%	5.32%	-1.68%
	2011-2012	784,235	770,322	-1.77%	-5.31%	-1.87%	-3.55%	-1.84%	-1.77%	-1.81%	1.77%	-1.74%	3.55%	-1.71%	5.32%	-1.68%
	2013	785,565	751,182	-4.38%	-5.30%	-4.62%	-3.54%	-4.54%	-1.77%	-4.46%	1.77%	-4.30%	3.54%	-4.23%	5.31%	-4.16%
Slovenia	2009	983,000	956,426	-2.70%	-5.56%	-2.86%	-3.70%	-2.81%	-1.85%	-2.75%	1.85%	-2.65%	3.70%	-2.61%	5.56%	-2.56%
	2010-2011	936,624	892,346	-4.73%	-5.56%	-5.01%	-3.70%	-4.91%	-1.85%	-4.82%	1.85%	-4.64%	3.70%	-4.56%	5.56%	-4.48%
	2012	843,742	752,617	-10.80%	-5.56%	-11.44%	-3.70%	-11.22%	-1.85%	-11.00%	1.85%	-10.60%	3.70%	-10.41%	5.56%	-10.23%
	2013	797,236	711,133	-10.80%	-5.56%	-11.44%	-3.70%	-11.22%	-1.85%	-11.00%	1.85%	-10.60%	3.70%	-10.41%	5.56%	-10.23%
Spain	2009-2010	1,655,304	1,180,482	-28.68%	-5.50%	-29.53%	-3.67%	-29.24%	-1.83%	-28.96%	1.83%	-28.42%	3.67%	-28.17%	5.50%	-27.93%
	2011	1,655,304	1,100,056	-33.54%	-5.50%	-34.53%	-3.67%	-34.20%	-1.83%	-33.88%	1.83%	-33.22%	3.67%	-32.91%	5.50%	-32.60%
	2012-2013	1,655,304	1,105,021	-33.24%	-5.50%	-34.21%	-3.67%	-33.89%	-1.83%	-33.57%	1.83%	-32.92%	3.67%	-32.62%	5.50%	-32.32%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Sweden	2009-2012	1,251,778	1,251,778	-	-5.45%	-	-3.63%	-	-1.82%	-	1.82%	-	3.63%	-	5.45%	-
	2013	1,054,122	1,054,122	-	-5.42%	-	-3.62%	-	-1.81%	-	1.81%	-	3.62%	-	5.42%	-
United Kingdom	2009	1,419,642	1,014,043	-28.57%	-5.11%	-28.94%	-3.41%	-28.82%	-1.70%	-28.69%	1.70%	-28.45%	3.41%	-28.34%	5.11%	-28.18%
	2010	1,408,896	1,046,202	-25.74%	-5.15%	-26.47%	-3.43%	-26.22%	-1.72%	-25.98%	1.72%	-25.46%	3.43%	-25.12%	5.15%	-24.75%
	2011	1,318,394	978,534	-25.78%	-5.12%	-26.44%	-3.41%	-26.23%	-1.71%	-26.02%	1.71%	-25.54%	3.41%	-25.29%	5.12%	-25.02%
	2012	1,235,658	926,884	-24.99%	-5.04%	-25.77%	-3.36%	-25.50%	-1.68%	-25.24%	1.68%	-24.75%	3.36%	-24.51%	5.04%	-24.28%
	2013	1,193,995	931,307	-22.00%	-5.00%	-22.73%	-3.34%	-22.48%	-1.67%	-22.24%	1.67%	-21.77%	3.34%	-21.55%	5.00%	-21.31%

Table 5.37 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, small corporation, fiscal years 2009-2013, labour intensity)

Country	Year	Base Case			Labour Intensity - 30%		Labour Intensity - 20%		Labour Intensity - 10%		Labour Intensity + 10%		Labour Intensity + 20%		Labour Intensity + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Austria	2009	1,512,178	1,475,746	-2.41%	-0.35%	-2.42%	-0.23%	-2.41%	-0.12%	-2.41%	0.12%	-2.41%	0.23%	-2.40%	0.35%	-2.40%
	2010	1,512,187	1,475,753	-2.41%	-0.35%	-2.42%	-0.23%	-2.41%	-0.12%	-2.41%	0.12%	-2.41%	0.23%	-2.40%	0.35%	-2.40%
	2011-2013	1,512,187	1,466,642	-3.01%	-0.35%	-3.02%	-0.23%	-3.02%	-0.12%	-3.02%	0.12%	-3.01%	0.23%	-3.00%	0.35%	-3.00%
Belgium	2009	1,541,179	1,506,557	-2.25%	7.97%	-1.95%	5.32%	-2.04%	2.66%	-2.15%	-2.65%	-2.34%	-5.32%	-2.44%	-7.96%	-2.55%
	2010	1,541,179	1,478,222	-4.08%	7.97%	-3.74%	5.32%	-3.86%	2.66%	-3.98%	-2.65%	-4.20%	-5.32%	-4.32%	-7.96%	-4.45%
	2011	1,541,179	1,477,032	-4.16%	7.97%	-3.75%	5.32%	-3.86%	2.66%	-3.98%	-2.65%	-4.20%	-5.32%	-4.32%	-7.96%	-4.45%
	2012	1,533,802	1,469,211	-4.21%	8.01%	-3.83%	5.35%	-3.95%	2.67%	-4.08%	-2.67%	-4.35%	-5.34%	-4.49%	-8.00%	-4.63%
	2013	1,533,802	1,469,347	-4.20%	8.01%	-3.83%	5.35%	-3.94%	2.67%	-4.07%	-2.67%	-4.34%	-5.34%	-4.48%	-8.00%	-4.62%
Bulgaria	2009	478,170	478,170	-	8.02%	-	5.36%	-	2.68%	-	-2.67%	-	-5.35%	-	-8.02%	-
	2010	478,444	478,444	-	8.02%	-	5.35%	-	2.67%	-	-2.67%	-	-5.35%	-	-8.01%	-
	2011-2013	486,286	486,286	-	7.89%	-	5.27%	-	2.63%	-	-2.62%	-	-5.26%	-	-7.89%	-
Croatia	2009	938,209	824,884	-12.08%	8.17%	-11.17%	5.45%	-11.45%	2.72%	-11.76%	-2.72%	-12.42%	-5.45%	-12.78%	-8.17%	-13.15%
	2010-2011	937,372	824,134	-12.08%	8.17%	-11.17%	5.45%	-11.46%	2.72%	-11.76%	-2.72%	-12.42%	-5.45%	-12.78%	-8.17%	-13.16%
	2012-2013	936,131	823,021	-12.08%	8.17%	-11.17%	5.45%	-11.46%	2.72%	-11.76%	-2.72%	-12.42%	-5.45%	-12.78%	-8.17%	-13.16%
Estonia	2009-2013	981,644	981,644	-	7.97%	-	5.32%	-	2.66%	-	-2.65%	-	-5.31%	-	-7.96%	-
Finland	2009	1,239,697	1,236,122	-0.29%	8.01%	-0.27%	5.34%	-0.27%	2.67%	-0.28%	-2.66%	-0.30%	-5.34%	-0.30%	-8.00%	-0.31%
	2010	1,252,937	1,249,358	-0.29%	7.92%	-0.26%	5.29%	-0.27%	2.64%	-0.28%	-2.64%	-0.29%	-5.28%	-0.30%	-7.92%	-0.31%
	2011	1,261,994	1,256,550	-0.43%	7.86%	-0.40%	5.25%	-0.41%	2.62%	-0.42%	-2.62%	-0.44%	-5.24%	-0.46%	-7.86%	-0.47%
	2012	1,192,427	1,187,293	-0.43%	7.85%	-0.40%	5.24%	-0.41%	2.62%	-0.42%	-2.61%	-0.44%	-5.23%	-0.45%	-7.84%	-0.47%
	2013	1,183,714	1,119,822	-5.40%	7.90%	-5.00%	5.27%	-5.13%	2.64%	-5.26%	-2.63%	-5.54%	-5.27%	-5.70%	-7.90%	-5.86%
France	2009	1,770,912	1,537,705	-13.17%	5.47%	-12.49%	3.65%	-12.70%	1.82%	-12.93%	-1.82%	-13.41%	-3.65%	-13.67%	-5.46%	-13.93%
	2010	1,803,115	1,569,910	-12.93%	5.20%	-12.29%	3.47%	-12.50%	1.73%	-12.71%	-1.73%	-13.16%	-3.47%	-13.40%	-5.19%	-13.65%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Labour Intensity - 30%		Labour Intensity - 20%		Labour Intensity - 10%		Labour Intensity + 10%		Labour Intensity + 20%		Labour Intensity + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives		% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
			Tax Burden	Total Effect												
	2011	2,002,573	1,833,067	-8.46%	4.84%	-8.07%	3.23%	-8.20%	1.61%	-8.33%	-1.60%	-8.61%	-3.21%	-8.76%	-4.82%	-8.91%
	2012	2,080,513	1,906,009	-8.39%	5.05%	-7.98%	3.37%	-8.11%	1.68%	-8.25%	-1.68%	-8.54%	-3.36%	-8.69%	-5.03%	-8.85%
	2013	1,852,668	1,681,351	-9.25%	9.37%	-8.46%	6.25%	-8.70%	3.12%	-8.97%	-3.12%	-9.54%	-6.24%	-9.86%	-9.36%	-10.20%
Germany	2009-2010	1,456,315	1,456,315	-	8.02%	-	5.35%	-	2.67%	-	-2.67%	-	-5.35%	-	-8.01%	-
	2011	1,465,863	1,465,863	-	8.02%	-	5.35%	-	2.67%	-	-2.67%	-	-5.35%	-	-8.02%	-
	2012	1,470,102	1,470,102	-	8.01%	-	5.35%	-	2.67%	-	-2.67%	-	-5.34%	-	-8.01%	-
	2013	1,480,901	1,480,901	-	7.99%	-	5.33%	-	2.66%	-	-2.66%	-	-5.33%	-	-7.99%	-
Greece	2009	1,184,274	1,180,278	-0.34%	8.06%	-0.31%	5.38%	-0.32%	2.69%	-0.33%	-2.68%	-0.35%	-5.37%	-0.36%	-8.06%	-0.37%
	2010	1,137,471	1,133,683	-0.33%	8.06%	-0.31%	5.38%	-0.32%	2.69%	-0.32%	-2.68%	-0.34%	-5.37%	-0.35%	-8.05%	-0.36%
	2011-2012	956,652	953,452	-0.33%	8.00%	-0.31%	5.34%	-0.32%	2.67%	-0.33%	-2.66%	-0.34%	-5.33%	-0.35%	-7.99%	-0.36%
	2013	1,246,258	1,226,346	-1.60%	7.96%	-1.48%	5.32%	-1.52%	2.66%	-1.56%	-2.65%	-1.64%	-5.31%	-1.69%	-7.96%	-1.74%
Hungary	2009	1,459,240	1,459,240	-	4.80%	-	3.20%	-	1.60%	-	-1.60%	-	-3.20%	-	-4.80%	-
	2010	1,392,650	1,392,650	-	3.71%	-	2.45%	-	1.22%	-	-1.22%	-	-2.45%	-	-3.67%	-
	2011	1,265,775	1,265,775	-	3.03%	-	2.02%	-	1.01%	-	-1.01%	-	-2.02%	-	-3.03%	-
	2012	1,307,975	1,307,975	-	2.93%	-	1.96%	-	0.98%	-	-0.97%	-	-1.95%	-	-2.93%	-
	2013	1,306,846	1,306,846	-	2.93%	-	1.96%	-	0.98%	-	-0.98%	-	-1.95%	-	-2.93%	-
Ireland	2009	638,581	548,396	-14.12%	7.51%	-11.20%	5.01%	-12.12%	2.50%	-13.10%	-2.50%	-15.19%	-5.00%	-16.33%	-7.50%	-17.52%
	2010	637,732	547,596	-14.13%	7.52%	-11.21%	5.02%	-12.13%	2.51%	-13.11%	-2.50%	-15.21%	-5.01%	-16.34%	-7.51%	-17.54%
	2011	637,483	547,366	-14.14%	7.52%	-11.21%	5.02%	-12.13%	2.51%	-13.11%	-2.50%	-15.21%	-5.01%	-16.35%	-7.51%	-17.54%
	2012	636,780	446,260	-29.92%	7.53%	-25.88%	5.02%	-27.16%	2.51%	-28.51%	-2.50%	-31.40%	-5.02%	-32.97%	-7.52%	-34.61%
	2013	636,567	446,061	-29.93%	7.53%	-25.89%	5.03%	-27.17%	2.51%	-28.51%	-2.51%	-31.41%	-5.02%	-32.98%	-7.53%	-34.62%
Italy	2009	1,714,673	1,670,385	-2.58%	2.26%	-2.53%	1.51%	-2.54%	0.75%	-2.56%	-0.75%	-2.60%	-1.50%	-2.63%	-2.23%	-2.65%
	2010	1,676,694	1,632,403	-2.64%	2.31%	-2.58%	1.54%	-2.60%	0.77%	-2.62%	-0.77%	-2.66%	-1.53%	-2.69%	-2.29%	-2.71%
	2011	1,671,828	1,662,471	-0.56%	2.32%	-0.55%	1.55%	-0.55%	0.77%	-0.56%	-0.77%	-0.56%	-1.54%	-0.57%	-2.30%	-0.57%
	2012-2013	1,603,376	1,507,156	-6.00%	3.52%	-5.80%	2.35%	-5.86%	1.17%	-5.93%	-1.17%	-6.07%	-2.35%	-6.15%	-3.51%	-6.22%
Lithuania	2009	964,253	796,774	-17.37%	7.93%	-16.09%	5.29%	-16.50%	2.64%	-16.92%	-2.64%	-17.84%	-5.29%	-18.34%	-7.93%	-18.86%
	2010-2012	742,970	617,061	-16.95%	7.74%	-15.73%	5.16%	-16.11%	2.58%	-16.52%	-2.57%	-17.39%	-5.16%	-17.87%	-7.73%	-18.37%

Country	Year	Base Case			Labour Intensity - 30%		Labour Intensity - 20%		Labour Intensity - 10%		Labour Intensity + 10%		Labour Intensity + 20%		Labour Intensity + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives		% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
			Tax Burden	Total Effect												
	2013	813,281	687,372	-15.48%	7.07%	-14.46%	4.72%	-14.78%	2.36%	-15.13%	-2.35%	-15.85%	-4.71%	-16.25%	-7.06%	-16.66%
Luxembourg	2009-2010	1,425,927	1,421,011	-0.34%	7.92%	-0.32%	5.29%	-0.33%	2.64%	-0.34%	-2.64%	-0.35%	-5.28%	-0.36%	-7.92%	-0.37%
	2011-2012	1,435,303	1,430,345	-0.35%	7.93%	-0.32%	5.29%	-0.33%	2.64%	-0.34%	-2.64%	-0.35%	-5.28%	-0.36%	-7.92%	-0.38%
	2013	1,456,114	1,444,617	-0.79%	7.92%	-0.73%	5.29%	-0.75%	2.64%	-0.77%	-2.64%	-0.81%	-5.28%	-0.83%	-7.92%	-0.86%
Netherlands	2009	1,148,310	1,096,169	-4.54%	8.40%	-4.19%	5.61%	-4.30%	2.80%	-4.42%	-2.80%	-4.67%	-5.60%	-4.81%	-8.40%	-4.96%
	2010	1,155,976	1,103,834	-4.51%	8.35%	-4.16%	5.57%	-4.27%	2.78%	-4.39%	-2.78%	-4.64%	-5.57%	-4.78%	-8.34%	-4.92%
	2011	1,088,059	1,025,969	-5.71%	8.64%	-5.25%	5.76%	-5.40%	2.88%	-5.55%	-2.87%	-5.88%	-5.76%	-6.06%	-8.63%	-6.25%
	2012	1,088,567	1,014,250	-6.83%	8.63%	-6.28%	5.76%	-6.46%	2.88%	-6.64%	-2.87%	-7.03%	-5.75%	-7.24%	-8.63%	-7.47%
	2013	1,088,987	1,011,885	-7.08%	8.63%	-6.52%	5.76%	-6.69%	2.88%	-6.88%	-2.87%	-7.29%	-5.75%	-7.51%	-8.62%	-7.75%
Poland	2009	937,802	937,802	-	7.75%	-	5.17%	-	2.58%	-	-2.58%	-	-5.17%	-	-7.75%	-
	2010	938,249	938,249	-	7.75%	-	5.17%	-	2.58%	-	-2.58%	-	-5.17%	-	-7.74%	-
	2011	936,915	894,340	-4.54%	7.76%	-4.22%	5.18%	-4.32%	2.59%	-4.43%	-2.58%	-4.67%	-5.17%	-4.79%	-7.75%	-4.93%
	2012	939,304	896,729	-4.53%	7.74%	-4.21%	5.17%	-4.31%	2.58%	-4.42%	-2.58%	-4.65%	-5.16%	-4.78%	-7.74%	-4.91%
	2013	941,007	898,431	-4.52%	7.73%	-4.20%	5.16%	-4.30%	2.58%	-4.41%	-2.57%	-4.64%	-5.15%	-4.77%	-7.72%	-4.90%
Romania	2009	790,263	776,349	-1.76%	7.75%	-1.63%	5.17%	-1.67%	2.58%	-1.72%	-2.58%	-1.81%	-5.17%	-1.86%	-7.75%	-1.91%
	2010	784,243	770,331	-1.77%	7.81%	-1.65%	5.22%	-1.69%	2.61%	-1.73%	-2.60%	-1.82%	-5.21%	-1.87%	-7.81%	-1.92%
	2011-2012	784,235	770,322	-1.77%	7.81%	-1.65%	5.22%	-1.69%	2.61%	-1.73%	-2.60%	-1.82%	-5.21%	-1.87%	-7.81%	-1.92%
	2013	785,565	751,182	-4.38%	7.80%	-4.06%	5.21%	-4.16%	2.60%	-4.27%	-2.60%	-4.49%	-5.20%	-4.62%	-7.80%	-4.75%
Slovenia	2009	983,000	956,426	-2.70%	8.17%	-2.50%	5.45%	-2.56%	2.72%	-2.63%	-2.72%	-2.78%	-5.45%	-2.86%	-8.16%	-2.94%
	2010-2011	936,624	892,346	-4.73%	8.17%	-4.37%	5.45%	-4.48%	2.72%	-4.60%	-2.72%	-4.86%	-5.44%	-5.00%	-8.16%	-5.15%
	2012	843,742	752,617	-10.80%	8.17%	-9.98%	5.45%	-10.24%	2.72%	-10.51%	-2.72%	-11.10%	-5.44%	-11.42%	-8.16%	-11.76%
	2013	797,236	711,133	-10.80%	8.16%	-9.98%	5.45%	-10.24%	2.72%	-10.51%	-2.72%	-11.10%	-5.44%	-11.42%	-8.16%	-11.76%
Spain	2009-2010	1,655,304	1,180,482	-28.68%	8.10%	-27.58%	5.41%	-27.93%	2.70%	-28.30%	-2.70%	-29.09%	-5.40%	-29.53%	-8.10%	-29.99%
	2011	1,655,304	1,100,056	-33.54%	8.10%	-32.14%	5.41%	-32.58%	2.70%	-33.05%	-2.70%	-34.06%	-5.40%	-34.59%	-8.10%	-35.13%
	2012-2013	1,655,304	1,105,021	-33.24%	8.10%	-31.86%	5.41%	-32.30%	2.70%	-32.76%	-2.70%	-33.75%	-5.40%	-34.27%	-8.10%	-34.80%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Labour Intensity - 30%		Labour Intensity - 20%		Labour Intensity - 10%		Labour Intensity + 10%		Labour Intensity + 20%		Labour Intensity + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Sweden	2009-2012	1,251,778	1,251,778	-	8.02%	-	5.35%	-	2.67%	-	-2.67%	-	-5.34%	-	-8.01%	-
	2013	1,054,122	1,054,122	-	7.98%	-	5.32%	-	2.66%	-	-2.65%	-	-5.32%	-	-7.97%	-
United Kingdom	2009	1,419,642	1,014,043	-28.57%	7.52%	-27.52%	5.02%	-27.96%	2.51%	-28.39%	-2.50%	-28.72%	-5.02%	-28.88%	-7.52%	-29.04%
	2010	1,408,896	1,046,202	-25.74%	7.58%	-24.06%	5.06%	-24.64%	2.53%	-25.21%	-2.52%	-26.22%	-5.05%	-26.43%	-7.58%	-26.65%
	2011	1,318,394	978,534	-25.78%	7.53%	-24.35%	5.02%	-24.83%	2.51%	-25.30%	-2.50%	-26.27%	-5.02%	-26.75%	-7.52%	-27.23%
	2012	1,235,658	926,884	-24.99%	7.42%	-23.67%	4.95%	-24.09%	2.47%	-24.53%	-2.47%	-25.45%	-4.95%	-25.76%	-7.41%	-26.08%
	2013	1,193,995	931,307	-22.00%	7.36%	-20.78%	4.91%	-21.19%	2.45%	-21.59%	-2.45%	-22.44%	-4.91%	-22.79%	-7.36%	-23.10%

Table 5.38 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, small corporation, fiscal years 2009-2013, business sectors)

Country	Year	Base Case			Manufacturing	Energy	Construction	Commerce	Hotels & Restaurants
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives						
			Tax Burden	Total Effect	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives
Austria	2009	1,512,178	1,475,746	-2.41%	-2.68%	-2.62%	-0.11%	-0.22%	-0.02%
	2010	1,512,187	1,475,753	-2.41%	-2.68%	-2.62%	-0.11%	-0.22%	-0.02%
	2011-2013	1,512,187	1,466,642	-3.01%	-3.36%	-3.28%	-0.14%	-0.27%	-0.02%
Belgium	2009	1,541,179	1,506,557	-2.25%	-2.82%	-0.98%	-1.54%	-1.04%	-4.27%
	2010	1,541,179	1,478,222	-4.08%	-4.08%	-0.96%	-2.97%	-1.65%	-5.73%
	2011	1,541,179	1,477,032	-4.16%	-4.08%	-0.97%	-2.98%	-1.65%	-5.74%
	2012	1,533,802	1,469,211	-4.21%	-4.21%	-1.26%	-3.02%	-1.77%	-6.26%
	2013	1,533,802	1,469,347	-4.20%	-4.20%	-1.24%	-3.03%	-1.78%	-6.27%
Bulgaria	2009	478,170	478,170	-	-	-	-	-	-
	2010	478,444	478,444	-	-	-	-	-	-
	2011-2013	486,286	486,286	-	-	-	-	-	-
Croatia	2009	938,209	824,884	-12.08%	-14.44%	-5.85%	-0.60%	-1.09%	-0.12%
	2010-2011	937,372	824,134	-12.08%	-14.44%	-5.85%	-0.60%	-1.09%	-0.12%
	2012-2013	936,131	823,021	-12.08%	-14.44%	-5.86%	-0.60%	-1.09%	-0.12%
Estonia	2009-2013	981,644	981,644	-	-	-	-	-	-
Finland	2009	1,239,697	1,236,122	-0.29%	-0.35%	-0.28%	-0.01%	-0.03%	0.00%
	2010	1,252,937	1,249,358	-0.29%	-0.34%	-0.28%	-0.01%	-0.03%	0.00%
	2011	1,261,994	1,256,550	-0.43%	-0.52%	-0.40%	-0.02%	-0.04%	0.00%
	2012	1,192,427	1,187,293	-0.43%	-0.52%	-0.40%	-0.02%	-0.04%	0.00%
	2013	1,183,714	1,119,822	-5.40%	-6.51%	-5.17%	-0.27%	-0.49%	-0.05%
France	2009	1,770,912	1,537,705	-13.17%	-15.52%	-8.78%	-5.92%	-4.43%	-9.63%
	2010	1,803,115	1,569,910	-12.93%	-15.26%	63.96%	-5.84%	13.45%	-9.14%
	2011	2,002,573	1,833,067	-8.46%	-10.15%	-5.53%	-5.50%	-3.28%	-8.68%
	2012	2,080,513	1,906,009	-8.39%	-10.05%	-5.62%	-5.15%	-3.14%	-8.16%
	2013	1,852,668	1,681,351	-9.25%	-11.56%	-5.77%	-6.02%	-3.45%	-10.18%
Germany	2009-2010	1,456,315	1,456,315	-	-	-	-	-	-
	2011	1,465,863	1,465,863	-	-	-	-	-	-
	2012	1,470,102	1,470,102	-	-	-	-	-	-
	2013	1,480,901	1,480,901	-	-	-	-	-	-
Greece	2009	1,184,274	1,180,278	-0.34%	-0.40%	-0.34%	-0.02%	-0.03%	0.00%
	2010	1,137,471	1,133,683	-0.33%	-0.40%	-0.32%	-0.02%	-0.03%	0.00%
	2011-2012	956,652	953,452	-0.33%	-0.40%	-0.34%	-0.02%	-0.03%	0.00%
	2013	1,246,258	1,226,346	-1.60%	-1.91%	-1.27%	-0.08%	-0.14%	-0.02%
Hungary	2009	1,459,240	1,459,240	-	-	-	-	-	-
	2010	1,392,650	1,392,650	-	-	-	-	-	-
	2011	1,265,775	1,265,775	-	-	-	-	-	-
	2012	1,307,975	1,307,975	-	-	-	-	-	-
	2013	1,306,846	1,306,846	-	-	-	-	-	-
Ireland	2009	638,581	548,396	-14.12%	-20.27%	-5.29%	-20.04%	-9.86%	-32.37%
	2010	637,732	547,596	-14.13%	-20.29%	-5.31%	-20.06%	-9.87%	-32.54%
	2011	637,483	547,366	-14.14%	-23.71%	-5.32%	-22.83%	-16.10%	-45.53%
	2012	636,780	446,260	-29.92%	-26.40%	-18.73%	-4.80%	-2.00%	-0.18%
	2013	636,567	446,061	-29.93%	-43.17%	-18.74%	-23.63%	-17.61%	-45.87%
Italy	2009	1,714,673	1,670,385	-2.58%	-2.95%	-2.41%	-0.12%	-0.23%	-0.02%
	2010	1,676,694	1,632,403	-2.64%	-3.04%	-2.42%	-0.13%	-0.24%	-0.02%
	2011	1,671,828	1,662,471	-0.56%	-0.64%	-0.51%	-0.03%	-0.05%	0.00%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Manufacturing	Energy	Construction	Commerce	Hotels & Restaurants
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives						
			Tax Burden	Total Effect	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives
	2012-2013	1,603,376	1,507,156	-6.00%	-6.97%	-5.31%	-0.29%	-0.54%	-0.05%
Lithuania	2009	964,253	796,774	-17.37%	-20.93%	-16.99%	-0.87%	-1.58%	-0.16%
	2010-2012	742,970	617,061	-16.95%	-20.52%	-16.21%	-0.85%	-1.55%	-0.14%
	2013	813,281	687,372	-15.48%	-19.05%	-12.84%	-0.80%	-1.45%	-0.11%
Luxembourg	2009-2010	1,425,927	1,421,011	-0.34%	-0.42%	-0.34%	-0.02%	-0.03%	0.00%
	2011-2012	1,435,303	1,430,345	-0.35%	-0.42%	-0.34%	-0.02%	-0.03%	0.00%
	2013	1,456,114	1,444,617	-0.79%	-0.96%	-0.78%	-0.04%	-0.07%	-0.01%
Netherlands	2009	1,148,310	1,096,169	-4.54%	-5.50%	-4.31%	-0.23%	-0.41%	-0.05%
	2010	1,155,976	1,103,834	-4.51%	-5.47%	-4.23%	-0.23%	-0.41%	-0.05%
	2011	1,088,059	1,025,969	-5.71%	-7.01%	-5.24%	-0.30%	-0.52%	-0.06%
	2012	1,088,567	1,014,250	-6.83%	-8.39%	-6.30%	-0.35%	-0.63%	-0.07%
	2013	1,088,987	1,011,885	-7.08%	-8.70%	-6.55%	-0.37%	-0.65%	-0.07%
Poland	2009	937,802	937,802	-	-	-	-	-	-
	2010	938,249	938,249	-	-	-	-	-	-
	2011	936,915	894,340	-4.54%	-5.50%	-4.12%	-0.23%	-0.42%	-0.04%
	2012	939,304	896,729	-4.53%	-5.48%	-4.09%	-0.23%	-0.42%	-0.04%
	2013	941,007	898,431	-4.52%	-5.48%	-4.07%	-0.23%	-0.42%	-0.04%
Romania	2009	790,263	776,349	-1.76%	-2.13%	-1.65%	-0.09%	-0.16%	-0.02%
	2010	784,243	770,331	-1.77%	-2.15%	-1.66%	-0.09%	-0.16%	-0.02%
	2011-2012	784,235	770,322	-1.77%	-2.15%	-1.67%	-0.09%	-0.16%	-0.02%
	2013	785,565	751,182	-4.38%	-5.30%	-4.11%	-0.22%	-0.40%	-0.04%
Slovenia	2009	983,000	956,426	-2.70%	-3.24%	-2.70%	-0.13%	-0.24%	-0.03%
	2010-2011	936,624	892,346	-4.73%	-5.66%	-4.72%	-0.24%	-0.43%	-0.05%
	2012	843,742	752,617	-10.80%	-12.94%	-10.77%	-0.54%	-0.98%	-0.11%
	2013	797,236	711,133	-10.80%	-12.94%	-10.74%	-0.54%	-0.98%	-0.11%
Spain	2009-2010	1,655,304	1,180,482	-28.68%	-33.26%	-20.21%	-29.50%	-25.44%	-43.09%
	2011	1,655,304	1,100,056	-33.54%	-38.64%	-22.98%	-34.80%	-30.12%	-45.55%
	2012-2013	1,655,304	1,105,021	-33.24%	-38.28%	-22.71%	-34.78%	-30.09%	-45.55%
Sweden	2009-2012	1,251,778	1,251,778	-	-	-	-	-	-
	2013	1,054,122	1,054,122	-	-	-	-	-	-
United Kingdom	2009	1,419,642	1,014,043	-28.57%	-32.77%	-16.47%	-22.38%	-19.70%	-16.04%
	2010	1,408,896	1,046,202	-25.74%	-29.73%	-13.46%	-21.20%	-16.42%	-16.71%
	2011	1,318,394	978,534	-25.78%	-29.66%	-15.16%	-19.35%	-14.85%	-15.07%
	2012	1,235,658	926,884	-24.99%	-29.14%	-15.90%	-14.48%	-11.42%	-10.35%
	2013	1,193,995	931,307	-22.00%	-25.89%	-13.52%	-11.05%	-8.58%	-7.88%

5.8 Sensitivity analysis (Effective Tax Burden, micro corporation, corporate level)

Table 5.39 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, micro corporation, fiscal years 2009-2013, profitability)

Country	Year	Base Case			Profitability - 30%		Profitability - 20%		Profitability - 10%		Profitability + 10%		Profitability + 20%		Profitability + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Austria	2009	272,761	267,400	-1.97%	-21.03%	-2.49%	-15.02%	-2.31%	-6.01%	-2.09%	6.01%	-1.85%	15.02%	-1.71%	21.03%	-1.62%
	2010	272,763	267,403	-1.97%	-21.03%	-2.49%	-15.02%	-2.31%	-6.01%	-2.09%	6.01%	-1.85%	15.02%	-1.71%	21.03%	-1.62%
	2011-2013	272,763	266,066	-2.46%	-21.03%	-3.11%	-15.02%	-2.89%	-6.01%	-2.61%	6.01%	-2.32%	15.02%	-2.14%	21.03%	-2.03%
Belgium	2009	300,732	267,223	-11.14%	-23.94%	-12.26%	-17.11%	-12.00%	-6.85%	-11.50%	6.84%	-10.74%	17.11%	-9.94%	23.96%	-9.48%
	2010	300,732	261,346	-13.10%	-23.94%	-14.08%	-17.11%	-13.93%	-6.85%	-13.48%	6.84%	-12.71%	17.11%	-11.89%	23.96%	-11.41%
	2011	300,732	261,339	-13.10%	-23.94%	-14.09%	-17.11%	-13.93%	-6.85%	-13.48%	6.84%	-12.72%	17.11%	-11.89%	23.96%	-11.41%
	2012	298,891	258,505	-13.51%	-24.09%	-14.91%	-17.22%	-14.71%	-6.89%	-13.97%	6.89%	-12.97%	17.22%	-12.11%	24.10%	-11.61%
	2013	298,891	258,524	-13.51%	-24.09%	-14.90%	-17.22%	-14.70%	-6.89%	-13.96%	6.89%	-12.96%	17.22%	-12.10%	24.10%	-11.61%
Bulgaria	2009	92,653	92,653	-	-24.95%	-	-17.82%	-	-7.13%	-	7.13%	-	17.82%	-	24.95%	-
	2010	92,719	92,719	-	-24.93%	-	-17.81%	-	-7.12%	-	7.12%	-	17.81%	-	24.93%	-
	2011-2012	94,666	94,666	-	-24.42%	-	-17.44%	-	-6.98%	-	6.98%	-	17.44%	-	24.42%	-
	2013	94,665	94,665	-	-24.42%	-	-17.44%	-	-6.98%	-	6.98%	-	17.44%	-	24.42%	-
Croatia	2009	179,725	163,132	-9.23%	-26.16%	-12.50%	-18.78%	-11.38%	-7.51%	-9.96%	7.37%	-8.63%	18.36%	-7.83%	25.69%	-7.38%
	2010-2011	179,558	162,977	-9.23%	-26.17%	-12.51%	-18.78%	-11.38%	-7.51%	-9.96%	7.37%	-8.64%	18.36%	-7.83%	25.69%	-7.38%
	2012	179,308	81,249	-54.69%	-26.18%	-56.93%	-18.79%	-56.23%	-7.52%	-55.18%	7.37%	-54.36%	18.37%	-53.93%	25.70%	-53.68%
	2013	179,309	81,250	-54.69%	-26.18%	-56.93%	-18.79%	-56.23%	-7.52%	-55.18%	7.37%	-54.36%	18.37%	-53.93%	25.70%	-53.68%
Estonia	2009-2013	191,108	191,108	-	-24.31%	-	-17.37%	-	-6.95%	-	6.95%	-	17.37%	-	24.31%	-
Finland	2009	240,109	239,564	-0.23%	-25.15%	-0.30%	-18.04%	-0.28%	-7.09%	-0.24%	7.22%	-0.21%	18.04%	-0.19%	25.22%	-0.18%
	2010	243,408	242,864	-0.22%	-24.81%	-0.30%	-17.81%	-0.27%	-6.99%	-0.24%	7.12%	-0.21%	17.79%	-0.19%	24.88%	-0.18%
	2011	246,559	245,732	-0.34%	-24.19%	-0.44%	-17.27%	-0.41%	-6.91%	-0.36%	6.91%	-0.31%	17.28%	-0.29%	24.19%	-0.27%
	2012	233,094	232,315	-0.33%	-24.12%	-0.44%	-17.23%	-0.41%	-6.89%	-0.36%	6.89%	-0.31%	17.23%	-0.29%	24.13%	-0.27%

Country	Year	Base Case			Profitability - 30%		Profitability - 20%		Profitability - 10%		Profitability + 10%		Profitability + 20%		Profitability + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2013	230,005	220,605	-4.09%	-24.79%	-5.43%	-17.80%	-4.96%	-6.98%	-4.39%	7.12%	-3.80%	17.79%	-3.45%	24.86%	-3.27%
France	2009	323,012	221,108	-31.55%	-23.65%	-65.91%	-16.89%	-65.07%	-6.76%	-64.59%	6.76%	-63.77%	16.89%	-63.50%	23.65%	-63.05%
	2010	328,992	227,090	-30.97%	-23.22%	-63.57%	-16.59%	-62.94%	-6.63%	-62.70%	6.63%	-62.12%	16.59%	-62.00%	23.22%	-61.64%
	2011	336,247	243,711	-27.52%	-22.77%	-35.87%	-16.26%	-33.12%	-6.51%	-29.69%	6.51%	-25.85%	16.27%	-23.70%	22.77%	-22.25%
	2012	352,915	261,672	-25.85%	-22.92%	-33.77%	-16.37%	-31.15%	-6.55%	-27.90%	6.55%	-24.28%	16.38%	-22.25%	22.93%	-20.88%
	2013	322,756	231,973	-28.13%	-25.07%	-37.79%	-17.90%	-34.52%	-7.16%	-30.55%	7.16%	-26.26%	17.91%	-23.89%	25.07%	-22.33%
Germany	2009-2010	282,342	281,951	-0.14%	-25.07%	-0.19%	-17.91%	-0.17%	-7.16%	-0.15%	7.16%	-0.13%	17.91%	-0.12%	25.07%	-0.11%
	2011	284,188	283,794	-0.14%	-25.08%	-0.18%	-17.91%	-0.17%	-7.17%	-0.15%	7.16%	-0.13%	17.91%	-0.12%	25.07%	-0.11%
	2012	285,063	284,670	-0.14%	-25.05%	-0.18%	-17.90%	-0.17%	-7.16%	-0.15%	7.16%	-0.13%	17.90%	-0.12%	25.05%	-0.11%
	2013	286,898	286,498	-0.14%	-25.00%	-0.18%	-17.86%	-0.17%	-7.14%	-0.15%	7.14%	-0.13%	17.86%	-0.12%	25.00%	-0.11%
Greece	2009	229,841	229,063	-0.34%	-24.96%	-0.45%	-17.83%	-0.41%	-7.13%	-0.36%	7.13%	-0.32%	17.83%	-0.29%	24.96%	-0.27%
	2010	220,775	220,222	-0.25%	-25.08%	-0.34%	-17.83%	-0.30%	-7.13%	-0.27%	7.13%	-0.23%	17.83%	-0.21%	24.96%	-0.20%
	2011-2012	185,994	185,367	-0.34%	-24.87%	-0.45%	-17.67%	-0.41%	-7.07%	-0.36%	7.07%	-0.31%	17.67%	-0.29%	24.73%	-0.27%
	2013	242,676	239,481	-1.32%	-24.55%	-1.75%	-17.55%	-1.60%	-7.02%	-1.42%	7.02%	-1.23%	17.55%	-1.12%	24.57%	-1.06%
Hungary	2009	196,457	196,457	-	-18.91%	-	-13.51%	-	-5.40%	-	5.40%	-	13.51%	-	19.12%	-
	2010	165,774	165,774	-	-16.68%	-	-11.91%	-	-4.76%	-	4.77%	-	11.94%	-	16.96%	-
	2011	158,201	158,201	-	-17.52%	-	-12.48%	-	-5.00%	-	4.99%	-	12.56%	-	17.81%	-
	2012	164,243	164,243	-	-17.17%	-	-12.00%	-	-4.80%	-	4.81%	-	12.06%	-	17.13%	-
	2013	163,955	163,955	-	-17.20%	-	-12.02%	-	-4.81%	-	4.81%	-	12.09%	-	17.16%	-
Ireland	2009	126,260	74,488	-41.00%	-22.85%	-44.39%	-16.32%	-43.24%	-6.53%	-41.80%	6.53%	-40.30%	16.32%	-39.40%	22.85%	-38.88%
	2010	126,052	74,272	-41.08%	-22.89%	-44.50%	-16.35%	-43.33%	-6.54%	-41.89%	6.54%	-40.37%	16.35%	-39.46%	22.89%	-38.94%
	2011	125,985	70,968	-43.67%	-22.90%	-56.64%	-16.35%	-52.21%	-6.54%	-46.73%	6.54%	-40.99%	16.36%	-37.53%	22.90%	-35.53%
	2012	125,812	56,882	-54.79%	-22.93%	-71.09%	-16.38%	-65.52%	-6.55%	-58.63%	6.55%	-51.42%	16.38%	-47.08%	22.93%	-44.57%
	2013	125,756	56,830	-54.81%	-22.94%	-71.13%	-16.38%	-65.55%	-6.55%	-58.65%	6.56%	-51.44%	16.39%	-47.10%	22.94%	-44.58%
Italy	2009	319,232	312,720	-2.04%	-22.32%	-2.63%	-15.94%	-2.43%	-6.39%	-2.18%	6.39%	-1.92%	15.97%	-1.76%	22.35%	-1.67%
	2010	313,807	307,293	-2.08%	-22.70%	-2.69%	-16.22%	-2.48%	-6.50%	-2.22%	6.50%	-1.95%	16.24%	-1.79%	22.74%	-1.69%
	2011	312,694	311,320	-0.44%	-22.79%	-0.57%	-16.29%	-0.53%	-6.52%	-0.47%	6.52%	-0.41%	16.30%	-0.38%	22.82%	-0.36%
	2012-	303,414	289,269	-4.66%	-23.21%	-6.08%	-16.59%	-5.60%	-6.64%	-5.00%	6.64%	-4.37%	16.60%	-4.00%	23.24%	-3.78%

Country	Year	Base Case			Profitability - 30%		Profitability - 20%		Profitability - 10%		Profitability + 10%		Profitability + 20%		Profitability + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2013															
Lithuania	2009	187,901	124,178	-33.91%	-24.48%	-34.78%	-17.49%	-34.48%	-7.00%	-34.11%	7.00%	-33.74%	17.49%	-33.52%	24.48%	-33.39%
	2010-2011	145,766	71,255	-51.12%	-23.73%	-48.43%	-16.95%	-49.35%	-6.78%	-50.49%	6.78%	-51.66%	16.95%	-52.37%	23.73%	-52.77%
	2012	145,766	50,805	-65.15%	-23.73%	-64.72%	-16.95%	-64.87%	-6.78%	-65.05%	6.78%	-65.23%	16.95%	-65.34%	23.73%	-65.40%
	2013	163,287	70,471	-56.84%	-21.18%	-54.25%	-15.13%	-55.12%	-6.05%	-56.22%	6.05%	-57.39%	15.13%	-58.11%	21.18%	-58.53%
Luxembourg	2009-2010	268,227	267,490	-0.27%	-25.69%	-0.37%	-18.35%	-0.34%	-7.34%	-0.30%	7.34%	-0.26%	18.35%	-0.23%	25.70%	-0.22%
	2011-2012	270,031	269,291	-0.27%	-25.69%	-0.37%	-18.35%	-0.34%	-7.34%	-0.30%	7.34%	-0.26%	18.35%	-0.23%	25.70%	-0.22%
	2013	274,267	272,547	-0.63%	-25.64%	-0.84%	-18.31%	-0.77%	-7.32%	-0.68%	7.32%	-0.58%	18.31%	-0.53%	25.64%	-0.50%
Netherlands	2009	200,796	193,120	-3.82%	-26.47%	-5.20%	-18.91%	-4.72%	-7.56%	-4.14%	7.60%	-3.55%	19.11%	-3.21%	26.79%	-3.01%
	2010	202,754	195,076	-3.79%	-26.22%	-5.13%	-18.73%	-4.66%	-7.49%	-4.09%	7.52%	-3.52%	18.92%	-3.18%	26.53%	-2.99%
	2011	186,153	177,002	-4.92%	-24.71%	-6.53%	-17.65%	-5.97%	-7.06%	-5.29%	7.06%	-4.59%	17.65%	-4.18%	24.71%	-3.94%
	2012	186,289	175,939	-5.56%	-24.69%	-7.38%	-17.63%	-6.75%	-7.05%	-5.98%	7.05%	-5.19%	17.64%	-4.72%	24.69%	-4.45%
	2013	186,401	175,850	-5.66%	-24.67%	-7.51%	-17.62%	-6.87%	-7.05%	-6.09%	7.05%	-5.29%	17.62%	-4.81%	24.67%	-4.54%
Poland	2009	183,962	183,236	-0.39%	-23.77%	-0.31%	-16.98%	-0.45%	-6.79%	-0.42%	6.79%	-0.37%	16.98%	-0.34%	23.77%	-0.32%
	2010	184,074	183,345	-0.40%	-23.76%	-0.31%	-16.97%	-0.45%	-6.79%	-0.42%	6.79%	-0.37%	16.97%	-0.34%	23.75%	-0.32%
	2011	183,747	177,125	-3.60%	-23.80%	-4.73%	-17.00%	-4.34%	-6.80%	-3.87%	6.80%	-3.37%	17.00%	-3.08%	23.80%	-2.91%
	2012	184,336	177,713	-3.59%	-23.72%	-4.71%	-16.94%	-4.32%	-6.78%	-3.85%	6.78%	-3.36%	16.94%	-3.07%	23.72%	-2.90%
	2013	184,766	178,143	-3.58%	-23.67%	-4.70%	-16.90%	-4.31%	-6.76%	-3.84%	6.76%	-3.36%	16.91%	-3.07%	23.67%	-2.90%
Romania	2009	154,907	152,861	-1.32%	-23.80%	-1.73%	-17.00%	-1.59%	-6.80%	-1.42%	6.80%	-1.24%	17.00%	-1.13%	23.80%	-1.07%
	2010	153,723	151,674	-1.33%	-23.46%	-1.60%	-16.89%	-1.47%	-6.85%	-1.43%	6.85%	-1.25%	17.13%	-1.14%	23.98%	-1.07%
	2011-2012	153,713	151,664	-1.33%	-24.44%	-1.75%	-17.35%	-1.60%	-6.85%	-1.43%	6.85%	-1.25%	17.13%	-1.14%	23.98%	-1.07%
	2013	154,053	148,997	-3.28%	-24.39%	-4.31%	-17.32%	-3.94%	-6.84%	-3.52%	6.84%	-3.07%	17.09%	-2.80%	23.93%	-2.65%
Slovenia	2009	190,169	186,238	-2.07%	-25.38%	-2.77%	-18.13%	-2.53%	-7.25%	-2.23%	7.25%	-1.93%	18.13%	-1.75%	25.38%	-1.65%
	2010-2011	181,199	174,667	-3.60%	-25.38%	-4.83%	-18.13%	-4.40%	-7.25%	-3.89%	7.25%	-3.36%	18.13%	-3.05%	25.38%	-2.87%
	2012	163,235	149,820	-8.22%	-25.38%	-11.01%	-18.13%	-10.04%	-7.25%	-8.86%	7.25%	-7.66%	18.13%	-6.96%	25.38%	-6.55%
	2013	154,239	137,163	-11.07%	-25.38%	-17.07%	-18.13%	-17.00%	-7.25%	-11.43%	7.25%	-10.76%	18.13%	-10.36%	25.38%	-6.55%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Profitability - 30%		Profitability - 20%		Profitability - 10%		Profitability + 10%		Profitability + 20%		Profitability + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Spain	2009-2010	321,052	159,785	-50.23%	-25.06%	-53.40%	-17.90%	-52.35%	-7.16%	-51.04%	7.16%	-49.53%	17.90%	-48.64%	25.06%	-48.14%
	2011	321,052	154,905	-51.75%	-25.06%	-54.57%	-17.90%	-53.55%	-7.16%	-52.44%	7.16%	-51.16%	17.90%	-50.40%	25.06%	-49.97%
	2012-2013	321,052	155,643	-51.52%	-25.06%	-54.26%	-17.90%	-53.27%	-7.16%	-52.19%	7.16%	-50.94%	17.90%	-50.20%	25.06%	-49.78%
Sweden	2009-2012	243,006	243,006	-	-24.81%	-	-17.72%	-	-7.09%	-	7.09%	-	17.72%	-	24.81%	-
	2013	204,894	204,894	-	-24.67%	-	-17.62%	-	-7.05%	-	7.05%	-	17.62%	-	24.67%	-
United Kingdom	2009	280,983	217,033	-22.76%	-22.83%	-22.17%	-16.30%	-22.37%	-6.52%	-22.62%	6.52%	-22.88%	16.31%	-23.04%	22.83%	-23.13%
	2010	278,303	214,029	-23.09%	-23.05%	-22.60%	-16.46%	-22.77%	-6.59%	-22.98%	6.59%	-23.20%	16.46%	-23.33%	23.05%	-23.40%
	2011	260,897	205,288	-21.31%	-22.85%	-20.86%	-16.32%	-21.01%	-6.53%	-21.21%	6.53%	-21.41%	16.32%	-21.53%	22.85%	-21.60%
	2012	245,428	206,872	-15.71%	-22.45%	-15.48%	-16.03%	-15.56%	-6.41%	-15.65%	6.41%	-15.76%	16.03%	-15.82%	22.44%	-15.85%
	2013	237,622	207,695	-12.59%	-22.23%	-12.50%	-15.88%	-12.53%	-6.35%	-12.57%	6.35%	-12.61%	15.88%	-12.64%	22.23%	-12.65%

Table 5.40 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, micro corporation, fiscal years 2009-2013, capital intensity)

Country	Year	Base Case			Capital Intensity - 15%		Capital Intensity - 10%		Capital Intensity - 5%		Capital Intensity + 5%		Capital Intensity + 10%		Capital Intensity + 15%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Austria	2009	272,761	267,400	-1.97%	9.33%	-1.80%	6.20%	-1.85%	3.07%	-1.91%	-3.08%	-2.03%	-5.88%	-2.09%	-8.81%	-2.15%
	2010	272,763	267,403	-1.97%	9.33%	-1.80%	6.20%	-1.85%	3.07%	-1.91%	-3.08%	-2.03%	-5.88%	-2.09%	-8.81%	-2.15%
	2011-2013	272,763	266,066	-2.46%	9.33%	-2.25%	6.20%	-2.31%	3.07%	-2.38%	-3.08%	-2.53%	-5.88%	-2.61%	-8.81%	-2.69%
Belgium	2009	300,732	267,223	-11.14%	10.77%	-10.53%	7.16%	-10.79%	3.54%	-11.06%	-3.54%	-11.17%	-6.73%	-11.17%	-10.09%	-11.18%
	2010	300,732	261,346	-13.10%	10.77%	-12.28%	7.16%	-12.62%	3.54%	-12.96%	-3.54%	-13.21%	-6.73%	-13.30%	-10.09%	-13.35%
	2011	300,732	261,339	-13.10%	10.77%	-12.28%	7.16%	-12.62%	3.54%	-12.97%	-3.54%	-13.22%	-6.73%	-13.30%	-10.09%	-13.35%
	2012	298,891	258,505	-13.51%	10.93%	-12.51%	7.26%	-12.86%	3.59%	-13.22%	-3.59%	-13.69%	-6.84%	-13.80%	-10.24%	-13.94%
	2013	298,891	258,524	-13.51%	10.93%	-12.50%	7.26%	-12.85%	3.59%	-13.22%	-3.59%	-13.69%	-6.84%	-13.80%	-10.24%	-13.94%
Bulgaria	2009	92,653	92,653	-	11.03%	-	7.33%	-	3.63%	-	-3.64%	-	-6.96%	-	-10.42%	-
	2010	92,719	92,719	-	11.02%	-	7.32%	-	3.61%	-	-3.65%	-	-6.95%	-	-10.40%	-
	2011-2012	94,666	94,666	-	10.48%	-	6.97%	-	3.45%	-	-3.46%	-	-6.58%	-	-9.86%	-
	2013	94,665	94,665	-	10.48%	-	6.97%	-	3.45%	-	-3.46%	-	-6.58%	-	-9.86%	-
Croatia	2009	179,725	163,132	-9.23%	11.72%	-8.30%	7.80%	-8.60%	3.88%	-8.92%	-4.16%	-9.63%	-7.89%	-10.04%	-11.54%	-10.44%
	2010-2011	179,558	162,977	-9.23%	11.72%	-8.30%	7.80%	-8.60%	3.88%	-8.92%	-4.16%	-9.63%	-7.89%	-10.04%	-11.54%	-10.44%
	2012	179,308	81,249	-54.69%	11.73%	-54.17%	7.81%	-54.34%	3.88%	-54.52%	-4.17%	-55.10%	-7.90%	-55.51%	-11.55%	-55.75%
	2013	179,309	81,250	-54.69%	11.73%	-54.17%	7.80%	-54.34%	3.88%	-54.52%	-4.17%	-55.10%	-7.90%	-55.51%	-11.55%	-55.75%
Estonia	2009-2013	191,108	191,108	-	10.41%	-	6.91%	-	3.42%	-	-3.44%	-	-6.54%	-	-9.81%	-
Finland	2009	240,109	239,564	-0.23%	11.21%	-0.20%	7.58%	-0.21%	3.77%	-0.22%	-3.57%	-0.24%	-7.11%	-0.24%	-10.51%	-0.25%
	2010	243,408	242,864	-0.22%	10.85%	-0.20%	7.34%	-0.21%	3.64%	-0.22%	-3.47%	-0.23%	-6.90%	-0.24%	-10.16%	-0.25%
	2011	246,559	245,732	-0.34%	10.20%	-0.30%	6.78%	-0.32%	3.35%	-0.33%	-3.37%	-0.35%	-6.41%	-0.36%	-9.60%	-0.37%
	2012	233,094	232,315	-0.33%	10.14%	-0.31%	6.74%	-0.31%	3.33%	-0.32%	-3.35%	-0.35%	-6.37%	-0.36%	-9.54%	-0.37%
	2013	230,005	220,605	-4.09%	10.83%	-3.69%	7.34%	-3.81%	3.64%	-3.92%	-3.45%	-4.21%	-6.89%	-4.38%	-10.14%	-4.54%
France	2009	323,012	221,108	-31.55%	10.19%	-64.02%	6.77%	-64.01%	3.35%	-63.99%	-3.36%	-63.96%	-6.41%	-63.93%	-9.61%	-63.91%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Capital Intensity - 15%		Capital Intensity - 10%		Capital Intensity - 5%		Capital Intensity + 5%		Capital Intensity + 10%		Capital Intensity + 15%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives		% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
			Tax Burden	Total Effect												
	2010	328,992	227,090	-30.97%	9.76%	-62.63%	6.48%	-62.50%	3.20%	-62.37%	-3.22%	-62.06%	-6.13%	-61.89%	-9.19%	-61.71%
	2011	336,247	243,711	-27.52%	9.24%	-25.19%	6.14%	-25.93%	3.04%	-26.71%	-3.05%	-28.39%	-5.79%	-29.21%	-8.68%	-30.14%
	2012	352,915	261,672	-25.85%	9.38%	-23.64%	6.23%	-24.34%	3.08%	-25.08%	-3.10%	-26.68%	-5.88%	-27.47%	-8.82%	-28.35%
	2013	322,756	231,973	-28.13%	10.26%	-25.51%	6.81%	-26.33%	3.37%	-27.21%	-3.39%	-29.11%	-6.43%	-30.06%	-9.64%	-31.13%
Germany	2009-2010	282,342	281,951	-0.14%	11.14%	-0.11%	7.40%	-0.12%	3.66%	-0.13%	-3.67%	-0.15%	-7.01%	-0.16%	-10.51%	-0.18%
	2011	284,188	283,794	-0.14%	11.14%	-0.10%	7.40%	-0.12%	3.66%	-0.13%	-3.67%	-0.15%	-7.02%	-0.16%	-10.51%	-0.18%
	2012	285,063	284,670	-0.14%	11.11%	-0.11%	7.39%	-0.12%	3.66%	-0.13%	-3.67%	-0.15%	-7.00%	-0.16%	-10.49%	-0.18%
	2013	286,898	286,498	-0.14%	11.08%	-0.11%	7.36%	-0.12%	3.64%	-0.13%	-3.66%	-0.15%	-6.99%	-0.16%	-10.47%	-0.18%
Greece	2009	229,841	229,063	-0.34%	11.01%	-0.31%	7.32%	-0.32%	3.62%	-0.33%	-3.63%	-0.35%	-6.93%	-0.36%	-10.39%	-0.38%
	2010	220,775	220,222	-0.25%	11.01%	-0.23%	7.32%	-0.23%	3.62%	-0.24%	-3.63%	-0.26%	-6.95%	-0.27%	-10.60%	-0.28%
	2011-2012	185,994	185,367	-0.34%	10.84%	-0.30%	7.20%	-0.31%	3.56%	-0.32%	-3.58%	-0.35%	-6.83%	-0.36%	-10.48%	-0.38%
	2013	242,676	239,481	-1.32%	10.67%	-1.19%	7.09%	-1.23%	3.51%	-1.27%	-3.52%	-1.37%	-6.71%	-1.41%	-10.06%	-1.46%
Hungary	2009	196,457	196,457	-	7.00%	-	4.51%	-	2.13%	-	-2.11%	-	-4.02%	-	-6.03%	-
	2010	165,774	165,774	-	6.11%	-	3.89%	-	1.80%	-	-1.73%	-	-3.35%	-	-5.03%	-
	2011	158,201	158,201	-	6.29%	-	4.04%	-	1.84%	-	-1.76%	-	-3.42%	-	-5.13%	-
	2012	164,243	164,243	-	6.09%	-	3.89%	-	1.78%	-	-1.69%	-	-3.29%	-	-5.19%	-
	2013	163,955	163,955	-	6.13%	-	3.91%	-	1.79%	-	-1.71%	-	-3.31%	-	-5.22%	-
Ireland	2009	126,260	74,488	-41.00%	8.98%	-40.01%	5.96%	-40.33%	2.94%	-40.67%	-2.96%	-41.40%	-5.61%	-41.75%	-8.41%	-42.15%
	2010	126,052	74,272	-41.08%	9.01%	-40.07%	5.99%	-40.39%	2.95%	-40.74%	-2.97%	-41.48%	-5.64%	-41.83%	-8.44%	-42.25%
	2011	125,985	70,968	-43.67%	9.03%	-40.05%	6.00%	-41.20%	2.97%	-42.41%	-2.98%	-45.01%	-5.64%	-46.28%	-8.45%	-47.70%
	2012	125,812	56,882	-54.79%	9.06%	-50.24%	6.02%	-51.68%	2.98%	-53.21%	-2.99%	-56.48%	-5.67%	-58.08%	-8.49%	-59.87%
	2013	125,756	56,830	-54.81%	9.08%	-50.25%	6.03%	-51.69%	2.98%	-53.23%	-2.99%	-56.50%	-5.67%	-58.11%	-8.50%	-59.90%
Italy	2009	319,232	312,720	-2.04%	9.80%	-1.86%	6.52%	-1.92%	3.23%	-1.98%	-3.25%	-2.11%	-6.22%	-2.18%	-9.32%	-2.25%
	2010	313,807	307,293	-2.08%	9.97%	-1.89%	6.63%	-1.95%	3.28%	-2.01%	-3.31%	-2.15%	-6.33%	-2.22%	-9.48%	-2.29%
	2011	312,694	311,320	-0.44%	10.12%	-0.40%	6.73%	-0.41%	3.33%	-0.43%	-3.35%	-0.45%	-6.42%	-0.47%	-9.62%	-0.49%
	2012-2013	303,414	289,269	-4.66%	10.22%	-4.23%	6.79%	-4.37%	3.36%	-4.51%	-3.38%	-4.83%	-6.48%	-4.98%	-9.71%	-5.16%
Lithuania	2009	187,901	124,178	-33.91%	10.51%	-34.60%	6.98%	-34.39%	3.45%	-34.17%	-3.47%	-33.68%	-6.61%	-33.38%	-9.90%	-33.09%

Country	Year	Base Case			Capital Intensity - 15%		Capital Intensity - 10%		Capital Intensity - 5%		Capital Intensity + 5%		Capital Intensity + 10%		Capital Intensity + 15%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2010-2011	145,766	71,255	-51.12%	9.72%	-53.92%	6.46%	-53.04%	3.19%	-52.12%	-3.21%	-50.11%	-6.10%	-49.01%	-9.14%	-47.86%
	2012	145,766	50,805	-65.15%	9.72%	-66.03%	6.46%	-65.75%	3.19%	-65.46%	-3.21%	-64.81%	-6.10%	-64.46%	-9.14%	-64.08%
	2013	163,287	70,471	-56.84%	7.07%	-59.36%	4.69%	-58.56%	2.31%	-57.72%	-2.33%	-55.92%	-4.37%	-54.99%	-6.55%	-54.01%
Luxembourg	2009-2010	268,227	267,490	-0.27%	10.59%	-0.25%	7.04%	-0.26%	3.48%	-0.27%	-3.37%	-0.29%	-6.31%	-0.29%	-9.46%	-0.30%
	2011-2012	270,031	269,291	-0.27%	10.60%	-0.25%	7.04%	-0.26%	3.48%	-0.27%	-3.37%	-0.29%	-6.32%	-0.29%	-9.47%	-0.30%
	2013	274,267	272,547	-0.63%	10.59%	-0.57%	7.04%	-0.59%	3.48%	-0.61%	-3.37%	-0.65%	-6.32%	-0.67%	-9.46%	-0.69%
Netherlands	2009	200,796	193,120	-3.82%	11.86%	-3.42%	7.85%	-3.54%	3.84%	-3.68%	-3.84%	-3.98%	-7.33%	-4.13%	-10.98%	-4.30%
	2010	202,754	195,076	-3.79%	11.60%	-3.39%	7.68%	-3.52%	3.76%	-3.65%	-3.76%	-3.93%	-7.16%	-4.08%	-10.73%	-4.24%
	2011	186,153	177,002	-4.92%	10.76%	-4.44%	7.15%	-4.59%	3.54%	-4.75%	-3.55%	-5.10%	-6.77%	-5.27%	-10.15%	-5.47%
	2012	186,289	175,939	-5.56%	10.74%	-5.02%	7.14%	-5.19%	3.53%	-5.37%	-3.55%	-5.76%	-6.76%	-5.96%	-10.13%	-6.18%
	2013	186,401	175,850	-5.66%	10.73%	-5.11%	7.13%	-5.28%	3.53%	-5.47%	-3.54%	-5.87%	-6.75%	-6.07%	-10.12%	-6.30%
Poland	2009	183,962	183,236	-0.39%	9.77%	-0.31%	6.52%	-0.34%	3.22%	-0.37%	-3.19%	-0.43%	-6.10%	-0.47%	-9.17%	-0.44%
	2010	184,074	183,345	-0.40%	9.75%	-0.31%	6.51%	-0.34%	3.22%	-0.36%	-3.18%	-0.43%	-6.09%	-0.46%	-9.16%	-0.44%
	2011	183,747	177,125	-3.60%	9.79%	-3.26%	6.53%	-3.37%	3.23%	-3.48%	-3.20%	-3.73%	-6.13%	-3.86%	-9.20%	-4.00%
	2012	184,336	177,713	-3.59%	9.71%	-3.25%	6.49%	-3.36%	3.21%	-3.47%	-3.17%	-3.72%	-6.07%	-3.84%	-9.12%	-3.99%
	2013	184,766	178,143	-3.58%	9.65%	-3.24%	6.45%	-3.35%	3.19%	-3.47%	-3.15%	-3.71%	-6.04%	-3.84%	-9.07%	-3.97%
Romania	2009	154,907	152,861	-1.32%	9.80%	-1.20%	6.51%	-1.24%	3.22%	-1.28%	-3.24%	-1.37%	-6.15%	-1.41%	-9.22%	-1.46%
	2010	153,723	151,674	-1.33%	9.96%	-1.21%	6.62%	-1.25%	3.27%	-1.29%	-3.30%	-1.38%	-5.94%	-1.30%	-8.65%	-1.46%
	2011-2012	153,713	151,664	-1.33%	9.97%	-1.21%	6.62%	-1.25%	3.28%	-1.29%	-3.29%	-1.38%	-6.54%	-1.41%	-9.98%	-1.48%
	2013	154,053	148,997	-3.28%	9.91%	-2.99%	6.58%	-3.08%	3.25%	-3.18%	-3.28%	-3.39%	-6.51%	-3.49%	-9.93%	-3.64%
Slovenia	2009	190,169	186,238	-2.07%	11.45%	-1.85%	7.61%	-1.92%	3.77%	-1.99%	-3.78%	-2.15%	-7.22%	-2.23%	-10.82%	-2.32%
	2010-2011	181,199	174,667	-3.60%	11.45%	-3.23%	7.61%	-3.35%	3.77%	-3.47%	-3.78%	-3.75%	-7.22%	-3.88%	-10.82%	-4.04%
	2012	163,235	149,820	-8.22%	11.45%	-7.37%	7.61%	-7.64%	3.77%	-7.92%	-3.78%	-8.54%	-7.22%	-8.86%	-10.82%	-9.22%
	2013	154,239	137,163	-11.07%	11.46%	-10.74%	7.61%	-10.84%	3.77%	-10.96%	-3.78%	-11.20%	-7.22%	-11.32%	-10.82%	-11.46%
Spain	2009-2010	321,052	159,785	-50.23%	11.13%	-49.51%	7.39%	-49.74%	3.66%	-49.98%	-3.68%	-50.51%	-7.01%	-50.67%	-10.51%	-50.93%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Capital Intensity - 15%		Capital Intensity - 10%		Capital Intensity - 5%		Capital Intensity + 5%		Capital Intensity + 10%		Capital Intensity + 15%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2011	321,052	154,905	-51.75%	11.13%	-50.74%	7.39%	-50.98%	3.66%	-51.23%	-3.68%	-52.07%	-7.01%	-52.28%	-10.51%	-52.59%
	2012-2013	321,052	155,643	-51.52%	11.13%	-50.72%	7.39%	-50.97%	3.66%	-51.24%	-3.68%	-51.83%	-7.01%	-52.03%	-10.51%	-52.33%
Sweden	2009-2012	243,006	243,006	-	10.85%	-	7.21%	-	3.57%	-	-3.59%	-	-6.84%	-	-10.24%	-
	2013	204,894	204,894	-	10.71%	-	7.11%	-	3.52%	-	-3.54%	-	-6.74%	-	-10.10%	-
United Kingdom	2009	280,983	217,033	-22.76%	8.77%	-23.39%	5.82%	-23.19%	2.87%	-22.98%	-2.89%	-22.53%	-5.47%	-22.29%	-8.20%	-22.03%
	2010	278,303	214,029	-23.09%	8.99%	-23.66%	5.98%	-23.48%	2.95%	-23.29%	-2.97%	-22.89%	-5.62%	-22.67%	-8.42%	-22.44%
	2011	260,897	205,288	-21.31%	8.79%	-21.86%	5.84%	-21.69%	2.88%	-21.50%	-2.90%	-21.11%	-5.49%	-20.91%	-8.22%	-20.68%
	2012	245,428	206,872	-15.71%	8.37%	-16.11%	5.56%	-15.98%	2.74%	-15.85%	-2.76%	-15.56%	-5.21%	-15.41%	-7.81%	-15.24%
	2013	237,622	207,695	-12.59%	8.14%	-12.90%	5.41%	-12.81%	2.67%	-12.70%	-2.68%	-12.48%	-5.07%	-12.36%	-7.59%	-12.24%

Table 5.41 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, micro corporation, fiscal years 2009-2013, equity ratio)

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Austria	2009	272,761	267,400	-1.97%	-5.33%	-2.08%	-3.56%	-2.04%	-1.78%	-2.00%	1.78%	-1.93%	3.56%	-1.90%	5.33%	-1.87%
	2010	272,763	267,403	-1.97%	-5.33%	-2.07%	-3.56%	-2.04%	-1.78%	-2.00%	1.78%	-1.93%	3.56%	-1.90%	5.34%	-1.87%
	2011-2013	272,763	266,066	-2.46%	-5.33%	-2.59%	-3.56%	-2.55%	-1.78%	-2.50%	1.78%	-2.41%	3.56%	-2.37%	5.34%	-2.33%
Belgium	2009	300,732	267,223	-11.14%	-0.75%	-11.23%	-1.10%	-11.20%	-0.72%	-11.17%	0.75%	-11.10%	1.49%	-11.06%	2.23%	-11.02%
	2010	300,732	261,346	-13.10%	-0.75%	-12.32%	-1.10%	-12.60%	-0.72%	-12.85%	0.75%	-13.33%	1.49%	-13.56%	2.23%	-13.78%
	2011	300,732	261,339	-13.10%	-0.75%	-12.32%	-1.10%	-12.60%	-0.72%	-12.85%	0.75%	-13.33%	1.49%	-13.56%	2.23%	-13.79%
	2012	298,891	258,505	-13.51%	-0.76%	-12.78%	-1.11%	-13.02%	-0.72%	-13.28%	0.76%	-13.73%	1.50%	-13.96%	2.24%	-14.18%
	2013	298,891	258,524	-13.51%	-0.76%	-12.77%	-1.11%	-13.02%	-0.72%	-13.27%	0.76%	-13.73%	1.50%	-13.95%	2.24%	-14.17%
Bulgaria	2009	92,653	92,653	-	-6.33%	-	-4.21%	-	-2.11%	-	2.11%	-	4.22%	-	6.33%	-
	2010	92,719	92,719	-	-6.32%	-	-4.21%	-	-2.11%	-	2.11%	-	4.22%	-	6.32%	-
	2011-2012	94,666	94,666	-	-6.19%	-	-4.12%	-	-2.06%	-	2.07%	-	4.13%	-	6.19%	-
	2013	94,665	94,665	-	-6.19%	-	-4.13%	-	-2.06%	-	2.07%	-	4.13%	-	6.19%	-
Croatia	2009	179,725	163,132	-9.23%	-6.70%	-9.87%	-4.47%	-9.64%	-2.24%	-9.42%	2.21%	-9.07%	4.38%	-8.88%	6.54%	-8.70%
	2010-2011	179,558	162,977	-9.23%	-6.70%	-9.87%	-4.47%	-9.65%	-2.24%	-9.42%	2.21%	-9.07%	4.38%	-8.88%	6.55%	-8.70%
	2012	179,308	81,249	-54.69%	-6.71%	-55.15%	-4.47%	-54.97%	-2.24%	-54.80%	2.21%	-54.60%	4.38%	-54.50%	6.55%	-54.40%
	2013	179,309	81,250	-54.69%	-6.71%	-55.15%	-4.47%	-54.97%	-2.24%	-54.80%	2.21%	-54.60%	4.38%	-54.50%	6.55%	-54.40%
Estonia	2009-2013	191,108	191,108	-	-6.17%	-	-4.11%	-	-2.06%	-	2.05%	-	4.11%	-	6.16%	-
Finland	2009	240,109	239,564	-0.23%	-6.30%	-0.24%	-4.20%	-0.24%	-2.10%	-0.23%	2.15%	-0.22%	4.29%	-0.22%	6.43%	-0.21%
	2010	243,408	242,864	-0.22%	-6.21%	-0.24%	-4.14%	-0.23%	-2.07%	-0.23%	2.11%	-0.22%	4.23%	-0.21%	6.34%	-0.21%
	2011	246,559	245,732	-0.34%	-6.13%	-0.36%	-4.09%	-0.35%	-2.04%	-0.34%	2.05%	-0.33%	4.09%	-0.32%	6.14%	-0.32%
	2012	233,094	232,315	-0.33%	-6.12%	-0.36%	-4.08%	-0.35%	-2.04%	-0.34%	2.04%	-0.33%	4.08%	-0.32%	6.12%	-0.32%
	2013	230,005	220,605	-4.09%	-6.20%	-4.36%	-4.13%	-4.26%	-2.06%	-4.18%	2.12%	-4.00%	4.23%	-3.91%	6.34%	-3.82%
France	2009	323,012	221,108	-31.55%	-5.98%	-64.19%	-3.99%	-64.12%	-1.99%	-64.05%	1.99%	-63.91%	3.99%	-63.85%	5.98%	-63.79%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2010	328,992	227,090	-30.97%	-5.87%	-62.32%	-3.91%	-62.28%	-1.96%	-62.25%	1.96%	-62.19%	3.92%	-62.16%	5.87%	-62.13%
	2011	336,247	243,711	-27.52%	-5.75%	-29.20%	-3.83%	-28.62%	-1.92%	-28.06%	1.92%	-27.00%	3.83%	-26.50%	5.75%	-26.03%
	2012	352,915	261,672	-25.85%	-5.79%	-21.30%	-3.86%	-26.89%	-1.93%	-26.36%	1.93%	-25.36%	3.86%	-24.89%	5.79%	-24.44%
	2013	322,756	231,973	-28.13%	-6.33%	-30.03%	-4.22%	-29.37%	-2.11%	-28.73%	2.11%	-27.55%	4.22%	-26.99%	6.33%	-26.45%
Germany	2009-2010	282,342	281,951	-0.14%	-6.36%	-0.15%	-4.24%	-0.14%	-2.12%	-0.14%	2.12%	-0.14%	4.24%	-0.13%	6.36%	-0.13%
	2011	284,188	283,794	-0.14%	-6.36%	-0.15%	-4.24%	-0.15%	-2.12%	-0.14%	2.12%	-0.14%	4.24%	-0.13%	6.36%	-0.13%
	2012	285,063	284,670	-0.14%	-6.36%	-0.15%	-4.24%	-0.14%	-2.12%	-0.14%	2.12%	-0.13%	4.24%	-0.13%	6.36%	-0.13%
	2013	286,898	286,498	-0.14%	-6.34%	-0.15%	-4.23%	-0.14%	-2.12%	-0.14%	2.11%	-0.13%	4.23%	-0.13%	6.34%	-0.13%
Greece	2009	229,841	229,063	-0.34%	-6.32%	-0.36%	-4.21%	-0.35%	-2.11%	-0.35%	2.11%	-0.33%	4.22%	-0.33%	6.32%	-0.32%
	2010	220,775	220,222	-0.25%	-6.32%	-0.27%	-4.21%	-0.26%	-2.11%	-0.26%	2.11%	-0.25%	4.22%	-0.24%	6.32%	-0.24%
	2011-2012	185,994	185,367	-0.34%	-6.27%	-0.36%	-4.18%	-0.35%	-2.09%	-0.35%	2.09%	-0.33%	4.18%	-0.32%	6.27%	-0.32%
	2013	242,676	239,481	-1.32%	-6.22%	-1.40%	-4.15%	-1.37%	-2.07%	-1.35%	2.08%	-1.29%	4.15%	-1.26%	6.23%	-1.24%
Hungary	2009	196,457	196,457	-	-2.77%	-	-2.35%	-	-1.34%	-	1.44%	-	2.89%	-	4.34%	-
	2010	165,774	165,774	-	-2.20%	-	-1.89%	-	-1.09%	-	1.18%	-	2.35%	-	3.53%	-
	2011	158,201	158,201	-	-2.34%	-	-2.01%	-	-1.17%	-	1.23%	-	2.46%	-	3.70%	-
	2012	164,243	164,243	-	-2.24%	-	-1.92%	-	-1.11%	-	1.18%	-	2.37%	-	3.56%	-
	2013	163,955	163,955	-	-2.24%	-	-1.93%	-	-1.11%	-	1.19%	-	2.37%	-	3.56%	-
Ireland	2009	126,260	74,488	-41.00%	-5.80%	-41.69%	-3.86%	-41.45%	-1.93%	-41.22%	1.93%	-40.80%	3.87%	-40.59%	5.80%	-40.39%
	2010	126,052	74,272	-41.08%	-5.81%	-41.77%	-3.87%	-41.53%	-1.94%	-41.30%	1.94%	-40.87%	3.87%	-40.66%	5.81%	-40.46%
	2011	125,985	70,968	-43.67%	-5.81%	-46.36%	-3.87%	-45.43%	-1.94%	-44.53%	1.94%	-42.84%	3.87%	-42.04%	5.81%	-41.27%
	2012	125,812	56,882	-54.79%	-5.82%	-58.17%	-3.88%	-57.00%	-1.94%	-55.87%	1.94%	-53.75%	3.88%	-52.74%	5.82%	-51.78%
	2013	125,756	56,830	-54.81%	-5.82%	-58.20%	-3.88%	-57.02%	-1.94%	-55.90%	1.94%	-53.77%	3.88%	-52.76%	5.82%	-51.80%
Italy	2009	319,232	312,720	-2.04%	-5.00%	-2.15%	-3.34%	-2.11%	-1.67%	-2.07%	1.67%	-2.01%	3.34%	-1.97%	5.01%	-1.94%
	2010	313,807	307,293	-2.08%	-5.09%	-2.19%	-3.40%	-2.15%	-1.70%	-2.11%	1.70%	-2.04%	3.40%	-2.01%	5.09%	-1.97%
	2011	312,694	311,320	-0.44%	-4.81%	-0.46%	-3.21%	-0.45%	-1.60%	-0.45%	1.60%	-0.43%	3.21%	-0.42%	4.81%	-0.42%
	2012-2013	303,414	289,269	-4.66%	-4.88%	-4.90%	-3.25%	-4.82%	-1.63%	-4.74%	1.63%	-4.59%	3.26%	-4.51%	4.88%	-4.44%
Lithuania	2009	187,901	124,178	-33.91%	-6.21%	-34.09%	-4.14%	-34.03%	-2.07%	-33.97%	2.07%	-33.86%	4.14%	-33.81%	6.21%	-33.76%

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2010-2011	145,766	71,255	-51.12%	-6.02%	-50.56%	-4.01%	-50.75%	-2.01%	-50.94%	2.01%	-51.29%	4.01%	-51.45%	6.02%	-51.61%
	2012	145,766	50,805	-65.15%	-6.02%	-65.06%	-4.01%	-65.09%	-2.01%	-65.12%	2.01%	-65.17%	4.01%	-65.20%	6.02%	-65.22%
	2013	163,287	70,471	-56.84%	-5.37%	-56.29%	-3.58%	-56.48%	-1.79%	-56.67%	1.79%	-57.01%	3.58%	-57.18%	5.37%	-57.33%
Luxembourg	2009-2010	268,227	267,490	-0.27%	-8.97%	-0.30%	-6.05%	-0.29%	-3.04%	-0.28%	3.09%	-0.27%	6.23%	-0.26%	9.36%	-0.25%
	2011-2012	270,031	269,291	-0.27%	-8.95%	-0.30%	-6.04%	-0.29%	-3.03%	-0.28%	3.09%	-0.27%	6.22%	-0.26%	9.34%	-0.25%
	2013	274,267	272,547	-0.63%	-8.89%	-0.69%	-6.00%	-0.67%	-3.01%	-0.65%	3.07%	-0.61%	6.18%	-0.59%	9.28%	-0.57%
Netherlands	2009	200,796	193,120	-3.82%	-6.72%	-4.10%	-4.48%	-4.00%	-2.24%	-3.91%	2.24%	-3.74%	4.48%	-3.66%	6.74%	-3.58%
	2010	202,754	195,076	-3.79%	-6.65%	-4.06%	-4.43%	-3.96%	-2.22%	-3.87%	2.22%	-3.70%	4.43%	-3.63%	6.67%	-3.55%
	2011	186,153	177,002	-4.92%	-6.27%	-5.24%	-4.18%	-5.13%	-2.09%	-5.02%	2.09%	-4.81%	4.18%	-4.72%	6.27%	-4.63%
	2012	186,289	175,939	-5.56%	-6.26%	-5.93%	-4.17%	-5.80%	-2.09%	-5.67%	2.09%	-5.44%	4.18%	-5.33%	6.26%	-5.23%
	2013	186,401	175,850	-5.66%	-6.26%	-6.04%	-4.17%	-5.91%	-2.09%	-5.78%	2.09%	-5.54%	4.17%	-5.43%	6.26%	-5.33%
Poland	2009	183,962	183,236	-0.39%	-2.82%	-0.41%	-4.02%	-0.41%	-2.01%	-0.40%	2.01%	-0.39%	4.02%	-0.38%	6.03%	-0.37%
	2010	184,074	183,345	-0.40%	-6.02%	-0.42%	-4.02%	-0.41%	-2.01%	-0.40%	2.01%	-0.39%	4.02%	-0.38%	6.03%	-0.37%
	2011	183,747	177,125	-3.60%	-6.04%	-3.84%	-4.02%	-3.75%	-2.01%	-3.68%	2.01%	-3.53%	4.02%	-3.46%	6.04%	-3.40%
	2012	184,336	177,713	-3.59%	-6.02%	-3.82%	-4.01%	-3.74%	-2.01%	-3.67%	2.00%	-3.52%	4.01%	-3.45%	6.02%	-3.39%
	2013	184,766	178,143	-3.58%	-6.00%	-3.81%	-4.00%	-3.73%	-2.00%	-3.66%	2.00%	-3.51%	4.00%	-3.45%	6.00%	-3.38%
Romania	2009	154,907	152,861	-1.32%	-6.02%	-1.41%	-4.02%	-1.38%	-2.01%	-1.35%	2.01%	-1.29%	4.03%	-1.27%	6.04%	-1.25%
	2010	153,723	151,674	-1.33%	-6.07%	-1.42%	-4.06%	-1.39%	-2.03%	-1.36%	2.03%	-1.31%	4.06%	-1.28%	6.08%	-1.26%
	2011-2012	153,713	151,664	-1.33%	-6.07%	-1.42%	-4.06%	-1.39%	-2.03%	-1.36%	2.03%	-1.31%	4.06%	-1.28%	6.08%	-1.26%
	2013	154,053	148,997	-3.28%	-6.05%	-3.49%	-4.05%	-3.42%	-2.02%	-3.35%	2.03%	-3.22%	4.05%	-3.15%	6.07%	-3.09%
Slovenia	2009	190,169	186,238	-2.07%	-6.44%	-2.21%	-4.29%	-2.16%	-2.15%	-2.11%	2.15%	-2.02%	4.29%	-1.98%	6.44%	-1.94%
	2010-2011	181,199	174,667	-3.60%	-6.44%	-3.85%	-4.29%	-3.77%	-2.15%	-3.68%	2.15%	-3.53%	4.29%	-3.46%	6.44%	-3.39%
	2012	163,235	149,820	-8.22%	-6.44%	-8.78%	-4.29%	-8.59%	-2.15%	-8.40%	2.15%	-8.04%	4.29%	-7.88%	6.44%	-7.72%
	2013	154,239	137,163	-11.07%	-6.44%	-11.35%	-4.29%	-11.25%	-2.15%	-11.16%	2.15%	-10.98%	4.29%	-10.90%	6.44%	-10.82%
Spain	2009-2010	321,052	159,785	-50.23%	-6.36%	-50.92%	-4.24%	-50.68%	-2.12%	-50.45%	2.12%	-50.02%	4.24%	-49.82%	6.36%	-49.62%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2011	321,052	154,905	-51.75%	-6.36%	-52.36%	-4.24%	-52.15%	-2.12%	-51.94%	2.12%	-51.57%	4.24%	-51.39%	6.36%	-51.22%
	2012-2013	321,052	155,643	-51.52%	-6.36%	-52.11%	-4.24%	-51.90%	-2.12%	-51.71%	2.12%	-51.34%	4.24%	-51.17%	6.36%	-51.00%
Sweden	2009-2012	243,006	243,006	-	-6.29%	-	-4.20%	-	-2.10%	-	2.10%	-	4.20%	-	6.30%	-
	2013	204,894	204,894	-	-6.26%	-	-4.17%	-	-2.09%	-	2.09%	-	4.17%	-	6.26%	-
United Kingdom	2009	280,983	217,033	-22.76%	-5.79%	-22.64%	-3.86%	-22.68%	-1.93%	-22.72%	1.93%	-22.80%	3.86%	-22.83%	5.79%	-22.87%
	2010	278,303	214,029	-23.09%	-5.85%	-22.99%	-3.90%	-23.03%	-1.95%	-23.06%	1.95%	-23.13%	3.90%	-23.16%	5.85%	-23.19%
	2011	260,897	205,288	-21.31%	-5.80%	-21.22%	-3.86%	-21.25%	-1.93%	-21.28%	1.93%	-21.34%	3.87%	-21.37%	5.80%	-21.40%
	2012	245,428	206,872	-15.71%	-5.69%	-15.66%	-3.80%	-15.68%	-1.90%	-15.69%	1.90%	-15.72%	3.80%	-15.74%	5.69%	-15.75%
	2013	237,622	207,695	-12.59%	-5.64%	-12.58%	-3.76%	-12.58%	-1.88%	-12.59%	1.88%	-12.60%	3.76%	-12.61%	5.64%	-12.61%

Table 5.42 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, micro corporation, fiscal years 2009-2013, labour intensity)

Country	Year	Base Case			Labour Intensity - 30%		Labour Intensity - 20%		Labour Intensity - 10%		Labour Intensity + 10%		Labour Intensity + 20%		Labour Intensity + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Austria	2009	272,761	267,400	-1.97%	-0.17%	-1.97%	0.10%	-1.96%	-0.05%	-1.97%	0.06%	-1.96%	0.11%	-1.96%	0.17%	-1.96%
	2010	272,763	267,403	-1.97%	-0.17%	-1.97%	0.10%	-1.96%	-0.05%	-1.97%	0.05%	-1.96%	0.11%	-1.96%	0.17%	-1.96%
	2011-2013	272,763	266,066	-2.46%	-0.17%	-2.46%	0.10%	-2.45%	-0.05%	-2.46%	0.05%	-2.45%	0.11%	-2.45%	0.17%	-2.45%
Belgium	2009	300,732	267,223	-11.14%	5.54%	-10.64%	3.93%	-10.79%	1.85%	-10.97%	-1.85%	-11.31%	-3.69%	-11.48%	-5.54%	-11.67%
	2010	300,732	261,346	-13.10%	5.54%	-12.56%	3.93%	-12.72%	1.85%	-12.92%	-1.85%	-13.28%	-3.69%	-13.47%	-5.54%	-13.67%
	2011	300,732	261,339	-13.10%	5.54%	-12.56%	3.93%	-12.72%	1.85%	-12.92%	-1.85%	-13.28%	-3.69%	-13.48%	-5.54%	-13.68%
	2012	298,891	258,505	-13.51%	5.58%	-12.89%	3.96%	-13.08%	1.86%	-13.31%	-1.86%	-13.72%	-3.72%	-13.94%	-5.57%	-14.16%
	2013	298,891	258,524	-13.51%	5.58%	-12.88%	3.96%	-13.08%	1.86%	-13.30%	-1.86%	-13.71%	-3.72%	-13.93%	-5.57%	-14.16%
Bulgaria	2009	92,653	92,653	-	5.59%	-	3.98%	-	1.87%	-	-1.87%	-	-3.72%	-	-5.58%	-
	2010	92,719	92,719	-	5.59%	-	3.98%	-	1.87%	-	-1.87%	-	-3.72%	-	-5.58%	-
	2011-2012	94,666	94,666	-	5.47%	-	3.90%	-	1.83%	-	-1.83%	-	-3.64%	-	-5.47%	-
	2013	94,665	94,665	-	5.47%	-	3.90%	-	1.83%	-	-1.83%	-	-3.64%	-	-5.46%	-
Croatia	2009	179,725	163,132	-9.23%	5.80%	-8.76%	4.13%	-8.90%	1.96%	-9.08%	-1.95%	-9.40%	-3.90%	-9.59%	-5.85%	-9.78%
	2010-2011	179,558	162,977	-9.23%	5.80%	-8.76%	4.14%	-8.90%	1.96%	-9.09%	-1.95%	-9.40%	-3.90%	-9.59%	-5.85%	-9.78%
	2012	179,308	81,249	-54.69%	5.80%	-54.44%	4.13%	-54.51%	1.96%	-54.61%	-1.95%	-54.77%	-3.90%	-54.88%	-5.85%	-55.01%
	2013	179,309	81,250	-54.69%	5.80%	-54.44%	4.13%	-54.51%	1.96%	-54.61%	-1.95%	-54.77%	-3.90%	-54.88%	-5.86%	-55.01%
Estonia	2009-2013	191,108	191,108	-	5.54%	-	3.93%	-	1.85%	-	-1.85%	-	-3.69%	-	-5.53%	-
Finland	2009	240,109	239,564	-0.23%	5.66%	-0.21%	4.03%	-0.22%	1.89%	-0.22%	-1.86%	-0.23%	-3.72%	-0.24%	-5.58%	-0.24%
	2010	243,408	242,864	-0.22%	5.58%	-0.21%	3.97%	-0.21%	1.86%	-0.22%	-1.84%	-0.23%	-3.67%	-0.23%	-5.50%	-0.24%
	2011	246,559	245,732	-0.34%	5.44%	-0.32%	3.87%	-0.32%	1.82%	-0.33%	-1.81%	-0.34%	-3.62%	-0.35%	-5.43%	-0.36%
	2012	233,094	232,315	-0.33%	5.42%	-0.32%	3.86%	-0.32%	1.81%	-0.33%	-1.81%	-0.34%	-3.61%	-0.35%	-5.42%	-0.35%
	2013	230,005	220,605	-4.09%	5.57%	-3.87%	3.96%	-3.93%	1.86%	-4.01%	-1.83%	-4.16%	-3.66%	-4.24%	-5.49%	-4.32%
France	2009	323,012	221,108	-31.55%	4.80%	-64.28%	3.44%	-64.17%	1.60%	-64.08%	-1.60%	-63.87%	-3.20%	-63.76%	-4.80%	-63.65%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Labour Intensity - 30%		Labour Intensity - 20%		Labour Intensity - 10%		Labour Intensity + 10%		Labour Intensity + 20%		Labour Intensity + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives		% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
			Tax Burden	Total Effect												
	2010	328,992	227,090	-30.97%	4.66%	-62.64%	3.34%	-62.50%	1.56%	-62.36%	-1.56%	-62.07%	-3.11%	-61.92%	-4.66%	-61.76%
	2011	336,247	243,711	-27.52%	4.61%	-26.31%	3.30%	-26.64%	1.54%	-27.10%	-1.54%	-27.95%	-3.07%	-28.39%	-4.61%	-28.85%
	2012	352,915	261,672	-25.85%	4.69%	-24.70%	3.36%	-25.02%	1.57%	-25.46%	-1.57%	-26.27%	-3.13%	-26.69%	-4.69%	-27.13%
	2013	322,756	231,973	-28.13%	7.93%	-26.06%	5.54%	-26.65%	2.65%	-27.40%	-2.65%	-28.89%	-5.29%	-29.70%	-7.93%	-30.55%
Germany	2009-2010	282,342	281,951	-0.14%	5.58%	-0.13%	3.97%	-0.13%	1.87%	-0.14%	-1.86%	-0.14%	-3.72%	-0.14%	-5.58%	-0.15%
	2011	284,188	283,794	-0.14%	5.58%	-0.13%	3.97%	-0.13%	1.86%	-0.14%	-1.86%	-0.14%	-3.72%	-0.14%	-5.58%	-0.15%
	2012	285,063	284,670	-0.14%	5.58%	-0.13%	3.97%	-0.13%	1.86%	-0.14%	-1.86%	-0.14%	-3.72%	-0.14%	-5.58%	-0.15%
	2013	286,898	286,498	-0.14%	5.57%	-0.13%	3.96%	-0.13%	1.86%	-0.14%	-1.86%	-0.14%	-3.71%	-0.14%	-5.56%	-0.15%
Greece	2009	229,841	229,063	-0.34%	5.61%	-0.32%	3.99%	-0.33%	1.88%	-0.33%	-1.87%	-0.34%	-3.74%	-0.35%	-5.61%	-0.36%
	2010	220,775	220,222	-0.25%	5.61%	-0.24%	3.99%	-0.24%	1.87%	-0.24%	-1.87%	-0.26%	-3.74%	-0.26%	-5.61%	-0.27%
	2011-2012	185,994	185,367	-0.34%	5.56%	-0.32%	3.95%	-0.32%	1.86%	-0.33%	-1.85%	-0.34%	-3.70%	-0.35%	-5.55%	-0.35%
	2013	242,676	239,481	-1.32%	5.53%	-1.25%	3.93%	-1.27%	1.85%	-1.29%	-1.84%	-1.34%	-3.68%	-1.37%	-5.52%	-1.39%
Hungary	2009	196,457	196,457	-	4.36%	-	3.07%	-	1.45%	-	-1.46%	-	-2.90%	-	-4.35%	-
	2010	165,774	165,774	-	3.12%	-	2.22%	-	1.04%	-	-1.04%	-	-2.08%	-	-3.12%	-
	2011	158,201	158,201	-	3.27%	-	2.33%	-	1.09%	-	-1.09%	-	-2.18%	-	-3.27%	-
	2012	164,243	164,243	-	3.14%	-	2.24%	-	1.05%	-	-1.05%	-	-2.09%	-	-3.14%	-
	2013	163,955	163,955	-	3.15%	-	2.24%	-	1.06%	-	-1.05%	-	-2.09%	-	-3.15%	-
Ireland	2009	126,260	74,488	-41.00%	5.13%	-39.95%	3.65%	-40.26%	1.71%	-40.64%	-1.71%	-41.38%	-3.41%	-41.77%	-5.12%	-42.17%
	2010	126,052	74,272	-41.08%	5.13%	-40.02%	3.65%	-40.33%	1.72%	-40.71%	-1.72%	-41.46%	-3.42%	-41.85%	-5.13%	-42.25%
	2011	125,985	70,968	-43.67%	5.14%	-31.57%	3.66%	-35.89%	1.72%	-40.52%	-1.72%	-44.43%	-3.42%	-45.22%	-5.13%	-46.03%
	2012	125,812	56,882	-54.79%	5.15%	-42.13%	3.66%	-46.60%	1.72%	-51.44%	-1.72%	-55.75%	-3.42%	-56.73%	-5.14%	-57.75%
	2013	125,756	56,830	-54.81%	5.15%	-42.14%	3.66%	-46.62%	1.72%	-51.46%	-1.72%	-55.77%	-3.43%	-56.76%	-5.14%	-57.78%
Italy	2009	319,232	312,720	-2.04%	1.69%	-2.01%	1.35%	-2.01%	0.56%	-2.03%	-0.56%	-2.05%	-1.12%	-2.06%	-1.68%	-2.07%
	2010	313,807	307,293	-2.08%	1.72%	-2.04%	1.37%	-2.05%	0.57%	-2.06%	-0.57%	-2.09%	-1.14%	-2.10%	-1.71%	-2.11%
	2011	312,694	311,320	-0.44%	1.72%	-0.43%	1.38%	-0.43%	0.58%	-0.44%	-0.57%	-0.44%	-1.14%	-0.45%	-1.72%	-0.45%
	2012-2013	303,414	289,269	-4.66%	2.55%	-4.55%	1.93%	-4.57%	0.85%	-4.62%	-0.85%	-4.70%	-1.70%	-4.74%	-2.54%	-4.78%
Lithuania	2009	187,901	124,178	-33.91%	5.50%	-33.18%	3.91%	-33.41%	1.84%	-33.66%	-1.83%	-34.18%	-3.66%	-34.45%	-5.50%	-34.73%

Country	Year	Base Case			Labour Intensity - 30%		Labour Intensity - 20%		Labour Intensity - 10%		Labour Intensity + 10%		Labour Intensity + 20%		Labour Intensity + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2010-2011	145,766	71,255	-51.12%	5.32%	-50.45%	3.79%	-50.69%	1.78%	-50.89%	-1.78%	-51.35%	-3.55%	-51.60%	-5.32%	-51.85%
	2012	145,766	50,805	-65.15%	5.32%	-65.22%	3.79%	-65.20%	1.78%	-65.17%	-1.78%	-65.12%	-3.55%	-65.09%	-5.32%	-65.06%
	2013	163,287	70,471	-56.84%	4.75%	-57.28%	3.38%	-57.16%	1.59%	-56.99%	-1.59%	-56.69%	-3.17%	-56.52%	-4.75%	-56.36%
Luxembourg	2009-2010	268,227	267,490	-0.27%	5.67%	-0.26%	4.04%	-0.26%	1.89%	-0.27%	-1.89%	-0.28%	-3.78%	-0.29%	-5.67%	-0.29%
	2011-2012	270,031	269,291	-0.27%	5.68%	-0.26%	4.04%	-0.26%	1.90%	-0.27%	-1.89%	-0.28%	-3.78%	-0.29%	-5.67%	-0.29%
	2013	274,267	272,547	-0.63%	5.67%	-0.59%	4.03%	-0.60%	1.89%	-0.62%	-1.89%	-0.64%	-3.77%	-0.65%	-5.66%	-0.67%
Netherlands	2009	200,796	193,120	-3.82%	5.97%	-3.61%	4.24%	-3.67%	1.99%	-3.75%	-1.99%	-3.90%	-3.97%	-3.98%	-5.96%	-4.06%
	2010	202,754	195,076	-3.79%	5.91%	-3.57%	4.20%	-3.63%	1.97%	-3.71%	-1.97%	-3.86%	-3.94%	-3.94%	-5.90%	-4.02%
	2011	186,153	177,002	-4.92%	5.52%	-4.66%	3.93%	-4.73%	1.84%	-4.83%	-1.84%	-5.01%	-3.68%	-5.10%	-5.52%	-5.20%
	2012	186,289	175,939	-5.56%	5.52%	-5.27%	3.92%	-5.35%	1.84%	-5.45%	-1.84%	-5.66%	-3.67%	-5.77%	-5.51%	-5.88%
	2013	186,401	175,850	-5.66%	5.51%	-5.36%	3.92%	-5.44%	1.84%	-5.56%	-1.84%	-5.77%	-3.67%	-5.87%	-5.51%	-5.99%
Poland	2009	183,962	183,236	-0.39%	5.34%	-0.38%	3.80%	-0.38%	1.78%	-0.39%	-1.78%	-0.40%	-3.55%	-0.41%	-5.33%	-0.42%
	2010	184,074	183,345	-0.40%	5.33%	-0.37%	3.79%	-0.38%	1.78%	-0.39%	-1.78%	-0.40%	-3.55%	-0.41%	-5.33%	-0.42%
	2011	183,747	177,125	-3.60%	5.34%	-3.42%	3.80%	-3.47%	1.79%	-3.54%	-1.78%	-3.67%	-3.56%	-3.74%	-5.34%	-3.81%
	2012	184,336	177,713	-3.59%	5.33%	-3.41%	3.79%	-3.46%	1.78%	-3.53%	-1.78%	-3.66%	-3.55%	-3.72%	-5.32%	-3.80%
	2013	184,766	178,143	-3.58%	5.32%	-3.40%	3.78%	-3.45%	1.78%	-3.52%	-1.77%	-3.65%	-3.54%	-3.72%	-5.31%	-3.78%
Romania	2009	154,907	152,861	-1.32%	5.34%	-1.25%	3.80%	-1.27%	1.79%	-1.30%	-1.78%	-1.35%	-3.56%	-1.37%	-5.34%	-1.40%
	2010	153,723	151,674	-1.33%	5.38%	-1.26%	3.83%	-1.28%	1.80%	-1.31%	-1.80%	-1.36%	-3.59%	-1.38%	-5.38%	-1.41%
	2011-2012	153,713	151,664	-1.33%	5.38%	-1.26%	3.83%	-1.28%	1.80%	-1.31%	-1.80%	-1.36%	-3.59%	-1.38%	-5.38%	-1.41%
	2013	154,053	148,997	-3.28%	5.37%	-3.11%	3.82%	-3.16%	1.80%	-3.22%	-1.79%	-3.34%	-3.58%	-3.41%	-5.37%	-3.47%
Slovenia	2009	190,169	186,238	-2.07%	5.70%	-1.96%	4.06%	-1.99%	1.90%	-2.03%	-1.90%	-2.11%	-3.80%	-2.15%	-5.70%	-2.19%
	2010-2011	181,199	174,667	-3.60%	5.70%	-3.41%	4.06%	-3.46%	1.91%	-3.54%	-1.90%	-3.68%	-3.80%	-3.75%	-5.70%	-3.82%
	2012	163,235	149,820	-8.22%	5.70%	-7.77%	4.05%	-7.90%	1.90%	-8.06%	-1.90%	-8.38%	-3.80%	-8.54%	-5.70%	-8.71%
	2013	154,239	137,163	-11.07%	5.70%	-10.70%	4.05%	-10.81%	1.90%	-10.94%	-1.90%	-11.21%	-3.80%	-11.34%	-5.70%	-11.48%
Spain	2009-2010	321,052	159,785	-50.23%	5.65%	-49.47%	4.01%	-49.69%	1.89%	-49.97%	-1.88%	-50.51%	-3.76%	-50.79%	-5.64%	-51.09%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Labour Intensity - 30%		Labour Intensity - 20%		Labour Intensity - 10%		Labour Intensity + 10%		Labour Intensity + 20%		Labour Intensity + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2011	321,052	154,905	-51.75%	5.65%	-51.28%	4.01%	-51.41%	1.89%	-51.59%	-1.88%	-51.92%	-3.76%	-52.09%	-5.64%	-52.27%
	2012-2013	321,052	155,643	-51.52%	5.65%	-51.06%	4.01%	-51.19%	1.89%	-51.36%	-1.88%	-51.68%	-3.76%	-51.85%	-5.64%	-52.03%
Sweden	2009-2012	243,006	243,006	-	5.58%	-	3.97%	-	1.86%	-	-1.86%	-	-3.72%	-	-5.57%	-
	2013	204,894	204,894	-	5.54%	-	3.94%	-	1.85%	-	-1.85%	-	-3.69%	-	-5.54%	-
United Kingdom	2009	280,983	217,033	-22.76%	5.14%	-22.86%	3.65%	-22.83%	1.71%	-22.79%	-1.71%	-22.72%	-3.42%	-22.69%	-5.13%	-22.65%
	2010	278,303	214,029	-23.09%	5.19%	-23.18%	3.69%	-23.16%	1.73%	-23.12%	-1.73%	-23.07%	-3.45%	-23.03%	-5.18%	-23.00%
	2011	260,897	205,288	-21.31%	5.14%	-21.39%	3.65%	-21.37%	1.72%	-21.34%	-1.72%	-21.29%	-3.42%	-21.26%	-5.14%	-21.23%
	2012	245,428	206,872	-15.71%	5.05%	-15.75%	3.59%	-15.74%	1.68%	-15.72%	-1.68%	-15.70%	-3.36%	-15.68%	-5.04%	-15.66%
	2013	237,622	207,695	-12.59%	5.00%	-12.61%	3.55%	-12.61%	1.67%	-12.60%	-1.67%	-12.59%	-3.33%	-12.58%	-4.99%	-12.58%

Table 5.43 Sensitivity Analysis: Effective Tax Burden (10 periods, corporate level, micro corporation, fiscal years 2009-2013, business sectors)

Country	Year	Base Case			Manufacturing	Energy	Construction	Commerce	Hotels & Restaurants
		General Tax Code Tax Burden	General Tax Code and R&D incentives						
			Tax Burden	Total Effect	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives
Austria	2009	272,761	267,400	-1.97%	-2.40%	-2.11%	-0.06%	-0.19%	-0.01%
	2010	272,763	267,403	-1.97%	-2.40%	-2.11%	-0.06%	-0.19%	-0.01%
	2011-2013	272,763	266,066	-2.46%	-3.00%	-2.63%	-0.08%	-0.24%	-0.02%
Belgium	2009	300,732	267,223	-11.14%	-14.44%	2.68%	-4.93%	-12.46%	-4.58%
	2010	300,732	261,346	-13.10%	-16.28%	-6.69%	-8.70%	-13.34%	-9.34%
	2011	300,732	261,339	-13.10%	-16.28%	-6.69%	-8.70%	-13.35%	-9.34%
	2012	298,891	258,505	-13.51%	-16.60%	-6.95%	-8.87%	-13.45%	-10.20%
	2013	298,891	258,524	-13.51%	-16.59%	-6.94%	-8.83%	-13.46%	-10.08%
Bulgaria	2009	92,653	92,653	-	-	-	-	-	-
	2010	92,719	92,719	-	-	-	-	-	-
	2011-2012	94,666	94,666	-	-	-	-	-	-
	2013	94,665	94,665	-	-	-	-	-	-
Croatia	2009	179,725	163,132	-9.23%	-12.54%	-4.32%	-0.29%	-0.90%	-0.06%
	2010-2011	179,558	162,977	-9.23%	-12.55%	-4.32%	-0.30%	-0.90%	-0.06%
	2012	179,308	81,249	-54.69%	-56.39%	-54.34%	-50.44%	-50.15%	-50.35%
	2013	179,309	81,250	-54.69%	-56.39%	-54.34%	-50.45%	-50.15%	-50.35%
Estonia	2009-2013	191,108	191,108	-	-	-	-	-	-
Finland	2009	240,109	239,564	-0.23%	-0.30%	-0.23%	-0.01%	-0.02%	0.00%
	2010	243,408	242,864	-0.22%	-0.30%	-0.22%	-0.01%	-0.02%	0.00%
	2011	246,559	245,732	-0.34%	-0.46%	-0.32%	-0.01%	-0.03%	0.00%
	2012	233,094	232,315	-0.33%	-0.45%	-0.32%	-0.01%	-0.03%	0.00%
	2013	230,005	220,605	-4.09%	-5.52%	-4.10%	-0.13%	-0.41%	-0.02%
France	2009	323,012	221,108	-31.55%	-66.73%	-59.12%	-58.02%	-54.72%	-50.72%
	2010	328,992	227,090	-30.97%	-65.07%	-55.25%	-56.94%	-54.06%	-46.83%
	2011	336,247	243,711	-27.52%	-37.21%	-13.94%	-23.79%	-25.15%	-23.97%
	2012	352,915	261,672	-25.85%	-34.98%	-13.34%	-21.96%	-23.31%	-22.32%
	2013	322,756	231,973	-28.13%	-40.61%	-14.07%	-24.50%	-25.85%	-27.63%
Germany	2009-2010	282,342	281,951	-0.14%	-0.11%	-1.05%	-0.09%	-0.04%	-0.15%
	2011	284,188	283,794	-0.14%	15.75%	-1.04%	-0.09%	-0.03%	-0.15%
	2012	285,063	284,670	-0.14%	-0.11%	-1.04%	-0.09%	-0.04%	-0.14%
	2013	286,898	286,498	-0.14%	-0.11%	-1.04%	-0.09%	-0.03%	-0.21%
Greece	2009	229,841	229,063	-0.34%	-0.43%	-0.27%	-0.01%	-0.02%	0.00%
	2010	220,775	220,222	-0.25%	-0.34%	-0.26%	-0.01%	-0.03%	0.00%
	2011-2012	185,994	185,367	-0.34%	-0.42%	-0.27%	-0.01%	-0.03%	-
	2013	242,676	239,481	-1.32%	-1.76%	-0.98%	-0.04%	-0.12%	-0.01%
Hungary	2009	196,457	196,457	-	-	-	-	-	-
	2010	165,774	165,774	-	-	-	-	-	-
	2011	158,201	158,201	-	-	-	-	-	-
	2012	164,243	164,243	-	-	-	-	-	-
	2013	163,955	163,955	-	-	-	-	-	-
Ireland	2009	126,260	74,488	-41.00%	-40.94%	-31.05%	-14.72%	-23.31%	-16.26%
	2010	126,052	74,272	-41.08%	-41.00%	-31.19%	-14.73%	-23.33%	-16.35%
	2011	125,985	70,968	-43.67%	-75.50%	-19.58%	-46.36%	-48.26%	-85.86%
	2012	125,812	56,882	-54.79%	-90.72%	-29.12%	-46.80%	-49.55%	-86.23%
	2013	125,756	56,830	-54.81%	-90.75%	-29.15%	-46.81%	-49.56%	-86.31%
Italy	2009	319,232	312,720	-2.04%	-2.56%	-1.89%	-0.07%	-0.20%	-0.01%
	2010	313,807	307,293	-2.08%	-2.64%	-1.89%	-0.07%	-0.20%	-0.02%

Country	Year	Base Case			Manufacturing	Energy	Construction	Commerce	Hotels & Restaurants
		General Tax Code Tax Burden	General Tax Code and R&D incentives						
			Tax Burden	Total Effect	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives	Effect of SME and R&D incentives
	2011	312,694	311,320	-0.44%	-0.56%	-0.40%	-0.01%	-0.04%	0.00%
	2012-2013	303,414	289,269	-4.66%	-6.02%	-4.15%	-0.16%	-0.45%	-0.03%
Lithuania	2009	187,901	124,178	-33.91%	-17.84%	-17.22%	-14.10%	-35.05%	-0.08%
	2010-2011	145,766	71,255	-51.12%	-17.38%	-18.92%	-26.02%	-65.02%	-0.07%
	2012	145,766	50,805	-65.15%	-17.38%	-26.35%	-63.29%	-65.02%	-0.07%
	2013	163,287	70,471	-56.84%	-15.75%	-17.49%	-58.22%	-61.94%	-0.06%
Luxembourg	2009-2010	268,227	267,490	-0.27%	-0.38%	-0.28%	-0.04%	-0.03%	-0.17%
	2011-2012	270,031	269,291	-0.27%	-0.38%	-0.28%	-0.04%	-0.03%	-0.17%
	2013	274,267	272,547	-0.63%	-0.86%	-0.62%	-0.02%	-0.06%	-0.17%
Netherlands	2009	200,796	193,120	-3.82%	-5.31%	-3.83%	-0.12%	-0.39%	-0.03%
	2010	202,754	195,076	-3.79%	-5.27%	-3.73%	-0.12%	-0.38%	-0.03%
	2011	186,153	177,002	-4.92%	-6.67%	-4.88%	-0.16%	-0.49%	-0.04%
	2012	186,289	175,939	-5.56%	-7.54%	-5.55%	-0.18%	-0.56%	-0.04%
	2013	186,401	175,850	-5.66%	-7.68%	-5.66%	-0.19%	-0.57%	-0.04%
Poland	2009	183,962	183,236	-0.39%	-0.45%	0.10%	-0.27%	-0.10%	0.01%
	2010	184,074	183,345	-0.40%	-0.45%	0.10%	-0.27%	-0.10%	0.01%
	2011	183,747	177,125	-3.60%	-4.88%	-4.72%	-0.27%	-0.40%	-0.13%
	2012	184,336	177,713	-3.59%	-4.87%	-4.68%	-0.27%	-0.40%	-0.13%
	2013	184,766	178,143	-3.58%	-4.86%	-4.64%	-0.27%	-0.40%	-0.13%
Romania	2009	154,907	152,861	-1.32%	-1.80%	-1.30%	-0.04%	-0.14%	-0.01%
	2010	153,723	151,674	-1.33%	-1.82%	-1.27%	-0.04%	-0.14%	-0.01%
	2011-2012	153,713	151,664	-1.33%	-1.82%	-1.29%	-0.04%	-0.14%	-0.01%
	2013	154,053	148,997	-3.28%	-4.48%	-3.19%	-0.11%	-0.34%	-0.02%
Slovenia	2009	190,169	186,238	-2.07%	-2.80%	-2.18%	-0.06%	-0.20%	-0.01%
	2010-2011	181,199	174,667	-3.60%	-4.88%	-3.81%	-0.11%	-0.35%	-0.02%
	2012	163,235	149,820	-8.22%	-11.12%	-8.72%	-0.26%	-0.81%	-0.05%
	2013	154,239	137,163	-11.07%	-15.99%	-15.43%	-14.74%	-10.12%	-29.48%
Spain	2009-2010	321,052	159,785	-50.23%	-56.81%	-29.33%	-46.04%	-30.91%	-56.42%
	2011	321,052	154,905	-51.75%	-57.42%	-32.17%	-49.93%	-31.24%	-56.55%
	2012-2013	321,052	155,643	-51.52%	-57.11%	-33.51%	-49.92%	-31.22%	-56.57%
Sweden	2009-2012	243,006	243,006	-	-	-	-	-	-
	2013	204,894	204,894	-	-	-	-	-	-
United Kingdom	2009	280,983	217,033	-22.76%	-23.76%	-20.13%	-22.71%	-23.72%	-16.51%
	2010	278,303	214,029	-23.09%	-24.06%	-20.99%	-22.91%	-23.84%	-17.24%
	2011	260,897	205,288	-21.31%	-22.30%	-17.42%	-21.05%	-21.97%	-15.48%
	2012	245,428	206,872	-15.71%	-16.68%	-13.08%	-15.04%	-15.82%	-10.75%
	2013	237,622	207,695	-12.59%	-13.53%	-6.16%	-11.71%	-12.38%	-7.79%

5.9 Detailed calculation results (Effective Tax Burden, corporate and shareholder level for medium-sized, small and micro corporation)

Table 5.44 Effective Tax Burden (10 periods, corporate and shareholder level, medium-sized corporation, fiscal years 2009-2013, equity ratio)

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Austria	2009	8,233,731	8,122,097	-1.36%	-1.82%	-1.38%	-1.22%	-1.37%	-0.61%	-1.36%	0.61%	-1.35%	1.22%	-1.34%	1.84%	-1.33%
	2010	8,233,765	8,122,121	-1.36%	-1.82%	-1.38%	-1.22%	-1.37%	-0.61%	-1.36%	0.61%	-1.35%	1.22%	-1.34%	1.84%	-1.33%
	2011	8,233,765	8,094,217	-1.69%	-1.82%	-1.73%	-1.22%	-1.72%	-0.61%	-1.71%	0.61%	-1.68%	1.22%	-1.67%	1.84%	-1.66%
	2012-2013	8,220,423	8,080,874	-1.70%	-1.82%	-1.73%	-1.22%	-1.72%	-0.61%	-1.71%	0.61%	-1.69%	1.23%	-1.68%	1.84%	-1.67%
Belgium	2009	8,283,022	8,206,924	-0.92%	-0.94%	-0.95%	-0.91%	-0.93%	-0.65%	-0.92%	0.78%	-0.91%	1.60%	-0.90%	2.42%	-0.90%
	2010	8,292,441	8,217,213	-0.91%	-0.94%	-0.94%	-0.89%	-0.92%	-0.64%	-0.91%	0.76%	-0.90%	1.56%	-0.89%	2.36%	-0.88%
	2011	8,292,441	8,217,057	-0.91%	-0.94%	-0.94%	-0.89%	-0.92%	-0.64%	-0.91%	0.76%	-0.90%	1.56%	-0.89%	2.36%	-0.89%
	2012	8,328,133	8,251,282	-0.92%	-0.81%	-0.95%	-0.75%	-0.94%	-0.53%	-0.93%	0.63%	-0.92%	1.29%	-0.91%	1.97%	-0.90%
	2013	8,331,972	8,255,502	-0.92%	-0.90%	-0.94%	-0.79%	-0.93%	-0.53%	-0.92%	0.63%	-0.91%	1.29%	-0.90%	1.95%	-0.90%
Bulgaria	2009	2,469,032	2,469,032	-	-3.12%	-	-2.08%	-	-1.04%	-	1.04%	-	2.08%	-	3.12%	-
	2010	2,469,957	2,469,957	-	-3.12%	-	-2.08%	-	-1.04%	-	1.04%	-	2.08%	-	3.12%	-
	2011-2012	2,496,853	2,496,853	-	-3.09%	-	-2.06%	-	-1.03%	-	1.03%	-	2.06%	-	3.09%	-
	2013	2,512,262	2,512,262	-	-3.00%	-	-2.00%	-	-1.00%	-	1.00%	-	2.00%	-	3.00%	-
Croatia	2009	3,568,558	3,104,792	-13.00%	0.03%	-12.99%	0.02%	-12.99%	0.01%	-13.00%	-0.01%	-13.00%	-0.02%	-12.98%	-0.01%	-12.98%
	2010	4,080,955	3,636,088	-10.90%	-0.58%	-10.96%	-0.39%	-10.94%	-0.19%	-10.92%	0.19%	-10.88%	0.38%	-10.84%	0.60%	-10.82%
	2011	3,607,295	3,143,879	-12.85%	0.67%	-12.76%	0.44%	-12.79%	0.22%	-12.82%	-0.22%	-12.87%	-0.44%	-12.88%	-0.64%	-12.91%
	2012	5,416,246	5,018,915	-7.34%	-1.16%	-7.43%	-0.78%	-7.39%	-0.39%	-7.36%	0.39%	-7.31%	0.78%	-7.27%	1.18%	-7.24%
	2013	5,416,448	5,019,124	-7.34%	-1.16%	-7.43%	-0.78%	-7.39%	-0.39%	-7.36%	0.39%	-7.31%	0.78%	-7.27%	1.18%	-7.24%
Estonia	2009-2013	3,588,808	3,588,808	-	-2.27%	-	-1.51%	-	-0.76%	-	0.76%	-	1.51%	-	2.27%	-
Finland	2009	7,889,340	7,879,578	-0.12%	-0.36%	-0.12%	-0.18%	-0.12%	-0.13%	-0.12%	0.35%	-0.12%	0.86%	-0.12%	1.72%	-0.12%

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives		% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
			Tax Burden	Total Effect												
	2010	7,915,156	7,905,375	-0.12%	-0.37%	-0.12%	-0.18%	-0.12%	-0.13%	-0.12%	0.34%	-0.12%	0.86%	-0.12%	1.72%	-0.12%
	2011	7,805,203	7,790,446	-0.19%	-1.15%	-0.19%	-0.89%	-0.19%	-0.58%	-0.19%	0.95%	-0.19%	2.02%	-0.19%	3.08%	-0.18%
	2012	7,722,657	7,708,752	-0.18%	-1.21%	-0.18%	-0.95%	-0.18%	-0.56%	-0.18%	0.92%	-0.18%	1.94%	-0.18%	3.03%	-0.17%
	2013	7,969,722	7,798,127	-2.15%	-0.27%	-2.19%	-0.16%	-2.18%	-0.13%	-2.18%	0.46%	-2.14%	1.04%	-2.12%	1.87%	-2.10%
France	2009	10,894,680	10,428,726	-4.28%	-2.12%	-4.28%	-1.42%	-4.31%	-0.71%	-4.29%	0.71%	-4.26%	1.42%	-4.23%	2.14%	-4.19%
	2010	11,018,410	10,547,242	-4.28%	-2.09%	-4.23%	-1.40%	-4.32%	-0.70%	-4.30%	0.70%	-4.25%	1.40%	-4.22%	2.09%	-4.19%
	2011	11,131,014	10,853,604	-2.49%	-2.05%	-2.43%	-1.36%	-2.53%	-0.68%	-2.51%	0.68%	-2.47%	1.36%	-2.46%	2.06%	-2.46%
	2012	11,509,661	11,217,635	-2.54%	-2.07%	-2.41%	-1.39%	-2.52%	-0.70%	-2.55%	0.70%	-2.53%	1.40%	-2.52%	2.11%	-2.51%
	2013	11,118,533	10,851,017	-2.41%	-2.27%	-2.29%	-1.52%	-2.39%	-0.76%	-2.42%	0.77%	-2.39%	1.54%	-2.38%	2.31%	-2.38%
Germany	2009	8,490,732	8,490,732	-	-2.75%	-	-1.85%	-	-0.94%	-	0.96%	-	1.93%	-	2.92%	-
	2010	8,534,319	8,534,319	-	-2.71%	-	-1.82%	-	-0.91%	-	0.92%	-	1.86%	-	2.81%	-
	2011	8,554,312	8,554,312	-	-2.72%	-	-1.83%	-	-0.92%	-	0.93%	-	1.87%	-	2.82%	-
	2012	8,565,289	8,565,289	-	-2.72%	-	-1.83%	-	-0.92%	-	0.93%	-	1.87%	-	2.82%	-
	2013	8,593,981	8,593,981	-	-2.72%	-	-1.82%	-	-0.92%	-	0.93%	-	1.87%	-	2.82%	-
Greece	2009	4,407,722	4,391,528	-0.37%	-1.23%	-0.37%	-0.82%	-0.37%	-0.41%	-0.37%	0.41%	-0.37%	0.82%	-0.36%	1.26%	-0.36%
	2010	6,847,369	6,835,152	-0.18%	-2.12%	-0.18%	-1.49%	-0.18%	-0.75%	-0.18%	0.76%	-0.18%	1.53%	-0.18%	2.27%	-0.17%
	2011	6,351,916	6,341,666	-0.16%	-1.89%	-0.16%	-1.34%	-0.16%	-0.68%	-0.16%	0.69%	-0.16%	1.38%	-0.16%	2.05%	-0.16%
	2012	6,867,301	6,857,563	-0.14%	-2.11%	-0.14%	-1.48%	-0.14%	-0.75%	-0.14%	0.76%	-0.14%	1.52%	-0.14%	2.25%	-0.14%
	2013	7,652,044	7,591,086	-0.80%	-2.30%	-0.82%	-1.58%	-0.81%	-0.79%	-0.80%	0.79%	-0.79%	1.59%	-0.78%	2.36%	-0.78%
Hungary	2009	8,638,899	8,638,899	-	-0.92%	-	-0.78%	-	-0.46%	-	0.60%	-	1.18%	-	1.75%	-
	2010	6,149,773	6,149,773	-	1.14%	-	0.47%	-	0.12%	-	0.11%	-	0.24%	-	0.37%	-
	2011	5,260,607	5,260,607	-	0.55%	-	0.09%	-	-0.07%	-	0.23%	-	0.46%	-	0.67%	-
	2012	5,428,777	5,428,777	-	0.51%	-	0.15%	-	-0.02%	-	0.17%	-	0.35%	-	0.52%	-
	2013	5,428,719	5,428,719	-	0.51%	-	0.15%	-	-0.02%	-	0.17%	-	0.35%	-	0.58%	-
Ireland	2009	8,936,929	8,782,932	-1.72%	-2.64%	-0.96%	-1.76%	-2.57%	-0.88%	-1.77%	0.88%	-1.68%	1.76%	-1.63%	2.64%	-1.59%
	2010	9,070,592	8,917,557	-1.69%	-2.63%	-0.93%	-1.75%	-2.52%	-0.88%	-1.73%	0.88%	-1.64%	1.76%	-1.60%	2.63%	-1.55%
	2011	9,339,081	9,181,212	-1.69%	-2.51%	-0.88%	-1.68%	-2.50%	-0.84%	-1.74%	0.84%	-1.64%	1.68%	-1.60%	2.51%	-1.55%
	2012	9,338,286	9,044,637	-3.14%	-2.51%	-2.37%	-1.67%	-3.97%	-0.84%	-3.20%	0.84%	-3.09%	1.67%	-3.03%	2.51%	-2.97%
	2013	9,338,112	8,967,317	-3.97%	-2.51%	-3.22%	-1.67%	-4.81%	-0.84%	-4.04%	0.84%	-3.91%	1.67%	-3.84%	2.51%	-3.78%
Italy	2009	8,293,383	8,143,625	-1.81%	-1.75%	-1.84%	-1.17%	-1.83%	-0.59%	-1.82%	0.59%	-1.80%	1.17%	-1.78%	1.76%	-1.77%

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2010	8,163,512	8,013,820	-1.83%	-1.78%	-1.87%	-1.18%	-1.86%	-0.59%	-1.84%	0.59%	-1.82%	1.19%	-1.81%	1.78%	-1.80%
	2011	8,186,575	8,155,124	-0.38%	-1.66%	-0.39%	-1.11%	-0.39%	-0.55%	-0.39%	0.55%	-0.38%	1.11%	-0.38%	1.67%	-0.38%
	2012-2013	8,339,155	8,030,526	-3.70%	-1.85%	-3.77%	-1.23%	-3.75%	-0.62%	-3.72%	0.62%	-3.68%	1.24%	-3.66%	1.85%	-3.63%
Lithuania	2009	5,943,494	5,396,067	-9.21%	-4.79%	-9.67%	-3.19%	-9.51%	-1.60%	-9.36%	1.60%	-9.07%	3.19%	-8.93%	4.79%	-8.79%
	2010-2012	5,326,488	4,914,929	-7.73%	-4.74%	-8.11%	-3.16%	-7.98%	-1.58%	-7.85%	1.58%	-7.61%	3.16%	-7.49%	4.74%	-7.38%
	2013	5,529,482	5,117,933	-7.44%	-4.56%	-7.80%	-3.04%	-7.68%	-1.52%	-7.56%	1.52%	-7.33%	3.04%	-7.22%	4.56%	-7.12%
Luxembourg	2009-2010	7,228,192	7,211,986	-0.22%	-3.88%	-0.23%	-2.62%	-0.23%	-1.32%	-0.23%	1.32%	-0.22%	2.66%	-0.22%	4.03%	-0.22%
	2011	7,404,388	7,388,346	-0.22%	-3.79%	-0.23%	-2.56%	-0.22%	-1.29%	-0.22%	1.29%	-0.21%	2.60%	-0.21%	3.94%	-0.21%
	2012	7,358,055	7,341,941	-0.22%	-3.83%	-0.23%	-2.58%	-0.22%	-1.30%	-0.22%	1.30%	-0.22%	2.63%	-0.21%	3.98%	-0.21%
	2013	7,520,762	7,483,928	-0.49%	-3.78%	-0.51%	-2.55%	-0.50%	-1.29%	-0.50%	1.29%	-0.48%	2.60%	-0.48%	3.93%	-0.47%
Netherlands	2009	7,283,352	7,124,871	-2.18%	-1.90%	-2.22%	-1.27%	-2.20%	-0.63%	-2.19%	0.64%	-2.16%	1.29%	-2.15%	2.02%	-2.13%
	2010	7,309,091	7,150,609	-2.17%	-1.89%	-2.21%	-1.26%	-2.20%	-0.63%	-2.18%	0.63%	-2.15%	1.27%	-2.14%	1.98%	-2.13%
	2011	7,212,637	7,023,934	-2.62%	-1.89%	-2.67%	-1.26%	-2.65%	-0.63%	-2.63%	0.63%	-2.60%	1.27%	-2.58%	2.01%	-2.56%
	2012	7,201,956	6,974,783	-3.15%	-1.90%	-3.22%	-1.27%	-3.19%	-0.64%	-3.17%	0.64%	-3.13%	1.32%	-3.11%	2.07%	-3.09%
	2013	7,204,366	6,968,254	-3.28%	-1.89%	-3.34%	-1.26%	-3.32%	-0.63%	-3.30%	0.64%	-3.26%	1.31%	-3.23%	2.06%	-3.21%
Poland	2009	5,901,038	5,901,038	-	-1.86%	-	-2.20%	-	-1.10%	-	1.10%	-	2.20%	-	3.31%	-
	2010	5,902,344	5,902,344	-	-3.31%	-	-2.20%	-	-1.10%	-	1.10%	-	2.20%	-	3.30%	-
	2011	5,898,461	5,757,566	-2.39%	-3.31%	-2.47%	-2.21%	-2.44%	-1.10%	-2.42%	1.10%	-2.36%	2.20%	-2.34%	3.31%	-2.31%
	2012	5,905,445	5,764,552	-2.39%	-3.30%	-2.47%	-2.20%	-2.44%	-1.10%	-2.41%	1.10%	-2.36%	2.20%	-2.33%	3.30%	-2.31%
	2013	5,910,413	5,769,528	-2.38%	-3.30%	-2.47%	-2.20%	-2.44%	-1.10%	-2.41%	1.10%	-2.36%	2.20%	-2.33%	3.30%	-2.31%
Romania	2009	5,031,996	4,984,243	-0.95%	-3.38%	-0.98%	-2.26%	-0.97%	-1.13%	-0.96%	1.13%	-0.94%	2.26%	-0.93%	3.39%	-0.92%
	2010	5,035,233	4,987,481	-0.95%	-3.33%	-0.98%	-2.23%	-0.97%	-1.11%	-0.96%	1.11%	-0.94%	2.23%	-0.93%	3.34%	-0.92%
	2011-2012	5,035,219	4,987,459	-0.95%	-3.33%	-0.98%	-2.23%	-0.97%	-1.11%	-0.96%	1.11%	-0.94%	2.23%	-0.93%	3.34%	-0.92%
	2013	5,039,271	4,921,258	-2.34%	-3.33%	-2.42%	-2.22%	-2.40%	-1.11%	-2.37%	1.11%	-2.32%	2.22%	-2.29%	3.34%	-2.27%
Slovenia	2009	6,147,496	6,060,614	-1.41%	-3.43%	-1.46%	-2.29%	-1.45%	-1.14%	-1.43%	1.14%	-1.40%	2.29%	-1.38%	3.43%	-1.37%
	2010-2011	6,017,934	5,873,180	-2.41%	-3.40%	-2.49%	-2.26%	-2.46%	-1.13%	-2.43%	1.13%	-2.38%	2.27%	-2.35%	3.40%	-2.33%

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2012	5,758,458	5,460,585	-5.17%	-3.33%	-5.35%	-2.22%	-5.29%	-1.11%	-5.23%	1.11%	-5.12%	2.22%	-5.06%	3.33%	-5.01%
	2013	6,338,658	6,074,797	-4.16%	-3.11%	-4.30%	-2.08%	-4.25%	-1.04%	-4.21%	1.04%	-4.12%	2.08%	-4.08%	3.12%	-4.04%
Spain	2009	7,963,604	7,720,487	-3.05%	-2.54%	-3.17%	-1.70%	-3.14%	-0.85%	-3.08%	0.85%	-3.03%	1.69%	-3.00%	2.55%	-2.95%
	2010	8,111,148	7,876,920	-2.89%	-0.80%	-2.94%	-1.43%	-2.96%	-1.24%	-2.92%	1.24%	-2.85%	2.48%	-2.82%	3.72%	-2.75%
	2011	8,798,654	8,575,950	-2.53%	-1.79%	-2.54%	-1.92%	-2.61%	-1.40%	-2.57%	1.51%	-2.51%	2.85%	-2.42%	4.25%	-1.95%
	2012-2013	9,407,531	9,207,666	-2.12%	-1.93%	-2.20%	-1.98%	-2.15%	-1.35%	-2.15%	1.39%	-2.05%	2.74%	-2.02%	4.08%	-2.01%
Sweden	2009	8,179,298	8,179,298	-	-3.19%	-	-2.12%	-	-1.06%	-	1.06%	-	2.12%	-	3.19%	-
	2010	8,179,308	8,179,308	-	-3.19%	-	-2.12%	-	-1.06%	-	1.06%	-	2.12%	-	3.19%	-
	2011	8,179,297	8,179,297	-	-3.19%	-	-2.12%	-	-1.06%	-	1.06%	-	2.12%	-	3.19%	-
	2012	8,179,308	8,179,308	-	-3.19%	-	-2.12%	-	-1.06%	-	1.06%	-	2.12%	-	3.19%	-
	2013	7,696,183	7,696,183	-	-3.07%	-	-2.05%	-	-1.03%	-	1.02%	-	2.05%	-	3.07%	-
United Kingdom	2009	7,936,963	7,308,605	-7.92%	-2.53%	-8.26%	-1.68%	-8.14%	-0.84%	-8.03%	0.84%	-7.81%	1.68%	-7.70%	2.52%	-7.59%
	2010	9,085,657	8,673,172	-4.54%	-2.64%	-4.75%	-1.77%	-4.68%	-0.89%	-4.61%	0.88%	-4.47%	1.77%	-4.40%	2.65%	-4.34%
	2011	8,895,851	8,432,697	-5.21%	-2.59%	-5.42%	-1.74%	-5.35%	-0.87%	-5.28%	0.87%	-5.14%	1.74%	-5.07%	2.61%	-5.01%
	2012	9,917,566	9,384,340	-5.38%	-1.88%	-5.53%	-0.91%	-5.46%	-0.46%	-5.42%	0.46%	-5.34%	0.91%	-5.30%	1.38%	-5.26%
	2013	8,111,342	7,588,882	-6.44%	-2.39%	-6.65%	-1.60%	-6.58%	-0.80%	-6.51%	0.80%	-6.37%	1.60%	-6.31%	2.41%	-6.24%

Table 5.45 Effective Tax Burden (10 periods, corporate and shareholder level, small corporation, fiscal years 2009-2013, equity ratio)

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Austria	2009	2,271,176	2,243,852	-1.20%	-2.10%	-1.23%	-1.40%	-1.22%	-0.71%	-1.21%	0.72%	-1.19%	1.46%	-1.19%	2.21%	-1.18%
	2010	2,271,183	2,243,857	-1.20%	-2.10%	-1.23%	-1.40%	-1.22%	-0.71%	-1.21%	0.72%	-1.19%	1.46%	-1.19%	2.21%	-1.18%
	2011	2,271,183	2,237,024	-1.50%	-2.10%	-1.54%	-1.40%	-1.53%	-0.71%	-1.51%	0.72%	-1.49%	1.46%	-1.48%	2.21%	-1.47%
	2012-2013	2,268,519	2,234,360	-1.51%	-2.10%	-1.54%	-1.41%	-1.53%	-0.71%	-1.52%	0.72%	-1.49%	1.46%	-1.48%	2.21%	-1.47%
Belgium	2009	2,328,613	2,302,647	-1.12%	-2.31%	-1.14%	-1.70%	-1.15%	-0.94%	-1.13%	0.95%	-1.10%	1.89%	-1.08%	2.84%	-1.06%
	2010	2,330,923	2,283,706	-2.03%	-2.25%	-1.66%	-1.65%	-1.80%	-0.91%	-1.91%	0.92%	-2.13%	1.84%	-2.24%	2.76%	-2.34%
	2011	2,330,923	2,283,668	-2.03%	-2.25%	-1.66%	-1.65%	-1.80%	-0.91%	-1.92%	0.92%	-2.13%	1.84%	-2.24%	2.76%	-2.34%
	2012	2,333,692	2,285,247	-2.08%	-1.99%	-1.74%	-1.45%	-1.85%	-0.80%	-1.97%	0.80%	-2.18%	1.61%	-2.29%	2.41%	-2.39%
	2013	2,335,738	2,287,397	-2.07%	-1.91%	-1.73%	-1.39%	-1.85%	-0.76%	-1.96%	0.77%	-2.18%	1.53%	-2.28%	2.30%	-2.39%
Bulgaria	2009	697,670	697,670	-	-3.56%	-	-2.37%	-	-1.19%	-	1.19%	-	2.37%	-	3.56%	-
	2010	697,930	697,930	-	-3.56%	-	-2.37%	-	-1.19%	-	1.19%	-	2.37%	-	3.56%	-
	2011-2012	705,380	705,380	-	-3.52%	-	-2.35%	-	-1.17%	-	1.17%	-	2.35%	-	3.52%	-
	2013	709,212	709,212	-	-3.42%	-	-2.28%	-	-1.14%	-	1.14%	-	2.28%	-	3.42%	-
Croatia	2009	990,529	877,204	-11.44%	-0.05%	-11.45%	-0.03%	-11.44%	-0.02%	-11.44%	0.02%	-11.44%	0.03%	-11.44%	0.05%	-11.44%
	2010	1,136,094	1,027,386	-9.57%	-0.74%	-9.64%	-0.49%	-9.62%	-0.24%	-9.59%	0.24%	-9.55%	0.49%	-9.52%	0.74%	-9.50%
	2011	997,154	883,916	-11.36%	0.70%	-11.28%	0.47%	-11.30%	0.23%	-11.33%	-0.23%	-11.38%	-0.46%	-11.41%	-0.70%	-11.44%
	2012	1,512,095	1,415,001	-6.42%	-1.39%	-6.51%	-0.93%	-6.48%	-0.47%	-6.45%	0.46%	-6.39%	0.93%	-6.36%	1.39%	-6.33%
	2013	1,512,115	1,415,021	-6.42%	-1.39%	-6.51%	-0.93%	-6.48%	-0.46%	-6.45%	0.46%	-6.39%	0.93%	-6.36%	1.39%	-6.33%
Estonia	2009-2013	1,008,234	1,008,234	-	-2.61%	-	-1.74%	-	-0.87%	-	0.87%	-	1.74%	-	2.61%	-
Finland	2009	2,184,307	2,181,952	-0.11%	-1.21%	-0.11%	-1.05%	-0.11%	-0.59%	-0.11%	1.10%	-0.11%	2.40%	-0.11%	3.70%	-0.10%
	2010	2,191,489	2,189,130	-0.11%	-1.24%	-0.11%	-1.07%	-0.11%	-0.58%	-0.11%	1.09%	-0.11%	2.39%	-0.10%	3.68%	-0.10%
	2011	2,189,086	2,185,506	-0.16%	-2.90%	-0.17%	-2.37%	-0.17%	-1.30%	-0.17%	1.30%	-0.16%	2.60%	-0.16%	3.90%	-0.16%
	2012	2,156,365	2,152,995	-0.16%	-2.83%	-0.16%	-2.32%	-0.16%	-1.27%	-0.16%	1.27%	-0.15%	2.54%	-0.15%	3.81%	-0.15%
	2013	2,201,452	2,160,174	-1.88%	-1.28%	-1.94%	-1.05%	-1.91%	-0.56%	-1.90%	1.07%	-1.85%	2.34%	-1.83%	3.61%	-1.80%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
France	2009	2,690,380	2,520,691	-6.31%	-2.93%	-6.33%	-1.96%	-6.45%	-0.98%	-6.39%	0.99%	-6.23%	1.98%	-6.15%	2.99%	-6.08%
	2010	2,699,975	2,525,326	-6.47%	-2.91%	-6.38%	-1.95%	-6.55%	-0.97%	-6.53%	0.98%	-6.42%	1.97%	-6.34%	2.96%	-6.25%
	2011	2,887,197	2,759,949	-4.41%	-2.97%	-4.23%	-1.98%	-4.44%	-0.99%	-4.45%	0.99%	-4.36%	1.99%	-4.28%	2.98%	-4.20%
	2012	3,002,385	2,875,305	-4.23%	-2.88%	-4.00%	-1.92%	-4.21%	-0.96%	-4.31%	0.97%	-4.16%	1.95%	-4.08%	2.93%	-4.01%
	2013	2,927,942	2,804,911	-4.20%	-3.14%	-3.76%	-2.10%	-3.98%	-1.05%	-4.14%	1.05%	-4.23%	2.12%	-4.16%	3.18%	-4.09%
Germany	2009	2,377,505	2,377,505	-	-3.25%	-	-2.21%	-	-1.15%	-	1.16%	-	2.30%	-	3.50%	-
	2010	2,396,345	2,396,345	-	-3.23%	-	-2.20%	-	-1.14%	-	1.15%	-	2.28%	-	3.46%	-
	2011	2,396,831	2,396,831	-	-3.27%	-	-2.23%	-	-1.15%	-	1.16%	-	2.30%	-	3.71%	-
	2012	2,399,842	2,399,842	-	-3.27%	-	-2.23%	-	-1.15%	-	1.16%	-	2.30%	-	3.71%	-
	2013	2,407,589	2,407,589	-	-3.27%	-	-2.23%	-	-1.15%	-	1.16%	-	2.30%	-	3.71%	-
Greece	2009	1,232,452	1,228,456	-0.32%	-1.65%	-0.33%	-1.11%	-0.33%	-0.56%	-0.33%	0.56%	-0.32%	1.12%	-0.32%	1.68%	-0.32%
	2010	1,920,359	1,917,365	-0.16%	-2.68%	-0.16%	-1.79%	-0.16%	-0.90%	-0.16%	0.90%	-0.15%	1.82%	-0.15%	2.73%	-0.15%
	2011	1,777,512	1,774,984	-0.14%	-2.44%	-0.15%	-1.63%	-0.14%	-0.82%	-0.14%	0.83%	-0.14%	1.66%	-0.14%	2.49%	-0.14%
	2012	1,923,706	1,921,306	-0.12%	-2.67%	-0.13%	-1.78%	-0.13%	-0.89%	-0.13%	0.90%	-0.12%	1.81%	-0.12%	2.72%	-0.12%
	2013	2,146,030	2,131,096	-0.70%	-2.80%	-0.72%	-1.86%	-0.71%	-0.93%	-0.70%	0.93%	-0.69%	1.86%	-0.68%	2.80%	-0.68%
Hungary	2009	2,308,300	2,308,300	-	-1.76%	-	-1.32%	-	-0.67%	-	0.67%	-	1.33%	-	2.00%	-
	2010	1,458,012	1,458,012	-	1.12%	-	0.55%	-	0.27%	-	-0.27%	-	-0.53%	-	-0.76%	-
	2011	1,310,887	1,310,887	-	-0.12%	-	-0.30%	-	-0.15%	-	0.15%	-	0.31%	-	0.46%	-
	2012	1,353,087	1,353,087	-	-0.11%	-	-0.28%	-	-0.15%	-	0.15%	-	0.29%	-	0.44%	-
	2013	1,351,958	1,351,958	-	-0.11%	-	-0.28%	-	-0.15%	-	0.15%	-	0.30%	-	0.44%	-
Ireland	2009	2,507,749	2,422,872	-3.38%	-3.05%	-3.92%	-2.03%	-3.80%	-1.02%	-3.59%	1.02%	-3.18%	2.04%	-1.72%	3.05%	-1.61%
	2010	2,545,836	2,461,386	-3.32%	-3.04%	-3.81%	-2.03%	-3.72%	-1.02%	-3.52%	1.01%	-3.12%	2.03%	-1.66%	3.04%	-1.56%
	2011	2,617,499	2,531,324	-3.29%	-2.88%	-3.63%	-1.92%	-3.69%	-0.96%	-3.49%	0.96%	-3.10%	1.92%	-1.59%	2.88%	-1.49%
	2012	2,617,134	2,478,750	-5.29%	-2.88%	-5.68%	-1.92%	-5.72%	-0.96%	-5.50%	0.96%	-5.08%	1.92%	-3.55%	2.88%	-3.43%
	2013	2,617,021	2,478,645	-5.29%	-2.88%	-5.68%	-1.92%	-5.72%	-0.96%	-5.50%	0.96%	-5.08%	1.92%	-3.55%	2.88%	-3.43%
Italy	2009	2,411,855	2,377,345	-1.43%	-2.25%	-1.47%	-1.50%	-1.46%	-0.75%	-1.44%	0.76%	-1.42%	1.52%	-1.41%	2.29%	-1.40%
	2010	2,384,634	2,350,153	-1.45%	-2.27%	-1.48%	-1.52%	-1.47%	-0.76%	-1.46%	0.77%	-1.43%	1.54%	-1.42%	2.31%	-1.41%
	2011	2,392,582	2,385,383	-0.30%	-2.18%	-0.31%	-1.46%	-0.31%	-0.73%	-0.30%	0.74%	-0.30%	1.48%	-0.30%	2.22%	-0.29%
	2012-2013	2,343,112	2,269,224	-3.15%	-2.20%	-3.23%	-1.47%	-3.20%	-0.74%	-3.18%	0.74%	-3.13%	1.49%	-3.11%	2.24%	-3.08%

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Lithuania	2009	1,694,383	1,560,400	-7.91%	-5.41%	-8.36%	-3.61%	-8.20%	-1.80%	-8.05%	1.80%	-7.77%	3.61%	-7.63%	5.41%	-7.50%
	2010-2012	1,517,356	1,416,629	-6.64%	-5.36%	-7.01%	-3.57%	-6.88%	-1.79%	-6.76%	1.79%	-6.52%	3.57%	-6.41%	5.36%	-6.30%
	2013	1,573,605	1,472,878	-6.40%	-5.17%	-6.75%	-3.45%	-6.63%	-1.72%	-6.51%	1.72%	-6.29%	3.45%	-6.19%	5.17%	-6.09%
Luxembourg	2009-2010	2,043,949	2,039,991	-0.19%	-4.36%	-0.20%	-2.92%	-0.20%	-1.47%	-0.20%	1.52%	-0.19%	3.07%	-0.19%	4.64%	-0.19%
	2011	2,092,963	2,089,051	-0.19%	-4.29%	-0.20%	-2.87%	-0.19%	-1.44%	-0.19%	1.49%	-0.18%	3.02%	-0.18%	4.57%	-0.18%
	2012	2,080,155	2,076,221	-0.19%	-4.33%	-0.20%	-2.90%	-0.19%	-1.46%	-0.19%	1.51%	-0.19%	3.05%	-0.18%	4.61%	-0.18%
	2013	2,125,732	2,116,741	-0.42%	-4.28%	-0.44%	-2.87%	-0.44%	-1.44%	-0.43%	1.49%	-0.42%	3.02%	-0.41%	4.56%	-0.40%
Netherlands	2009	2,042,404	2,003,611	-1.90%	-2.16%	-1.94%	-1.44%	-1.93%	-0.72%	-1.91%	0.72%	-1.89%	1.45%	-1.87%	2.21%	-1.86%
	2010	2,049,144	2,010,350	-1.89%	-2.15%	-1.93%	-1.43%	-1.92%	-0.72%	-1.91%	0.72%	-1.88%	1.44%	-1.87%	2.19%	-1.85%
	2011	1,997,757	1,951,563	-2.31%	-2.13%	-2.36%	-1.42%	-2.35%	-0.71%	-2.33%	0.71%	-2.30%	1.45%	-2.28%	2.21%	-2.26%
	2012	1,995,521	1,940,230	-2.77%	-2.13%	-2.83%	-1.42%	-2.81%	-0.71%	-2.79%	0.72%	-2.75%	1.47%	-2.73%	2.25%	-2.71%
	2013	1,996,229	1,938,865	-2.87%	-2.13%	-2.94%	-1.42%	-2.92%	-0.71%	-2.89%	0.72%	-2.85%	1.46%	-2.83%	2.23%	-2.81%
Poland	2009	1,666,760	1,666,760	-	-2.37%	-	-2.51%	-	-1.26%	-	1.26%	-	2.52%	-	3.77%	-
	2010	1,667,121	1,667,121	-	-3.77%	-	-2.51%	-	-1.26%	-	1.26%	-	2.51%	-	3.77%	-
	2011	1,666,041	1,631,556	-2.07%	-3.77%	-2.15%	-2.52%	-2.12%	-1.26%	-2.10%	1.26%	-2.04%	2.52%	-2.02%	3.77%	-1.99%
	2012	1,667,976	1,633,491	-2.07%	-3.77%	-2.15%	-2.51%	-2.12%	-1.26%	-2.09%	1.26%	-2.04%	2.51%	-2.02%	3.77%	-1.99%
	2013	1,669,355	1,634,869	-2.07%	-3.77%	-2.15%	-2.51%	-2.12%	-1.26%	-2.09%	1.26%	-2.04%	2.51%	-2.02%	3.77%	-1.99%
Romania	2009	1,422,471	1,410,783	-0.82%	-3.87%	-0.85%	-2.58%	-0.84%	-1.29%	-0.83%	1.29%	-0.81%	2.58%	-0.80%	3.87%	-0.79%
	2010	1,422,871	1,411,185	-0.82%	-3.81%	-0.85%	-2.54%	-0.84%	-1.27%	-0.83%	1.27%	-0.81%	2.54%	-0.80%	3.81%	-0.79%
	2011-2012	1,422,865	1,411,178	-0.82%	-3.81%	-0.85%	-2.54%	-0.84%	-1.27%	-0.83%	1.27%	-0.81%	2.54%	-0.80%	3.81%	-0.79%
	2013	1,423,983	1,395,100	-2.03%	-3.80%	-2.11%	-2.54%	-2.08%	-1.27%	-2.05%	1.27%	-2.00%	2.54%	-1.98%	3.81%	-1.95%
Slovenia	2009	1,737,892	1,716,632	-1.22%	-3.90%	-1.27%	-2.60%	-1.26%	-1.30%	-1.24%	1.30%	-1.21%	2.60%	-1.19%	3.90%	-1.18%
	2010-2011	1,700,790	1,665,368	-2.08%	-3.86%	-2.17%	-2.58%	-2.14%	-1.29%	-2.11%	1.29%	-2.06%	2.58%	-2.03%	3.87%	-2.01%
	2012	1,626,484	1,553,585	-4.48%	-3.79%	-4.66%	-2.53%	-4.60%	-1.26%	-4.54%	1.26%	-4.43%	2.53%	-4.37%	3.79%	-4.32%
	2013	1,786,828	1,722,251	-3.61%	-3.55%	-3.75%	-2.37%	-3.70%	-1.18%	-3.66%	1.18%	-3.57%	2.37%	-3.53%	3.55%	-3.49%
Spain	2009	2,242,232	1,852,878	-17.36%	-2.91%	-17.40%	-1.94%	-17.39%	-0.97%	-17.38%	0.97%	-17.35%	1.94%	-17.34%	2.93%	-17.33%
	2010	2,301,096	1,925,988	-16.30%	-2.79%	-16.31%	-2.82%	-16.47%	-1.41%	-16.38%	1.41%	-16.22%	2.82%	-16.14%	4.22%	-16.07%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2011	2,413,142	2,017,386	-16.40%	-3.59%	-17.53%	-3.10%	-17.78%	-1.56%	-17.43%	1.77%	-16.21%	3.57%	-16.26%	5.16%	-16.13%
	2012-2013	2,584,018	2,224,543	-13.91%	-3.61%	-14.89%	-2.95%	-15.14%	-1.48%	-15.05%	1.68%	-13.97%	3.38%	-13.83%	4.89%	-13.73%
Sweden	2009-2011	2,307,212	2,307,212	-	-3.64%	-	-2.43%	-	-1.21%	-	1.21%	-	2.43%	-	3.64%	-
	2012	2,307,214	2,307,214	-	-3.64%	-	-2.43%	-	-1.21%	-	1.21%	-	2.43%	-	3.64%	-
	2013	2,168,854	2,168,854	-	-3.52%	-	-2.34%	-	-1.17%	-	1.17%	-	2.34%	-	3.52%	-
United Kingdom	2009	2,245,692	1,941,493	-13.55%	-2.88%	-13.41%	-1.91%	-13.45%	-0.95%	-13.50%	0.95%	-13.59%	1.89%	-13.63%	2.83%	-13.66%
	2010	2,539,716	2,307,996	-9.12%	-3.30%	-9.20%	-2.20%	-9.18%	-1.10%	-9.15%	1.09%	-9.08%	2.18%	-9.01%	3.27%	-8.93%
	2011	2,487,588	2,270,456	-8.73%	-3.24%	-8.78%	-2.16%	-8.77%	-1.08%	-8.76%	1.08%	-8.70%	2.16%	-8.67%	3.24%	-8.63%
	2012	2,675,744	2,478,472	-7.37%	-1.84%	-7.35%	-1.23%	-7.36%	-0.61%	-7.37%	0.61%	-7.38%	1.23%	-7.38%	1.86%	-7.39%
	2013	2,263,905	2,081,485	-8.06%	-2.91%	-8.15%	-1.94%	-8.12%	-0.97%	-8.09%	0.97%	-8.03%	1.94%	-8.00%	2.91%	-7.96%

Table 5.46 Effective Tax Burden (10 periods, corporate and shareholder level, micro corporation, fiscal years 2009-2013, equity ratio)

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Austria	2009	397,813	393,792	-1.01%	-2.89%	-1.04%	-1.93%	-1.03%	-0.97%	-1.02%	0.97%	-1.00%	2.22%	-0.99%	3.99%	-0.97%
	2010	397,815	393,795	-1.01%	-2.89%	-1.04%	-1.93%	-1.03%	-0.97%	-1.02%	0.97%	-1.00%	2.22%	-0.99%	3.99%	-0.97%
	2011	397,815	392,792	-1.26%	-2.89%	-1.30%	-1.93%	-1.29%	-0.97%	-1.27%	0.97%	-1.25%	2.22%	-1.24%	3.99%	-1.21%
	2012-2013	395,147	390,124	-1.27%	-2.91%	-1.31%	-1.94%	-1.30%	-0.97%	-1.28%	1.09%	-1.26%	2.66%	-1.24%	4.62%	-1.22%
Belgium	2009	453,230	428,099	-5.54%	-2.27%	-5.68%	-1.92%	-5.62%	-1.08%	-5.58%	1.10%	-5.51%	2.19%	-5.47%	3.28%	-5.43%
	2010	453,528	423,990	-6.51%	-2.23%	-6.22%	-1.88%	-6.32%	-1.06%	-6.41%	1.08%	-6.61%	2.15%	-6.70%	3.21%	-6.79%
	2011	453,528	423,985	-6.51%	-2.23%	-6.22%	-1.88%	-6.32%	-1.06%	-6.41%	1.08%	-6.61%	2.15%	-6.70%	3.21%	-6.79%
	2012	453,977	423,689	-6.67%	-2.01%	-6.39%	-1.66%	-6.47%	-0.93%	-6.57%	0.94%	-6.77%	1.88%	-6.87%	2.81%	-6.96%
	2013	454,687	424,410	-6.66%	-1.92%	-6.37%	-1.57%	-6.45%	-0.87%	-6.55%	0.89%	-6.76%	1.77%	-6.86%	2.65%	-6.96%
Bulgaria	2009	135,531	135,531	-	-4.10%	-	-2.73%	-	-1.36%	-	1.38%	-	2.74%	-	4.12%	-
	2010	135,593	135,593	-	-4.10%	-	-2.73%	-	-1.36%	-	1.38%	-	2.74%	-	4.12%	-
	2011-2012	137,442	137,442	-	-4.04%	-	-2.69%	-	-1.34%	-	1.36%	-	2.70%	-	4.06%	-
	2013	138,189	138,189	-	-3.94%	-	-2.62%	-	-1.31%	-	1.32%	-	2.63%	-	3.94%	-
Croatia	2009	192,647	175,970	-8.66%	-0.01%	-8.66%	0.00%	-8.66%	0.00%	-8.66%	0.01%	-8.65%	0.03%	-8.65%	0.05%	-8.64%
	2010	220,382	204,385	-7.26%	-0.81%	-7.32%	-0.54%	-7.30%	-0.27%	-7.28%	0.28%	-7.23%	0.56%	-7.21%	0.84%	-7.19%
	2011	194,162	177,501	-8.58%	0.85%	-8.52%	0.57%	-8.54%	0.28%	-8.56%	-0.27%	-8.60%	-0.54%	-8.62%	-0.81%	-8.64%
	2012	290,652	206,407	-28.98%	-1.60%	-27.73%	-1.06%	-28.15%	-0.53%	-28.57%	0.54%	-29.39%	1.08%	-29.80%	1.62%	-30.20%
	2013	290,673	206,426	-28.98%	-1.60%	-27.73%	-1.06%	-28.15%	-0.53%	-28.57%	0.54%	-29.39%	1.08%	-29.80%	1.62%	-30.20%
Estonia	2009-2013	197,056	197,056	-	-2.99%	-	-1.99%	-	-1.00%	-	1.00%	-	1.99%	-	3.00%	-
Finland	2009	428,205	427,838	-0.09%	-1.05%	-0.09%	-0.92%	-0.09%	-0.59%	-0.09%	0.55%	-0.08%	1.27%	-0.08%	2.35%	-0.08%
	2010	430,004	429,636	-0.09%	-1.04%	-0.09%	-0.91%	-0.09%	-0.58%	-0.09%	0.57%	-0.09%	1.28%	-0.08%	2.35%	-0.08%
	2011	419,609	419,054	-0.13%	-1.20%	-0.14%	-1.10%	-0.13%	-0.74%	-0.13%	1.23%	-0.13%	2.53%	-0.13%	3.82%	-0.13%
	2012	406,716	406,193	-0.13%	-1.00%	-0.13%	-0.96%	-0.13%	-0.68%	-0.13%	1.19%	-0.13%	2.42%	-0.13%	3.66%	-0.12%
	2013	428,105	421,841	-1.46%	-0.86%	-1.49%	-0.80%	-1.49%	-0.53%	-1.49%	0.50%	-1.46%	1.16%	-1.47%	2.16%	-1.48%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives		% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
			Tax Burden	Total Effect												
France	2009	508,056	360,561	-29.03%	-3.62%	-28.01%	-2.41%	-28.38%	-1.20%	-28.71%	1.21%	-29.34%	2.43%	-29.65%	3.67%	-29.97%
	2010	499,088	351,886	-29.49%	-3.67%	-28.25%	-2.45%	-28.72%	-1.23%	-29.01%	1.23%	-29.96%	2.45%	-30.37%	3.68%	-30.61%
	2011	515,177	448,903	-12.86%	-3.97%	-12.58%	-2.64%	-12.73%	-1.31%	-12.69%	1.25%	-12.98%	2.50%	-13.05%	3.75%	-12.97%
	2012	534,321	472,618	-11.55%	-3.87%	-11.41%	-2.58%	-11.48%	-1.29%	-11.42%	1.29%	-11.66%	2.58%	-11.73%	3.87%	-11.66%
	2013	525,344	464,061	-11.67%	-3.93%	-11.55%	-2.62%	-11.72%	-1.31%	-11.69%	1.31%	-11.63%	2.62%	-11.60%	3.93%	-11.58%
Germany	2009	458,010	457,727	-0.06%	-3.91%	-0.06%	-2.69%	-0.06%	-1.38%	-0.06%	1.39%	-0.06%	2.78%	-0.06%	4.17%	-0.06%
	2010	461,502	461,223	-0.06%	-3.89%	-0.06%	-2.65%	-0.06%	-1.39%	-0.06%	1.39%	-0.06%	2.78%	-0.06%	4.17%	-0.06%
	2011	457,160	456,878	-0.06%	-4.24%	-0.06%	-2.82%	-0.06%	-1.41%	-0.06%	1.42%	-0.06%	3.34%	-0.06%	5.41%	-0.06%
	2012	457,775	457,492	-0.06%	-4.24%	-0.06%	-2.83%	-0.06%	-1.42%	-0.06%	1.42%	-0.06%	3.34%	-0.06%	5.41%	-0.06%
	2013	459,092	458,804	-0.06%	-4.24%	-0.07%	-2.83%	-0.06%	-1.42%	-0.06%	1.42%	-0.06%	3.34%	-0.06%	5.41%	-0.06%
Greece	2009	240,505	239,727	-0.32%	-1.92%	-0.33%	-1.28%	-0.33%	-0.64%	-0.33%	0.64%	-0.32%	1.28%	-0.32%	1.92%	-0.32%
	2010	373,693	373,256	-0.12%	-3.15%	-0.12%	-2.10%	-0.12%	-1.05%	-0.12%	1.06%	-0.12%	2.11%	-0.11%	3.17%	-0.11%
	2011	346,216	345,721	-0.14%	-2.88%	-0.15%	-1.92%	-0.14%	-0.96%	-0.14%	0.97%	-0.14%	1.93%	-0.14%	2.90%	-0.14%
	2012	374,506	374,037	-0.13%	-3.14%	-0.13%	-2.09%	-0.13%	-1.05%	-0.13%	1.05%	-0.12%	2.10%	-0.12%	3.15%	-0.12%
	2013	418,210	415,815	-0.57%	-3.22%	-0.59%	-2.14%	-0.59%	-1.07%	-0.58%	1.07%	-0.57%	2.15%	-0.56%	3.22%	-0.56%
Hungary	2009	384,701	384,701	-	-1.74%	-	-1.36%	-	-0.74%	-	0.78%	-	1.56%	-	2.35%	-
	2010	179,674	179,674	-	2.98%	-	1.59%	-	0.66%	-	-0.58%	-	-1.16%	-	-1.75%	-
	2011	167,557	167,557	-	0.49%	-	-0.10%	-	-0.20%	-	0.27%	-	0.54%	-	0.81%	-
	2012	173,607	173,607	-	0.48%	-	-0.09%	-	-0.18%	-	0.25%	-	0.51%	-	0.77%	-
	2013	173,319	173,319	-	0.48%	-	-0.08%	-	-0.18%	-	0.26%	-	0.51%	-	0.77%	-
Ireland	2009	484,054	449,168	-7.21%	-3.62%	-7.49%	-2.41%	-7.39%	-1.21%	-7.30%	1.21%	-7.12%	2.41%	-7.03%	3.62%	-6.95%
	2010	490,806	456,376	-7.01%	-3.64%	-7.30%	-2.43%	-7.20%	-1.22%	-7.11%	1.22%	-6.93%	2.43%	-6.84%	3.64%	-6.75%
	2011	510,077	473,850	-7.10%	-3.32%	-7.62%	-2.21%	-7.44%	-1.11%	-7.27%	1.11%	-6.94%	2.21%	-6.78%	3.32%	-6.62%
	2012	509,986	466,526	-8.52%	-3.32%	-9.09%	-2.21%	-8.89%	-1.11%	-8.71%	1.11%	-8.34%	2.21%	-8.17%	3.32%	-7.99%
	2013	509,956	466,498	-8.52%	-3.32%	-9.09%	-2.21%	-8.90%	-1.11%	-8.71%	1.11%	-8.34%	2.21%	-8.17%	3.32%	-7.99%
Italy	2009	457,738	452,664	-1.11%	-2.77%	-1.14%	-1.84%	-1.13%	-0.92%	-1.12%	0.92%	-1.10%	1.85%	-1.09%	2.78%	-1.08%
	2010	453,983	448,913	-1.12%	-2.79%	-1.15%	-1.86%	-1.14%	-0.93%	-1.13%	0.93%	-1.11%	1.86%	-1.10%	2.80%	-1.09%
	2011	453,590	452,522	-0.24%	-2.63%	-0.24%	-1.75%	-0.24%	-0.88%	-0.24%	0.88%	-0.23%	1.76%	-0.23%	2.64%	-0.23%
	2012-2013	447,060	436,083	-2.46%	-2.63%	-2.52%	-1.75%	-2.50%	-0.88%	-2.48%	0.88%	-2.43%	1.76%	-2.41%	2.64%	-2.39%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
Lithuania	2009	329,061	278,082	-15.49%	-6.25%	-15.58%	-4.16%	-15.55%	-2.08%	-15.52%	2.08%	-15.47%	4.17%	-15.44%	6.25%	-15.42%
	2010-2011	295,352	235,743	-20.18%	-6.18%	-20.00%	-4.12%	-20.06%	-2.06%	-20.12%	2.06%	-20.24%	4.12%	-20.29%	6.18%	-20.35%
	2012	295,352	219,383	-25.72%	-6.18%	-25.73%	-4.12%	-25.73%	-2.06%	-25.72%	2.06%	-25.72%	4.12%	-25.72%	6.18%	-25.71%
	2013	309,369	235,117	-24.00%	-5.90%	-23.90%	-3.93%	-23.94%	-1.97%	-23.97%	1.97%	-24.03%	3.93%	-24.06%	5.90%	-24.09%
Luxembourg	2009-2010	371,915	371,322	-0.16%	-5.99%	-0.17%	-4.03%	-0.17%	-2.02%	-0.16%	2.07%	-0.16%	4.18%	-0.15%	6.29%	-0.15%
	2011	379,291	378,703	-0.16%	-5.90%	-0.17%	-3.98%	-0.16%	-1.99%	-0.16%	2.04%	-0.15%	4.12%	-0.15%	6.19%	-0.15%
	2012	377,377	376,787	-0.16%	-5.95%	-0.17%	-4.01%	-0.16%	-2.01%	-0.16%	2.06%	-0.15%	4.15%	-0.15%	6.25%	-0.15%
	2013	383,813	382,451	-0.35%	-5.89%	-0.38%	-3.97%	-0.37%	-2.00%	-0.36%	2.04%	-0.35%	4.11%	-0.34%	6.18%	-0.33%
Netherlands	2009	342,156	336,444	-1.67%	-6.63%	-1.79%	-4.42%	-1.75%	-2.21%	-1.71%	2.21%	-1.63%	4.42%	-1.60%	6.64%	-1.56%
	2010	343,692	337,980	-1.66%	-6.60%	-1.78%	-4.40%	-1.74%	-2.20%	-1.70%	2.20%	-1.63%	4.40%	-1.59%	6.61%	-1.56%
	2011	331,335	324,526	-2.06%	-6.44%	-2.20%	-4.29%	-2.15%	-2.15%	-2.10%	2.15%	-2.01%	4.29%	-1.97%	6.44%	-1.93%
	2012	331,235	323,535	-2.32%	-6.44%	-2.48%	-4.29%	-2.43%	-2.15%	-2.38%	2.15%	-2.28%	4.30%	-2.23%	6.44%	-2.18%
	2013	331,319	323,468	-2.37%	-6.44%	-2.53%	-4.29%	-2.47%	-2.15%	-2.42%	2.15%	-2.32%	4.29%	-2.27%	6.44%	-2.23%
Poland	2009	325,412	324,824	-0.18%	-2.86%	-0.19%	-2.88%	-0.19%	-1.44%	-0.18%	1.44%	-0.18%	2.89%	-0.18%	4.33%	-0.17%
	2010	325,502	324,913	-0.18%	-4.33%	-0.19%	-2.88%	-0.19%	-1.44%	-0.18%	1.45%	-0.18%	2.89%	-0.18%	4.33%	-0.17%
	2011	325,237	319,873	-1.65%	-4.33%	-1.72%	-2.89%	-1.70%	-1.44%	-1.67%	1.45%	-1.63%	2.89%	-1.60%	4.34%	-1.58%
	2012	325,714	320,351	-1.65%	-4.33%	-1.72%	-2.88%	-1.70%	-1.44%	-1.67%	1.44%	-1.62%	2.89%	-1.60%	4.33%	-1.58%
	2013	326,062	320,699	-1.64%	-4.32%	-1.72%	-2.88%	-1.69%	-1.44%	-1.67%	1.44%	-1.62%	2.89%	-1.60%	4.33%	-1.58%
Romania	2009	277,647	275,927	-0.62%	-4.43%	-0.65%	-2.95%	-0.64%	-1.48%	-0.63%	1.49%	-0.61%	2.97%	-0.60%	4.45%	-0.59%
	2010	277,717	275,996	-0.62%	-4.37%	-0.65%	-2.92%	-0.64%	-1.46%	-0.63%	1.46%	-0.61%	2.92%	-0.60%	4.38%	-0.59%
	2011-2012	277,709	275,988	-0.62%	-4.37%	-0.65%	-2.92%	-0.64%	-1.46%	-0.63%	1.46%	-0.61%	2.92%	-0.60%	4.38%	-0.59%
	2013	277,995	273,747	-1.53%	-4.36%	-1.60%	-2.91%	-1.57%	-1.46%	-1.55%	1.46%	-1.51%	2.92%	-1.48%	4.38%	-1.46%
Slovenia	2009	336,551	333,406	-0.93%	-4.58%	-0.98%	-3.05%	-0.96%	-1.53%	-0.95%	1.53%	-0.92%	3.05%	-0.91%	4.58%	-0.89%
	2010-2011	329,375	324,149	-1.59%	-4.54%	-1.66%	-3.02%	-1.64%	-1.51%	-1.61%	1.51%	-1.56%	3.03%	-1.54%	4.54%	-1.52%
	2012	315,003	304,272	-3.41%	-4.45%	-3.57%	-2.97%	-3.51%	-1.48%	-3.46%	1.48%	-3.36%	2.97%	-3.31%	4.45%	-3.26%
	2013	346,197	333,391	-3.70%	-4.17%	-3.70%	-2.78%	-3.70%	-1.39%	-3.70%	1.40%	-3.70%	2.79%	-3.70%	4.18%	-3.69%
Spain	2009	431,540	299,301	-30.64%	-3.41%	-30.12%	-2.28%	-30.30%	-1.14%	-30.47%	1.14%	-30.81%	2.30%	-30.97%	3.45%	-31.12%

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

Country	Year	Base Case			Equity Ratio - 30%		Equity Ratio - 20%		Equity Ratio - 10%		Equity Ratio + 10%		Equity Ratio + 20%		Equity Ratio + 30%	
		General Tax Code Tax Burden	SME specific Tax Code and R&D incentives													
			Tax Burden	Total Effect	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives	% change compared to General Tax Code	Effect of SME and R&D incentives
	2010	439,518	312,117	-28.99%	-3.46%	-28.51%	-3.30%	-28.96%	-1.65%	-28.98%	1.67%	-28.99%	3.36%	-28.99%	5.05%	-28.99%
	2011	439,518	308,593	-29.79%	-3.57%	-29.32%	-3.30%	-29.76%	-1.65%	-29.77%	1.67%	-29.80%	3.36%	-29.80%	5.05%	-29.81%
	2012-2013	468,168	347,743	-25.72%	-3.59%	-25.32%	-3.23%	-25.68%	-1.62%	-25.70%	1.64%	-25.74%	3.33%	-25.74%	5.03%	-25.75%
Sweden	2009	448,382	448,382	-	-4.20%	-	-2.80%	-	-1.40%	-	1.40%	-	2.80%	-	4.20%	-
	2010-2011	448,380	448,380	-	-4.20%	-	-2.80%	-	-1.40%	-	1.40%	-	2.80%	-	4.20%	-
	2012	448,382	448,382	-	-4.20%	-	-2.80%	-	-1.40%	-	1.40%	-	2.80%	-	4.20%	-
	2013	421,702	421,702	-	-4.05%	-	-2.70%	-	-1.35%	-	1.35%	-	2.71%	-	4.06%	-
United Kingdom	2009	416,361	368,397	-11.52%	-4.04%	-11.25%	-2.75%	-11.35%	-1.46%	-11.45%	1.52%	-11.59%	3.10%	-11.64%	4.71%	-11.69%
	2010	479,123	438,059	-8.57%	-3.87%	-8.36%	-2.58%	-8.43%	-1.29%	-8.50%	1.29%	-8.64%	2.57%	-8.70%	3.90%	-8.77%
	2011	474,413	438,886	-7.49%	-3.81%	-7.30%	-2.54%	-7.36%	-1.27%	-7.43%	1.27%	-7.55%	2.54%	-7.61%	3.81%	-7.66%
	2012	694,528	669,894	-3.55%	-1.85%	-3.40%	-1.23%	-3.45%	-0.62%	-3.50%	0.63%	-3.59%	1.28%	-3.64%	1.93%	-3.69%
	2013	441,442	420,659	-4.71%	-3.34%	-4.59%	-2.22%	-4.63%	-1.11%	-4.67%	1.12%	-4.75%	2.23%	-4.78%	3.34%	-4.82%

6 DEVEREUX-GRIFFITH MODEL (DETAILED RESULTS AND SENSITIVITY ANALYSIS)

6.1 Implemented SME Tax incentives (2009-2012)

Table 6.1 Overview of implemented SME tax incentives for 2009 (Devereux-Griffith model)

Country	Reduction in tax base (depreciation, allowances and deduction)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Austria	-	-	-
Belgium	notional interest deduction increased by 0.5%	Lowest tax bracket in progressive schedule: 24.25%	-
Bulgaria	-	-	-
Croatia	-	-	-
Estonia	-	-	-
Finland	-	-	-
France	-	15% instead of 33.33%; no additional surcharge of 5% no "Taxe professionnelle"	-
Germany	20% additional depreciation on machinery in the first year; 40% investment reserve for machinery	-	-
Greece	-	-	-
Ireland	-	-	-
Italy	-	-	-
Lithuania	-	13% instead of 20%	-
Luxembourg	-	20% instead of 21%	-
Netherlands	Investment deduction of 25% for machinery	20% instead of 25%	-
Poland	Immediate deduction of machinery	-	-
Romania	Micro companies obliged to be taxed on turnover (3%) under certain conditions. We do not model this regime in the standard results but in section 6.4 of this annex.		
Slovenia	-		
Spain	Ordinary depreciation rate multiplied by factor 2 for machinery and buildings and by factor 1.5 for intangibles	20% instead of 30%; exemption from local business tax (IAE)	-
Sweden	-	-	-
United Kingdom	-	21% instead of 28%	-

Table 6.2 Overview of implemented SME tax incentives for 2010 (Devereux-Griffith model)

Country	Reduction in tax base (depreciation, allowances and deduction)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Austria	-	-	-
Belgium	notional interest deduction increased by 0.5%	Lowest tax bracket in progressive schedule: 24.25%	-
Bulgaria	-	-	-
Croatia	-	-	-
Estonia	-	-	-
Finland	-	-	-
France	-	15% instead of 33.33%; no additional surcharge of 5% no CET (CFE and CVAE)	-
Germany	20% additional depreciation on machinery in the first year; 40% investment reserve for machinery	-	-
Greece	-	-	-
Ireland	-	-	-
Italy	-	-	-
Lithuania	-	5% instead of 15%	-
Luxembourg	-	20% instead of 21%	-
Netherlands	Investment deduction of 38% for machinery	20% instead of 25%	-
Poland	Immediate deduction of machinery	-	-
Romania	-		
Slovenia	-		
Spain	Ordinary depreciation rate multiplied by factor 2 for machinery and buildings and by factor 1.5 for intangibles	20% instead of 30%; exemption from local business tax (IAE)	-
Sweden	-	-	-
United Kingdom	-	21% instead of 28%	-

Table 6.3 Overview of implemented SME tax incentives for 2011 (Devereux-Griffith model)

Country	Reduction in tax base (depreciation, allowances and deduction)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Austria	-	-	-
Belgium	notional interest deduction increased by 0.5%	Lowest tax bracket in progressive schedule: 24.25%	-
Bulgaria	-	-	-
Croatia	-	-	-
Estonia	-	-	-
Finland	-	-	-
France	-	15% instead of 33.33%; no additional surcharge of 5% no CET (CFE and CVAE)	-
Germany	20% additional depreciation on machinery in the first year; 40% investment reserve for machinery	-	-
Greece	-	-	-
Ireland	-	-	-
Italy	-	-	-
Lithuania	-	5% instead of 15%	-
Luxembourg	-	20% instead of 21%	-
Netherlands	Investment deduction of 28% for machinery	20% instead of 25%	-
Poland	Immediate deduction of machinery	-	-
Romania	Micro companies obliged to be taxed on turnover (3%) under certain conditions. We do not model this regime in the standard results but in section 6.4 of this annex.		
Slovenia	-		
Spain	Ordinary depreciation rate multiplied by factor 2 for machinery and buildings and by factor 1.5 for intangibles	20% instead of 30%; exemption from local business tax (IAE)	-
Sweden	-	-	-
United Kingdom	-	20% instead of 26%	-

Table 6.4 Overview of implemented SME tax incentives for 2012 (Devereux-Griffith model)

Country	Reduction in tax base (depreciation, allowances and deduction)	Reduction in tax rate (special tax rates)	Reduction in tax liability (tax credits, temporary exemptions from tax)
Austria	-	-	-
Belgium	notional interest deduction increased by 0.5%	Lowest tax bracket in progressive schedule: 24.25%	-
Bulgaria	-	-	-
Croatia	-	-	-
Estonia	-	-	-
Finland	-	-	-
France	-	15% instead of 33.33%; no additional surcharge of 5% no CET (CFE and CVAE)	-
Germany	20% additional depreciation on machinery in the first year; 40% investment reserve for machinery	-	-
Greece	-	-	-
Ireland	-	-	-
Italy	-	-	-
Lithuania	-	5% instead of 15%	-
Luxembourg	-	20% instead of 21%	-
Netherlands	Investment deduction of 28% for machinery	20% instead of 25%	-
Poland	Immediate deduction of machinery	-	-
Romania	Micro companies obliged to be taxed on turnover (3%) under certain conditions. We do not model this regime in the standard results but in section 6.4 of this annex.		
Slovenia	-		
Spain	Ordinary depreciation rate multiplied by factor 2 for machinery and buildings and by factor 1.5 for intangibles	20% instead of 30%; exemption from local business tax (IAE)	-
Sweden	-	-	-
United Kingdom	-	20% instead of 24%	-

6.2 Effective average Tax rates (2009-2012)

Table 6.5 Effective Average Tax Rates in % for 2009 (Domestic Investments and Cross-border Inbound Investments)

		Domestic		Cross-border					
Country	Year	LSE	SME	subsidiary: LSE			subsidiary: SME		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		mix of financing	mix of financing	mix of financing	efficient financing	efficient financing and location	mix of financing	efficient financing	efficient financing and location
Austria	2009	22.7	22.7	25.0	23.4	18.7	25.0	23.4	18.7
Belgium	2009	24.8	16.9	25.7	24.0	22.2	18.7	15.6	13.1
Bulgaria	2009	8.8	8.8	13.3	10.7	3.6	13.3	10.7	3.6
Croatia	2009	16.5	16.5	19.2	17.7	13.0	19.2	17.7	13.0
Estonia	2009	16.5	16.5	19.9	14.1	9.9	19.9	14.1	9.9
Finland	2009	23.6	23.6	25.8	24.2	20.0	25.8	24.2	20.0
France	2009	34.7	13.1	35.9	33.4	29.1	16.5	14.5	8.4
Germany	2009	28.0	27.1	29.9	28.2	24.1	29.0	27.3	23.2
Greece	2009	30.5	30.5	32.3	29.7	24.9	32.3	29.7	24.9
Ireland	2009	14.4	12.0	17.5	15.5	9.0	15.4	13.1	6.3
Italy	2009	27.5	27.5	29.7	28.0	23.6	29.7	28.0	23.6
Lithuania	2009	16.8	11.1	19.3	17.8	13.4	14.7	12.5	6.9
Luxembourg	2009	25.0	24.1	26.7	25.1	20.8	25.9	24.4	20.1
Netherlands	2009	22.8	16.8	25.0	23.4	19.0	19.7	18.1	12.7
Poland	2009	17.5	16.5	21.0	19.2	12.7	20.1	18.3	12.4
Romania	2009	14.8	14.1	18.5	16.5	10.1	17.8	15.8	9.4
Slovenia	2009	19.1	19.1	22.1	20.4	14.5	22.1	20.4	14.5
Spain	2009	32.5	17.8	34.6	32.6	27.9	21.5	19.7	14.0
Sweden	2009	23.2	23.2	25.0	23.5	19.3	25.0	23.5	19.3
UK	2009	28.3	21.9	29.8	28.1	23.9	23.9	22.4	16.7

Table 6.6 Effective Average Tax Rates in % for 2010 (Domestic Investments and Cross-border Inbound Investments

		Domestic		Cross-border					
Country	Year	LSE	SME	subsidiary: LSE			subsidiary: SME		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		mix of financing	mix of financing	mix of financing	efficient financing	efficient financing and location	mix of financing	efficient financing	efficient financing and location
Austria	2010	22.7	22.7	24.5	23.0	19.2	24.5	23.0	19.2
Belgium	2010	25.3	17.5	26.3	24.9	23.1	18.8	16.3	14.1
Bulgaria	2010	8.8	8.8	12.3	9.9	4.1	12.3	9.9	4.1
Croatia	2010	16.5	16.5	18.3	17.0	13.4	18.3	17.0	13.4
Estonia	2010	16.5	16.5	19.2	13.6	10.3	19.2	13.6	10.3
Finland	2010	23.8	23.8	25.6	24.1	20.3	25.6	24.1	20.3
France	2010	32.8	13.1	34.0	31.4	27.3	15.5	13.8	8.9
Germany	2010	28.0	27.1	29.8	28.1	24.1	28.9	27.2	23.2
Greece	2010	21.0	21.0	23.2	21.6	17.8	23.2	21.6	17.8
Ireland	2010	14.4	12.0	16.7	14.9	9.6	14.5	12.5	6.9
Italy	2010	27.5	27.5	29.7	27.9	23.6	29.7	27.9	23.6
Lithuania	2010	12.7	4.6	15.1	13.3	9.2	8.4	5.5	0.0
Luxembourg	2010	25.0	24.1	26.5	24.9	20.8	25.7	24.1	20.1
Netherlands	2010	22.8	16.3	24.6	23.1	19.3	18.5	17.1	12.7
Poland	2010	17.2	16.5	20.1	18.4	13.1	19.3	17.7	12.9
Romania	2010	14.8	14.1	17.7	15.9	10.7	16.9	15.2	9.9
Slovenia	2010	18.2	18.2	20.7	19.1	14.1	20.7	19.1	14.1
Spain	2010	32.5	17.8	34.3	32.2	27.9	20.4	18.9	14.5
Sweden	2010	23.2	22.9	24.7	23.2	19.6	24.4	22.9	19.3
UK	2010	28.4	21.8	29.7	28.0	24.3	23.5	22.1	17.2

Table 6.7 Effective Average Tax Rates in % for 2011 (Domestic Investments and Cross-border Inbound Investments)

		Domestic		Cross-border					
Country	Year	LSE	SME	subsidiary: LSE			subsidiary: SME		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		mix of financing	mix of financing	mix of financing	efficient financing	efficient financing and location	mix of financing	efficient financing	efficient financing and location
Austria	2011	23.0	23.0	24.8	23.2	19.6	24.8	23.2	19.6
Belgium	2011	25.7	17.9	26.7	25.4	23.6	19.3	17.0	14.5
Bulgaria	2011	9.0	9.0	12.4	10.1	4.5	13.3	10.8	4.5
Croatia	2011	16.5	16.5	18.2	16.8	13.6	18.2	16.8	13.6
Estonia	2011	16.5	16.5	19.2	13.6	10.5	19.2	13.6	10.5
Finland	2011	24.7	24.7	26.5	24.8	21.0	26.5	24.8	21.0
France	2011	32.8	13.1	34.0	31.3	27.3	15.3	13.6	9.2
Germany	2011	28.2	4.7	30.0	28.2	24.3	5.8	-1.7	-9.3
Greece	2011	17.5	17.5	20.2	18.5	14.2	20.2	18.5	14.2
Ireland	2011	14.4	12.0	16.4	14.7	10.0	14.1	12.2	7.3
Italy	2011	24.9	24.9	26.8	25.2	20.7	26.7	25.1	20.7
Lithuania	2011	12.7	4.6	14.8	13.1	9.4	7.7	5.0	0.2
Luxembourg	2011	24.9	24.1	26.6	24.7	20.7	25.8	24.0	20.0
Netherlands	2011	22.4	16.7	24.2	22.6	19.0	18.8	17.3	13.4
Poland	2011	17.2	16.5	19.9	18.2	13.4	19.3	17.6	13.2
Romania	2011	14.8	14.1	17.4	15.6	11.0	16.7	14.9	10.2
Slovenia	2011	18.2	18.2	20.5	18.9	14.4	20.5	18.9	14.4
Spain	2011	31.6	17.8	33.5	31.3	27.1	20.3	18.7	14.8
Sweden	2011	23.2	22.9	24.6	23.0	19.6	24.3	22.7	19.3
UK	2011	26.9	21.2	28.3	26.6	23.2	22.9	21.4	17.5

Table 6.8 Effective Average Tax Rates in % for 2012 (Domestic Investments and Cross-border Inbound Investments)

		Domestic		Cross-border					
Country	Year	LSE	SME	subsidiary: LSE			subsidiary: SME		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		mix of financing	mix of financing	mix of financing	efficient financing	efficient financing and location	mix of financing	efficient financing	efficient financing and location
Austria	2012	23.0	23.0	24.8	23.2	19.6	24.8	23.2	19.6
Belgium	2012	26.2	18.4	27.2	25.9	24.0	19.8	17.7	15.3
Bulgaria	2012	9.0	9.0	12.0	9.8	4.8	12.0	9.8	4.8
Croatia	2012	16.5	16.5	21.4	19.4	15.3	21.4	19.4	15.3
Estonia	2012	16.5	16.5	19.2	13.6	10.8	19.2	13.6	10.8
Finland	2012	23.3	23.3	25.2	23.6	20.0	25.2	23.6	20.0
France	2012	34.3	12.5	35.4	32.3	28.4	14.7	13.1	9.2
Germany	2012	28.2	27.6	30.0	28.2	24.3	29.4	27.5	23.7
Greece	2012	17.5	17.5	20.4	18.7	14.5	20.4	18.7	14.5
Ireland	2012	14.4	11.9	16.4	14.7	10.3	14.1	12.2	7.6
Italy	2012	25.1	25.1	27.0	25.4	21.3	27.0	25.4	21.3
Lithuania	2012	12.7	4.6	14.8	13.1	9.6	7.7	5.0	0.5
Luxembourg	2012	24.9	24.1	26.6	24.6	20.7	25.8	23.9	20.0
Netherlands	2012	23.2	17.4	24.8	23.2	19.8	19.3	17.8	14.2
Poland	2012	17.2	16.5	19.9	18.3	13.7	19.2	17.6	13.5
Romania	2012	14.8	14.1	17.4	15.7	11.3	16.7	14.9	10.5
Slovenia	2012	16.4	16.4	18.9	17.2	12.8	18.9	17.2	12.8
Spain	2012	32.1	17.8	33.9	31.7	27.6	20.3	18.7	15.1
Sweden	2012	23.2	22.9	24.6	22.9	19.6	24.3	22.7	19.4
UK	2012	25.2	21.4	26.7	25.1	22.0	23.1	21.6	18.0

6.3 Sensitivity analysis

6.3.1 Interpretation and results

The model makes a range of simplifying assumptions and also (qualified) choices about the economic parameters. The analysis presented in section 7 has been conducted with the initially stated conditions (i.e. Table 7.1 in the main report). The disputable economic parameters are the inflation rate, the real interest rate, and the pre-tax rate of return. In the results presented in section 7 in the report, we choose values for these parameters which have been used in earlier studies in order to ensure coherence and allow for comparisons.[20] However, the computed values should not be regarded as the ones being universally valid since the level of the EATRs depends on a range of assumptions. For example, generous depreciation schemes are relatively more effective when the profitability of an investment is low.

In this section we run an alternative scenario than the one presented in section 7 for each of the three economic parameters (inflation rate, pre-tax interest rate, and pre-tax real rate of return). We change the parameters to the direction which reflects different market conditions. Currently, the economy of the European Union is characterized by stagnating economic growth, low profits and low interest rates. Thus, the sensitivity analysis uses a (real) interest rate which is reduced from 5% to 2% and a rate of inflation which is reduced from 2% to 1%. For the pre-tax return we provide a two sided sensitivity analysis due to the high relevance of this factor in the model and the heterogeneous distribution of the profitability in reality. The pre-tax rate of return is both lowered from 20% to 15% and increased from 20% to 25%.

Table 6.9 Assumptions of the Sensitivity Analysis

Sensitivity Analysis on inflation, interest rate, and rate of return		
Parameter	**Base Case**	**Sensitivity Analysis**
Real interest rate	5%	2%
Inflation rate	2%	1%
Pre-tax rate of return	20%	15% / 25%

6.3.1.1 Real interest rate

A lower market interest rate increases ceteris paribus the profitability of the investment compared to the assumed alternative investment. This is because the pre-tax rate of return is held constant at 20%. In turn, more profitable investments drive up the EATR. This is due to the fact that deductions, depreciations and allowances are relatively less effective when profits are high. In an extreme case with a very high

[20] E.g. the same parameters have been used in studies conducted by ZEW for the European Commission (TAXUD/2005/DE/310, TAXUD/2008/CC/099 and TAX/2013/CC/120). Please see also European Commission (2001) Company taxation in the internal market, SEC(2001) 1681, Luxembourg

profitability, the EATR approaches the statutory tax rate.[21] Thus, the lower the real interest rate, the higher the computed EATR figures.

Results (Real Interest Rate): Table 6.10 shows the results for 2013, analogously to the baseline results, when assuming a real interest rate of 2%. We can see that all computed EATR figures increase which confirms the theoretical reasoning from above. For comparability, Figures 6.1 to 6.5 are analogously created to the graphs in the baseline version (section 7) with now assuming an interest rate of 2%. The main results do not change; none of the main findings presented in section 7 need to be relativized. However, naturally, there are some changes in the implicit ranking of the countries. Countries with low tax rates now appear relatively more favourable than countries with high tax base reductions (e.g. Croatia and Estonia). This is due to the relatively lower importance of allowances and deductions when profitability is increasing.

6.3.1.2 Inflation rate

The effect of changes in the rate of inflation on the EATR differs for equity and debt financing. The model assumes the so called Fisher effect for the relationship between the nominal interest rate i, the real interest rate r and the inflation rate π. This is $(1+i) = (1+r)(1+\pi)$. Therefore, the nominal interest rate is increasing with an increasing rate of inflation. Since interest on debt financing is deductible from the tax base, the EATR for debt financed investments is decreasing with an increasing inflation rate. Likewise, the EATR for debt financed investments is increasing if the rate of inflation is reduced. This does not hold for equity financed investments.

Results (Inflation Rate): Table 6.11 shows, analogously to the results for the base case presented in section 7, the results assuming an inflation rate of 1% instead of 2%. For the domestic cases, all EATRs are lower (or equal) to the ones in the base case. This means that the increase in the EATR which is driven by the debt-financed part of the investment is outweighed by the reduction in the EATR due to the equity-financed part of the investment. This is also the case for all inbound EATRs when assuming a mix of financing[22] (column (3) in Table 6.11 for an inflation rate of 1% and Table 7.3 in section 7 in the report for the base case). However, when looking at inbound investments which are efficiently financed (column (4) and (5) of Table 6.11 for an inflation rate of 1% and Table 7.3 in section 7 for the base case), the direction of the change differs depending on the investment location. Since investments financed exclusively either by debt or equity are considered, a decrease in inflation increases (in case of debt financing) or decreases (in case of equity financing) the EATR. Therefore, some EATRs increase and others decrease in the sensitivity analysis.

The changes with respect to the implicit rankings of the countries are minor. No interpretations from the base case results need to be adjusted. For the sake of comparability, Figures 6.6 to 6.10 are analogously created to the graphs of the baseline version in section 7 with now assuming an inflation rate of 1%.[23]

[21] Please also see the explanations on this phenomenon below with respect to the pre-tax rate of return.
[22] The subsidiary is financed by retained earnings (33.33%), new equity (33.33%) and debt (33.33%).
[23] The country ordering with respect to SME incentives (Figure 10.7.6 for an inflation rate of 1% and Figure 7.2 for the baseline version) remains completely unchanged; in the other figures countries change two positions at the maximum.

6.3.1.3 Pre-tax rate of return

In general, less profitable investments have lower EATRs. This is because the EATR takes allowances, depreciations and deductions into account and these tax base reductions are – compared to the nominal tax rate – more important when profitability is low.

Results (Pre-tax rate of return of 15%): Table 6.12 shows, analogously to the results for the base case in section 7, all results when assuming a pre-tax rate of return of 15% instead of 20%. Again, all relevant graphs are produced analogously for this sensitivity analysis (Figure 6.11 to Figure 6.15). For the domestic case, all EATRs are now lower than in the base case except in the UK[24]. The ranking of the countries with respect to SME incentives only changes marginally. Likewise, when comparing domestic SMEs and inbound LSEs with efficient financing (Figure 6.14 for a return of 15% and Figure 7.6 in section 7 for the baseline case), the ranking only changes very little. However, the EATR for inbound LSEs generally reduces to a greater extent than for domestic investments. This is due to the fact that with lower profitability, deductions play a larger role than with higher profitability. If an inbound LSE is financed by debt, it is able to deduct its interest payments from the tax base. The benefit is relatively more significant the lower the profitability. This is why inbound investments appear to be more favourable in case of lower profitability. Assuming efficient financing for an inbound LSE investment, the EATR of those investments is now lower than the EATR of the domestic SME in six countries (Figure 6.11). In the baseline results, this was only the case in Estonia.

The changes to the base case scenario are minor when comparing domestic SMEs with inbound LSEs which are efficiently financed *and* have an optimal parent location (Figure 6.15 for a return of 15% and Figure 7.7 in section 7 for the baseline case). Like in the base case, there are five countries (France, Spain, Lithuania, Belgium and the Netherlands) in which domestic SMEs face a lower EATR than inbound LSE investments even when assuming an efficient parent location and efficient financing.

Results (Pre-tax rate of return of 25%): Table 6.13 shows, analogously to the results for the base case in section 7, all results when assuming a pre-tax rate of return of 25% instead of 20%. Again, all relevant graphs are produced for this sensitivity analysis (Figure 6.16 to 6.20).

For the domestic case, all EATRs are now higher than in the base case except in France and in the UK[25]. This follows from the fact that allowances, depreciations and deductions are relatively less important when profitability is higher. In fact, the higher the profitability the closer the EATR gets to the statutory tax rate.

The ranking with respect to SME incentives only changes marginally. Also, the ranking changes very little when comparing domestic SMEs and inbound LSEs with efficient financing (Figure 6.19 for a return of 25% and Figure 7.6 in section 7 for the baseline

[24] The higher EATR in the UK is due to the real estate tax (which is also applicable to industrial buildings). The real estate tax payable does not depend on the level of profits and, thus, the weight of the real estate tax gets relatively more important when profits are low.

[25] The lower EATR in France and the UK is due to their real estate taxes (which are also applicable to industrial buildings). The real estate tax payable does not depend on the level of profits and, thus, the weight of the real estate tax gets relatively less important when profits are high.

case). The result from the base case, i.e. only in Estonia an average inbound LSE investment is better off than a domestic SME investment, remains valid. When assuming that inbound investments (LSE) are efficiently financed *and* have an efficient parent location, the five countries in which SMEs still face a lower EATR than the inbound investment remain the same. However, the UK additionally joins this group of countries. Thus, the UK appears to be more favourable for SMEs than before.

Summary of the sensitivity results with respect to the pre-tax rate of return: EATRs differ depending on the assumed profitability of the investment. However, the main results of the baseline analysis remain robust. France, Spain, Lithuania, Belgium and the Netherlands still appear to be very favourable tax environments for SMEs compared to international LSEs.

6.3.2 Detailed Results - Tables

Table 6.10 Effective Average Tax Rates in % for 2013; Interest rate: 2%

		Domestic		Cross-border					
Country	Year	LSE	SME	subsidiary: LSE			subsidiary: SME		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		mix of financing	mix of financing	mix of financing	efficient financing	efficient financing and location	mix of financing	efficient financing	efficient financing and location
Austria	2013	24,6	24,6	26,6	25,6	22,6	26,6	25,6	22,6
Belgium	2013	29,5	20,9	30,6	29,6	27,9	22,4	20,6	18,5
Bulgaria	2013	9,8	9,8	13,2	11,9	7,6	13,2	11,9	7,6
Croatia	2013	18,6	18,6	24,0	22,9	17,9	24,0	22,9	17,9
Estonia	2013	19,3	19,3	21,4	18,2	16,2	21,4	18,2	16,2
Finland	2013	24,5	24,5	26,6	25,7	22,7	26,6	25,7	22,7
France	2013	37,7	15,5	38,9	37,6	35,0	17,9	16,9	13,5
Germany	2013	30,3	29,8	32,3	31,2	28,1	31,8	30,7	27,6
Greece	2013	25,6	25,6	28,3	27,2	23,5	28,3	27,2	23,5
Ireland	2013	15,3	12,7	17,6	16,6	12,9	15,2	14,1	10,2
Italy	2013	27,3	27,3	29,4	28,1	24,5	29,4	28,1	24,5
Lithuania	2013	15,2	5,1	17,5	16,5	13,7	8,6	7,1	3,1
Luxembourg	2013	27,9	26,9	29,3	28,1	25,5	28,4	27,2	24,6
The Netherlands	2013	24,2	18,7	26,1	25,1	22,3	20,9	20,0	17,2
Poland	2013	18,5	18,2	21,6	20,6	16,5	21,3	20,3	16,6
Romania	2013	16,1	15,3	18,9	17,9	14,2	18,2	17,2	13,4
Slovenia	2013	16,6	16,6	19,5	18,5	14,5	19,5	18,5	14,5
Spain	2013	34,8	19,8	37,0	35,5	32,2	22,7	21,6	18,3
Sweden	2013	21,1	20,9	22,9	22,0	19,3	22,6	21,7	19,0
The UK	2013	25,5	22,5	27,3	26,3	23,5	24,4	23,5	20,4

Table 6.11 Effective Average Tax Rates in % for 2013; Inflation rate: 1%

		Domestic		Cross-border					
Country	Year	LSE	SME	subsidiary: LSE			subsidiary: SME		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		mix of financing	mix of financing	mix of financing	efficient financing	efficient financing and location	mix of financing	efficient financing	efficient financing and location
Austria	2013	22,7	22,7	24,5	23,1	19,8	24,5	23,1	19,8
Belgium	2013	26,2	18,5	27,2	26,2	24,3	19,9	18,0	15,4
Bulgaria	2013	8,9	8,9	11,9	10,0	5,3	11,9	10,0	5,3
Croatia	2013	16,4	16,4	21,2	19,5	15,3	21,2	19,5	15,3
Estonia	2013	16,4	16,4	18,9	14,1	11,5	18,9	14,1	11,5
Finland	2013	22,0	22,0	23,9	22,5	19,2	23,9	22,5	19,2
France	2013	34,4	14,1	35,6	33,6	30,4	16,2	14,8	10,9
Germany	2013	27,9	27,3	29,7	28,0	24,6	29,1	27,4	23,9
Greece	2013	23,8	23,8	26,2	24,5	20,6	26,2	24,5	20,6
Ireland	2013	14,1	11,7	16,1	14,7	10,5	13,9	12,3	7,9
Italy	2013	24,8	24,8	26,8	25,2	21,2	26,8	25,2	21,2
Lithuania	2013	13,6	4,6	15,7	14,2	10,9	7,7	5,4	1,0
Luxembourg	2013	25,3	24,4	26,6	24,8	21,6	25,7	24,0	20,9
The Netherlands	2013	22,1	16,9	23,8	22,4	19,3	18,8	17,6	14,3
Poland	2013	17,1	16,4	19,8	18,4	13,9	19,2	17,8	13,8
Romania	2013	14,7	14,0	17,3	15,8	11,6	16,5	15,0	10,8
Slovenia	2013	15,2	15,2	17,8	16,3	11,9	17,8	16,3	11,9
Spain	2013	32,0	17,6	34,1	32,0	28,1	20,4	18,8	15,2
Sweden	2013	19,1	18,8	20,7	19,4	16,4	20,4	19,1	16,1
The UK	2013	23,9	21,1	25,5	24,1	21,2	22,8	21,5	18,1

Table 6.12 Effective Average Tax Rates in % for 2013; <u>Pre-tax rate of return: 15%</u>

		Domestic		Cross-border					
Country	Year	LSE	SME	subsidiary: LSE			subsidiary: SME		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		mix of financing	mix of financing	mix of financing	efficient financing	efficient financing and location	mix of financing	efficient financing	efficient financing and location
Austria	2013	22,3	22,3	24,1	21,9	17,8	24,1	21,9	17,8
Belgium	2013	24,0	16,6	25,1	23,4	20,7	18,0	15,5	12,2
Bulgaria	2013	8,7	8,7	11,7	8,7	2,9	11,7	8,7	2,9
Croatia	2013	15,3	15,3	20,1	17,6	13,4	20,1	17,6	13,4
Estonia	2013	15,0	15,0	18,3	11,0	7,1	18,3	11,0	7,1
Finland	2013	21,6	21,6	23,6	21,4	17,4	23,6	21,4	17,4
France	2013	34,3	14,0	35,5	32,5	28,1	16,1	14,0	9,0
Germany	2013	27,3	26,4	29,2	26,6	22,1	28,3	25,7	21,3
Greece	2013	23,4	23,4	25,8	23,3	18,6	25,8	23,3	18,6
Ireland	2013	14,2	11,8	16,2	13,9	8,6	13,9	11,4	5,8
Italy	2013	23,3	23,3	25,3	23,1	18,1	25,3	23,1	18,1
Lithuania	2013	13,2	4,5	15,3	13,0	8,8	7,5	4,0	-1,4
Luxembourg	2013	24,3	23,4	25,6	22,8	18,5	24,8	22,2	18,0
The Netherlands	2013	21,3	16,0	23,1	20,9	16,9	18,0	16,0	11,9
Poland	2013	16,6	15,6	19,4	17,2	11,8	18,5	16,3	11,5
Romania	2013	14,4	13,4	16,9	14,7	9,5	15,9	13,7	8,5
Slovenia	2013	15,0	15,0	17,6	15,3	9,8	17,6	15,3	9,8
Spain	2013	31,7	16,9	34,0	30,7	25,7	19,8	17,3	13,0
Sweden	2013	18,7	18,4	20,4	18,4	14,5	20,0	18,0	14,1
The UK	2013	24,7	21,9	26,3	24,2	20,4	23,6	21,6	17,2

Table 6.13 Effective Average Tax Rates in % for 2013; <u>Pre-tax rate of return: 25%</u>

		Domestic		Cross-border					
Country	Year	LSE	SME	subsidiary: LSE			subsidiary: SME		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		mix of financing	mix of financing	mix of financing	efficient financing	efficient financing and location	mix of financing	efficient financing	efficient financing and location
Austria	2013	23,4	23,4	25,3	23,9	20,7	25,3	23,9	20,7
Belgium	2013	28,0	19,9	29,0	28,0	26,0	21,4	19,9	17,8
Bulgaria	2013	9,2	9,2	12,4	10,6	6,3	12,4	10,6	6,3
Croatia	2013	17,2	17,2	22,2	20,7	16,2	22,2	20,7	16,2
Estonia	2013	17,4	17,4	19,8	15,4	13,2	19,8	15,4	13,2
Finland	2013	22,8	22,8	24,8	23,5	20,2	24,8	23,5	20,2
France	2013	35,3	14,4	36,5	34,7	31,6	16,7	15,4	12,0
Germany	2013	28,8	28,2	30,7	29,1	25,7	30,2	28,6	25,1
Greece	2013	24,4	24,4	27,0	25,5	21,6	27,0	25,5	21,6
Ireland	2013	14,5	12,1	16,7	15,3	11,7	14,4	12,9	9,1
Italy	2013	26,2	26,2	28,2	27,0	23,5	28,2	27,0	23,5
Lithuania	2013	13,9	4,7	16,1	14,7	11,8	8,0	5,8	1,8
Luxembourg	2013	26,3	25,3	27,6	25,9	22,8	26,7	25,1	22,0
The Netherlands	2013	22,8	17,6	24,6	23,3	20,2	19,6	18,5	15,7
Poland	2013	17,6	17,0	20,5	19,2	15,3	19,9	18,6	15,0
Romania	2013	15,1	14,5	17,7	16,4	12,7	17,1	15,8	12,1
Slovenia	2013	15,8	15,8	18,5	17,1	13,3	18,5	17,1	13,3
Spain	2013	33,1	18,4	35,3	33,3	29,5	21,2	19,7	16,5
Sweden	2013	19,8	19,6	21,5	20,3	17,8	21,3	20,1	17,5
The UK	2013	24,0	21,1	25,7	24,4	21,7	23,0	21,8	18,9

6.3.3 Detailed Results - Graphs

Figure 6.1 Domestic Effective Average Tax Rate (with and without SME-specific Tax Incentives) for Standalone Corporations; Interest rate: 2%

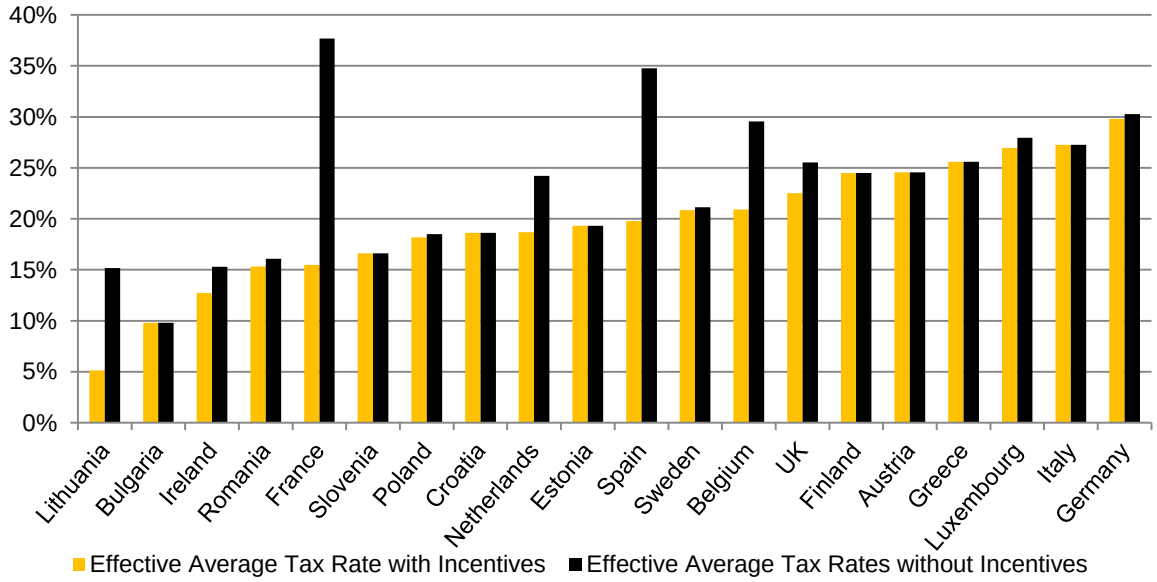


Figure 6.2 Comparison of Effective Average Tax Rates for domestic and cross-border investments conducted by LSEs; Interest rate: 2%

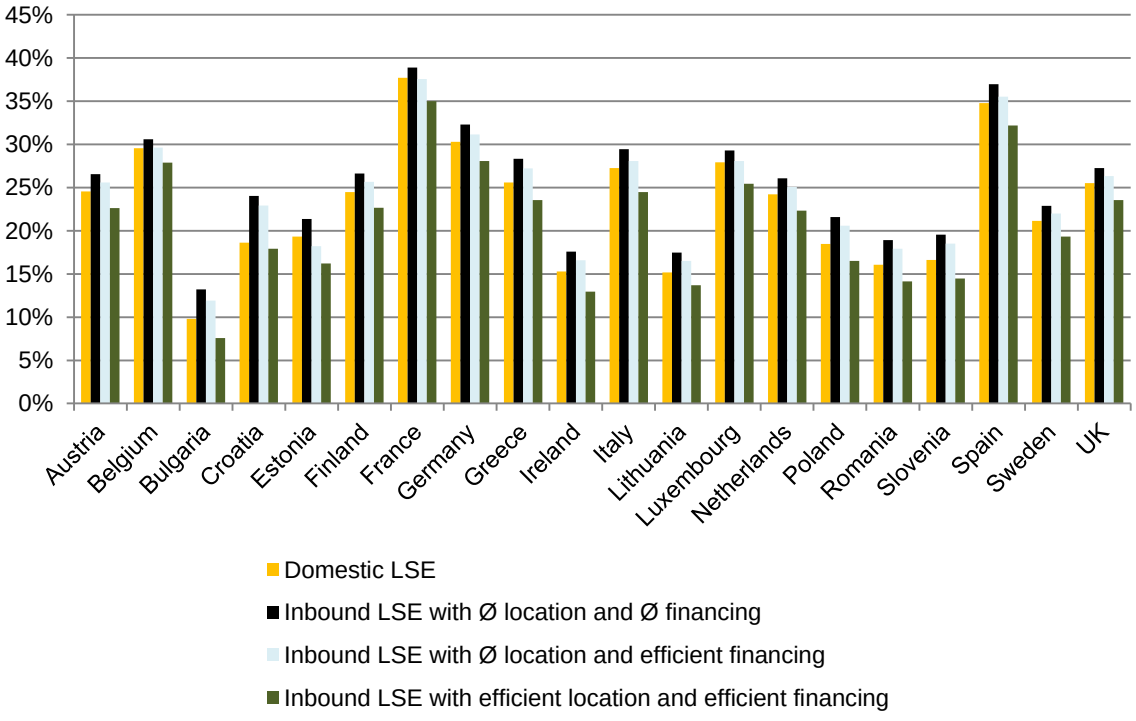


Figure 6.3 Comparison of Effective Average Tax Rates in % for SMEs and LSEs; Interest rate: 2%

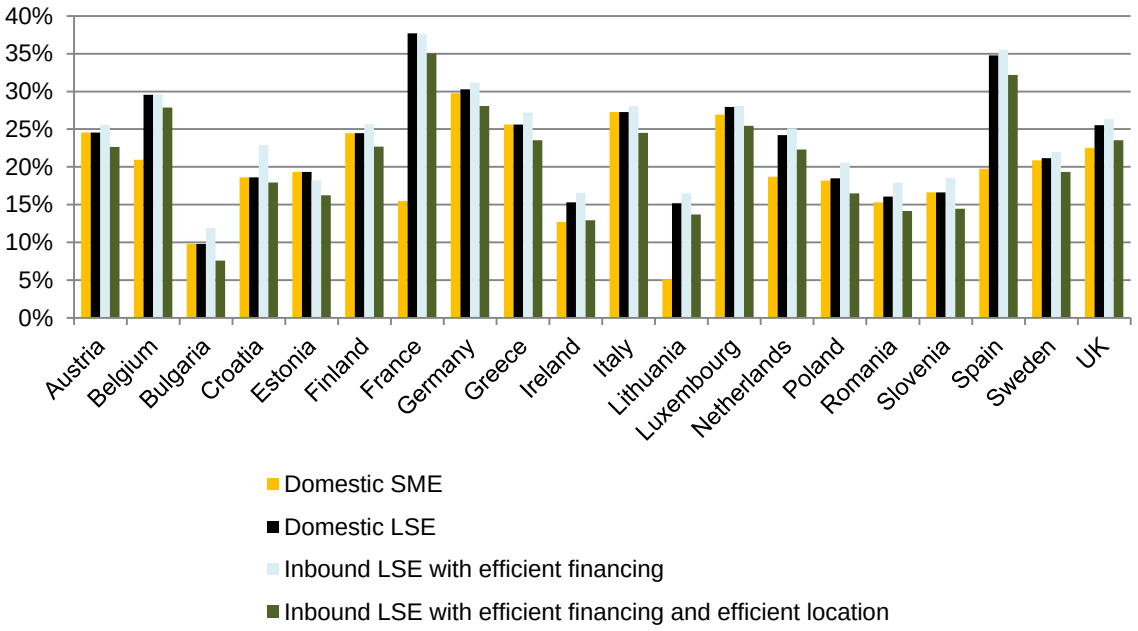


Figure 6.4 Comparison of Effective Average Tax Rates for SMEs and multinational LSEs with most tax efficient way of financing; Interest rate: 2%

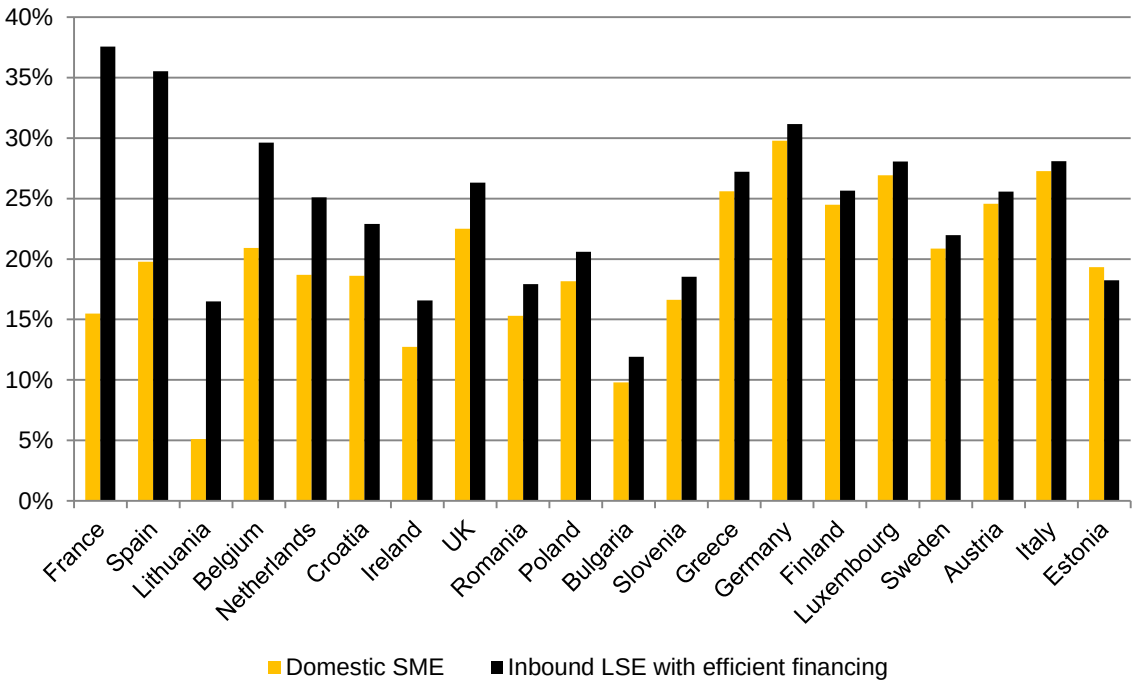


Figure 6.5 Comparison of Effective Average Tax Rates for SMEs and multinational LSEs with tax efficient way of financing and tax efficient location of the parent; Interest rate: 2%

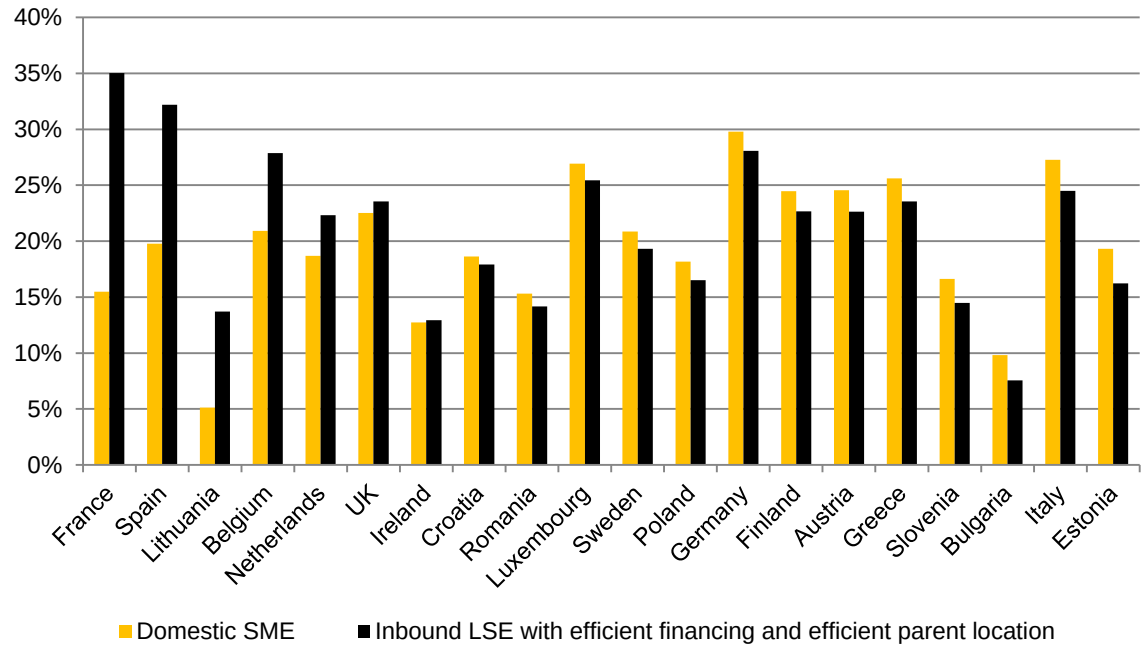


Figure 6.6 Domestic Effective Average Tax Rate (with and without SME-specific Tax Incentives) for Standalone Corporations; Inflation rate: 1%

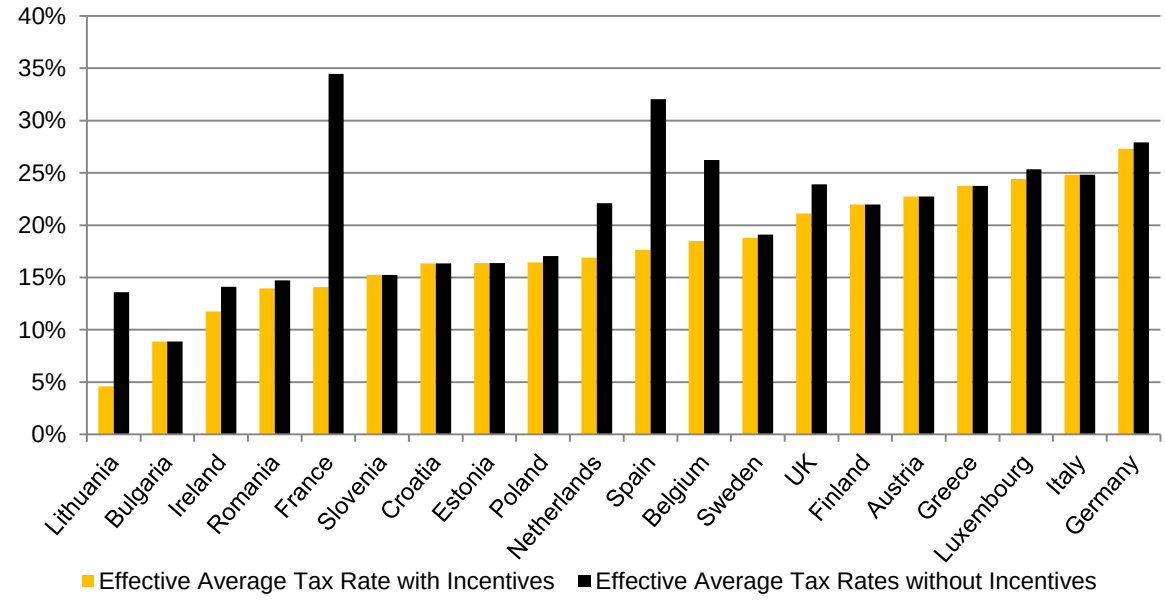


Figure 6.7 Comparison of Effective Average Tax Rates for domestic and cross-border investments conducted by LSEs; Inflation rate: 1%

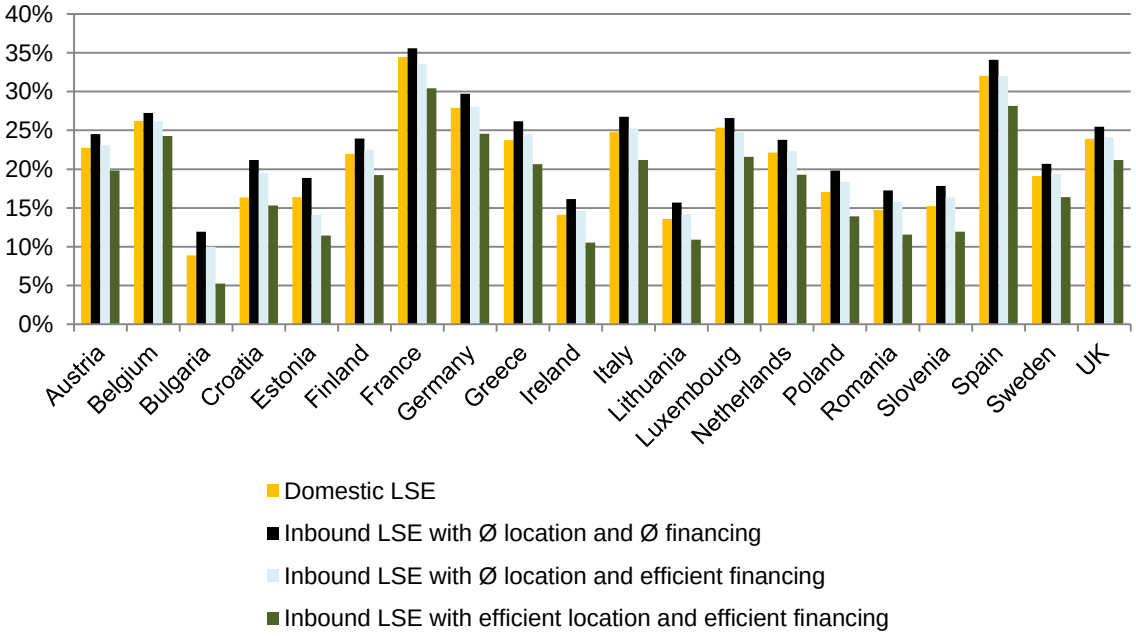


Figure 6.8 Comparison of Effective Average Tax Rates in % for SMEs and LSEs; Inflation rate: 1%

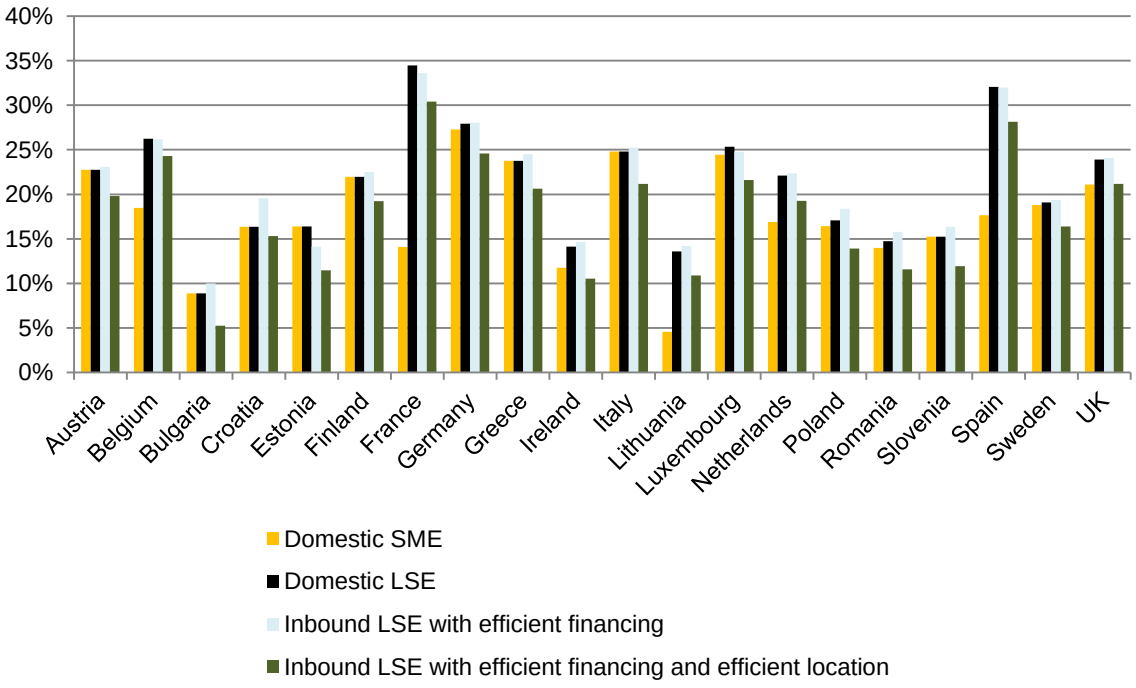


Figure 6.9 Comparison of Effective Average Tax Rates for SMEs and multinational LSEs with most tax efficient way of financing; Inflation rate: 1%

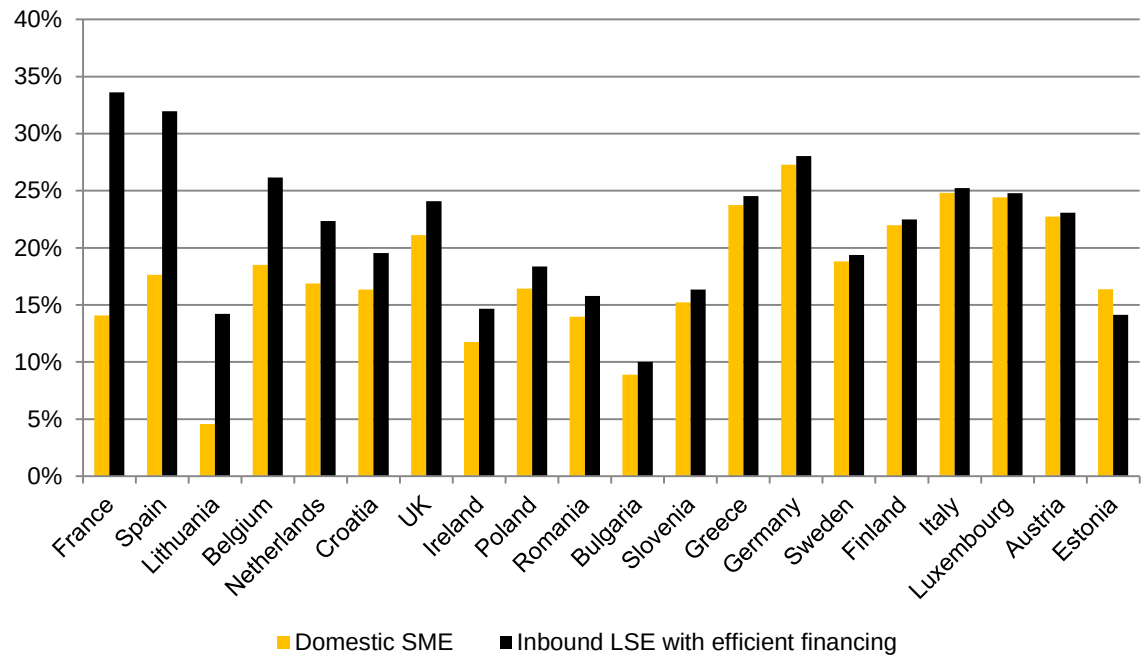


Figure 6.10 Comparison of Effective Average Tax Rates for SMEs and multinational LSEs with tax efficient way of financing and tax efficient location of the parent; Inflation rate: 1%

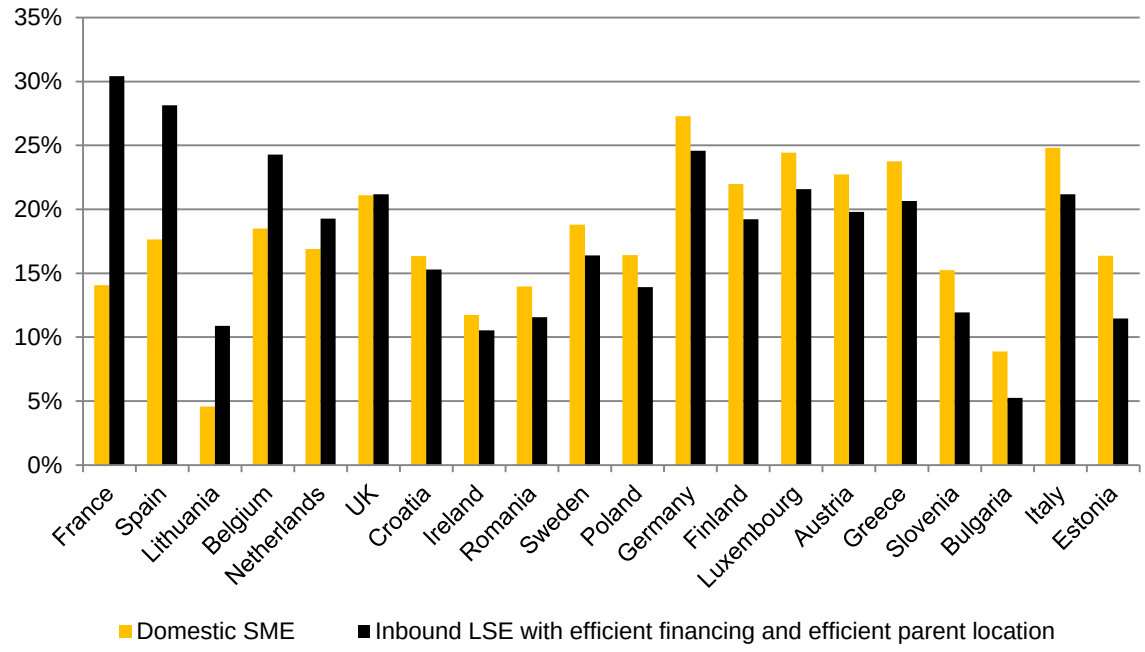


Figure 6.11 Domestic Effective Average Tax Rate (with and without SME-specific Tax Incentives) for Standalone Corporations; Pre-tax rate of return: 15%

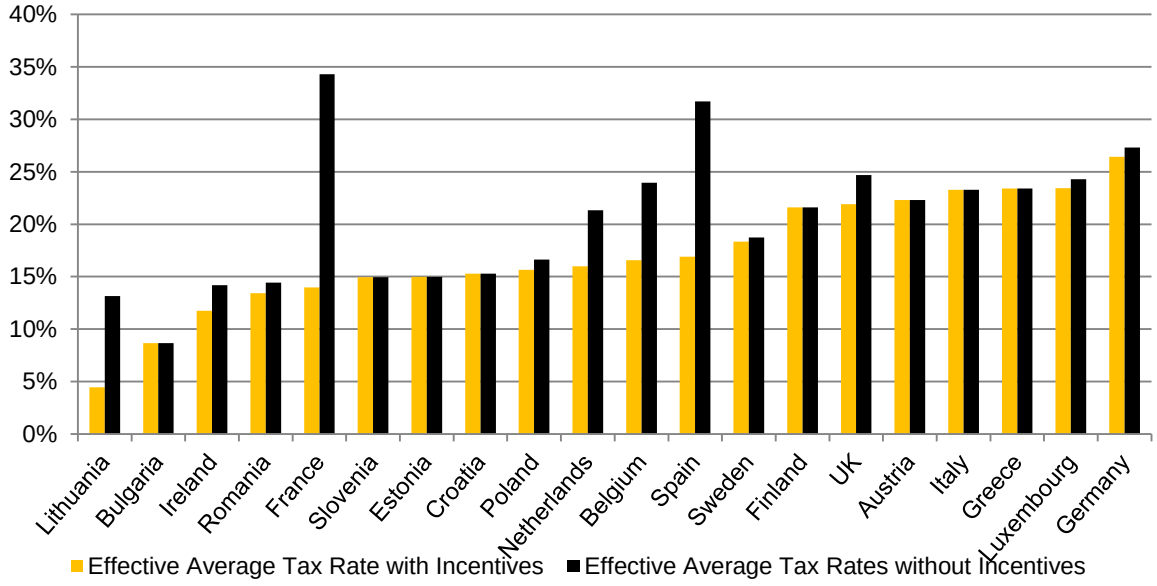


Figure 6.12 Comparison of Effective Average Tax Rates for domestic and cross-border investments conducted by LSEs; Pre-tax rate of return: 15%

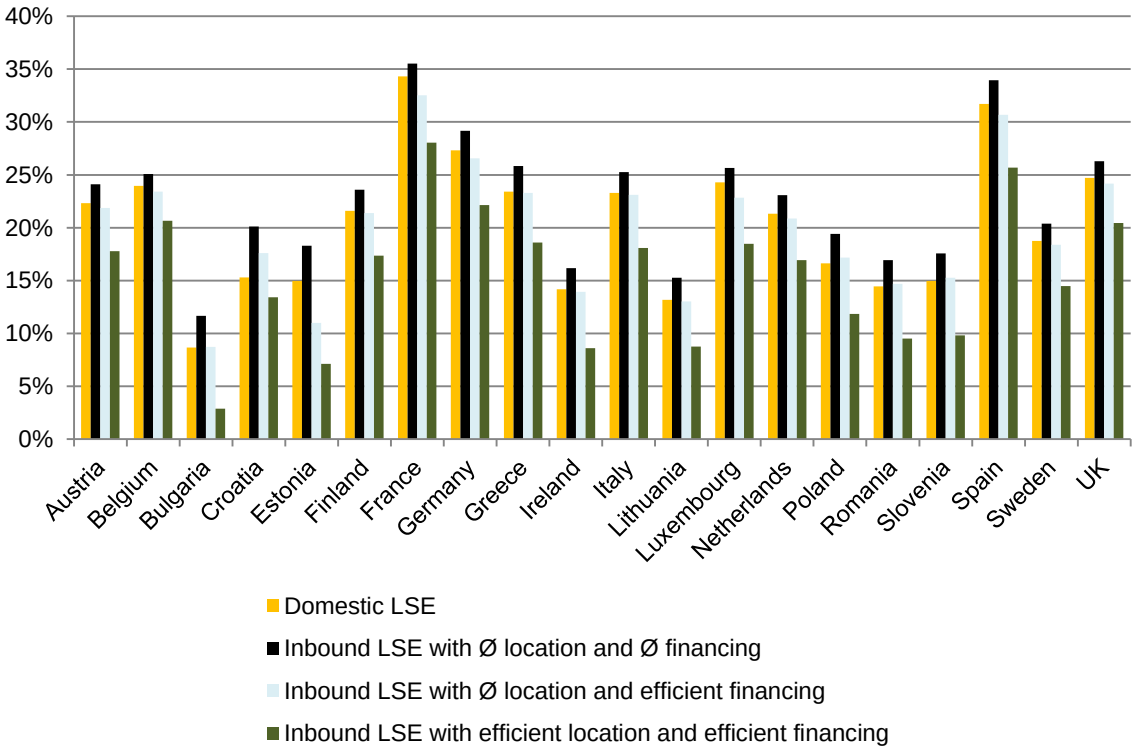


Figure 6.13 Comparison of Effective Average Tax Rates in % for SMEs and LSEs; Pre-tax rate of return: 15%

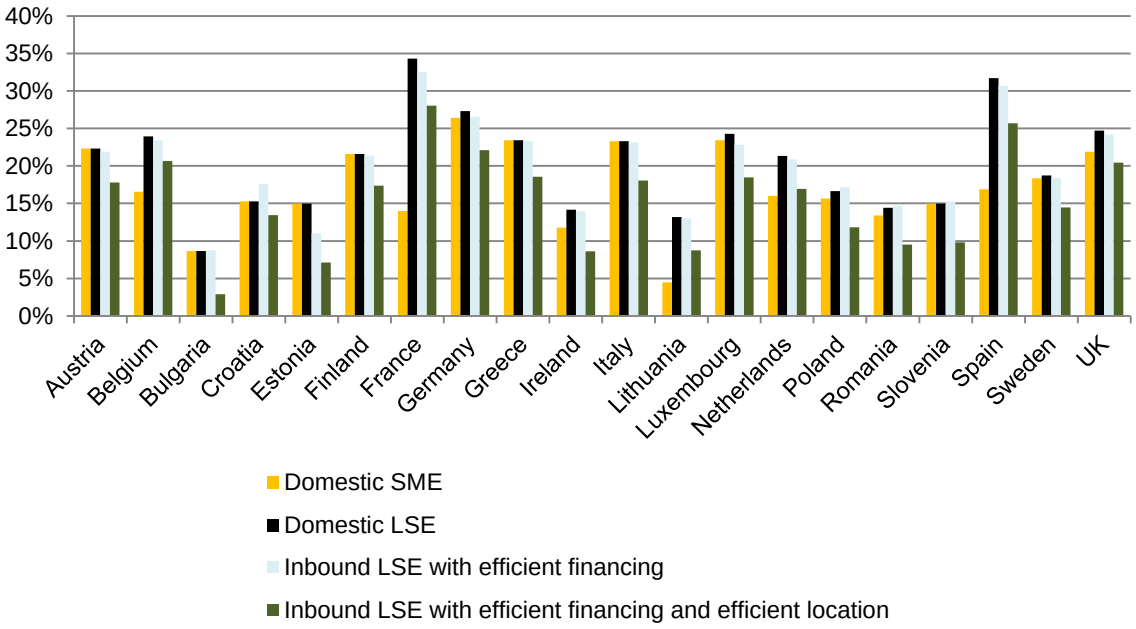


Figure 6.14 Comparison of Effective Average Tax Rates for SMEs and multinational LSEs with most tax efficient way of financing; Pre-tax rate of return: 15%

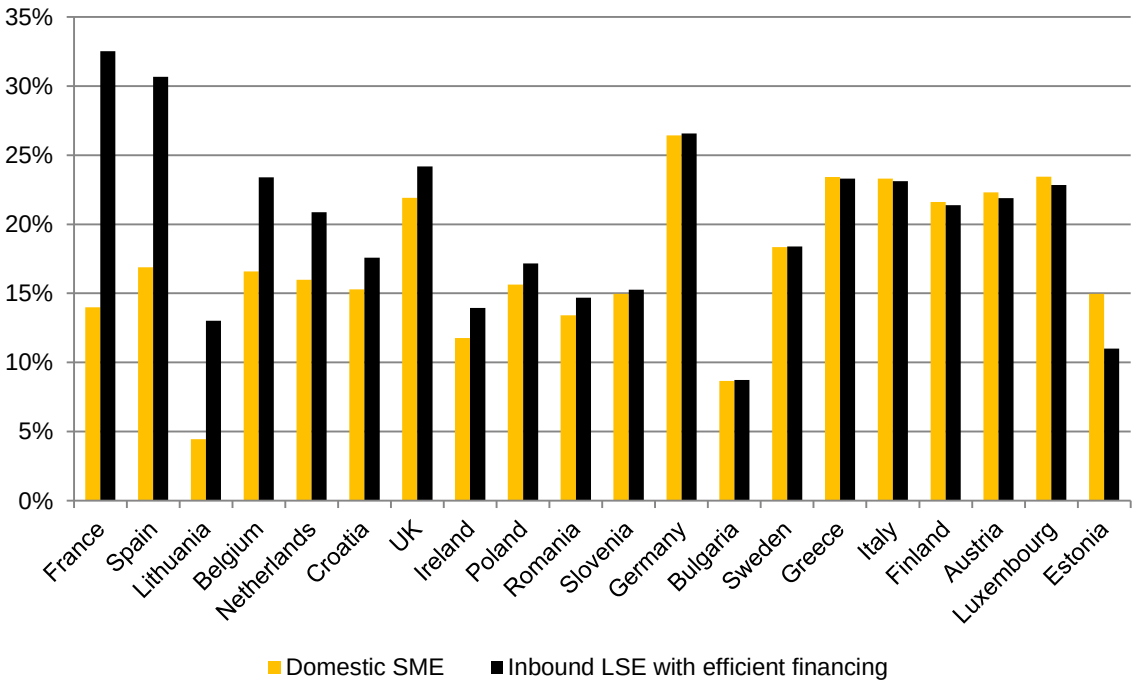


Figure 6.15 Comparison of Effective Average Tax Rates for SMEs and multinational LSEs with tax efficient way of financing and tax efficient location of the parent; Pre-tax rate of return: 15%

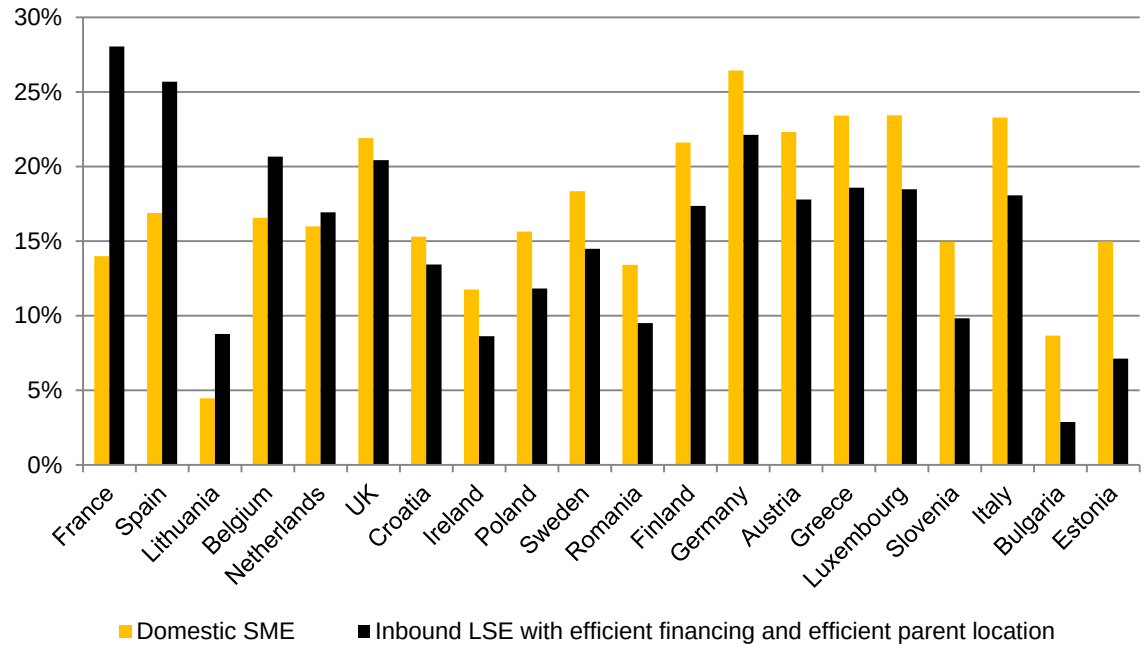


Figure 6.16 Domestic Effective Average Tax Rate (with and without SME-specific Tax Incentives) for Standalone Corporations; Pre-tax rate of return: 25%

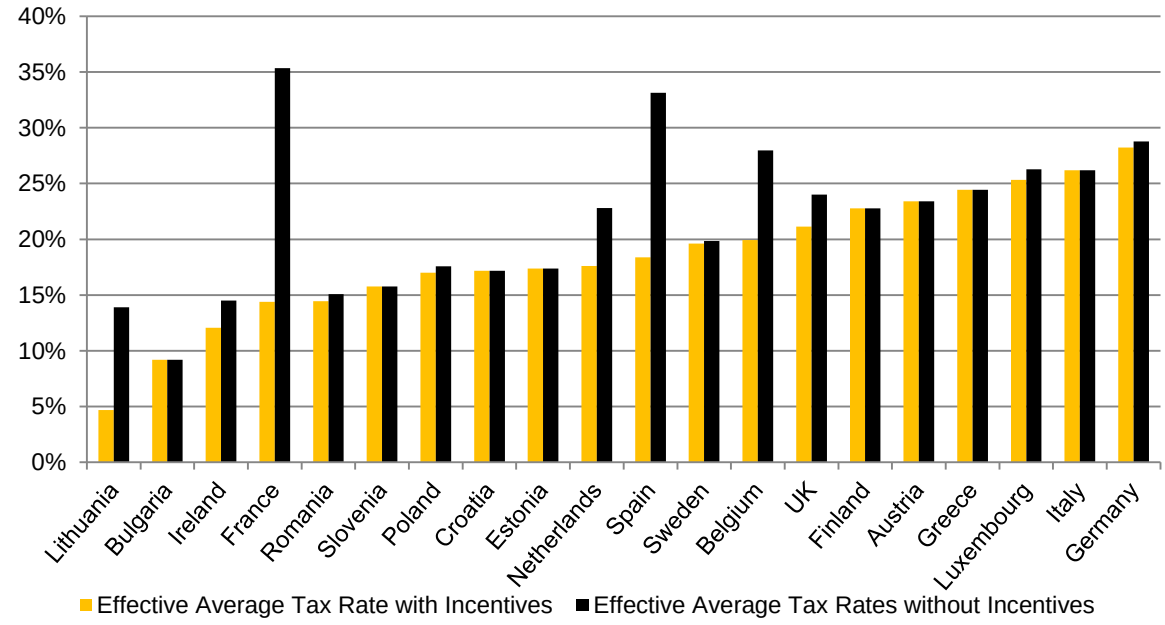


Figure 6.17 Comparison of Effective Average Tax Rates for domestic and cross-border investments conducted by LSEs; Pre-tax rate of return: 25%

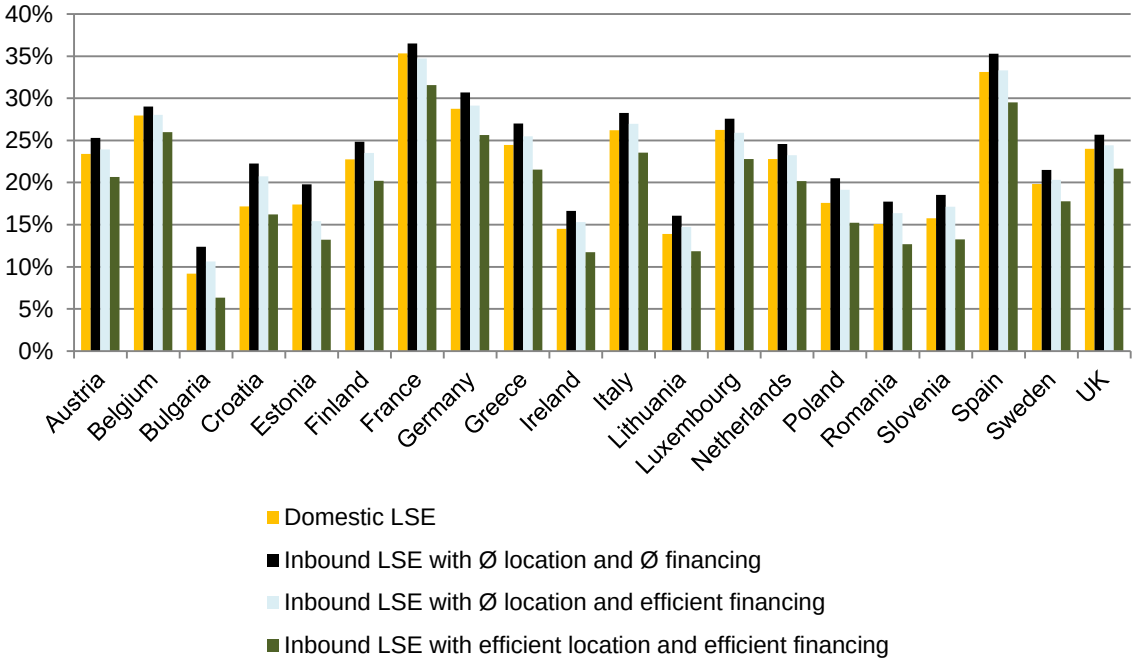


Figure 6.18 Comparison of Effective Average Tax Rates in % for SMEs and LSEs; Pre-tax rate of return: 25%

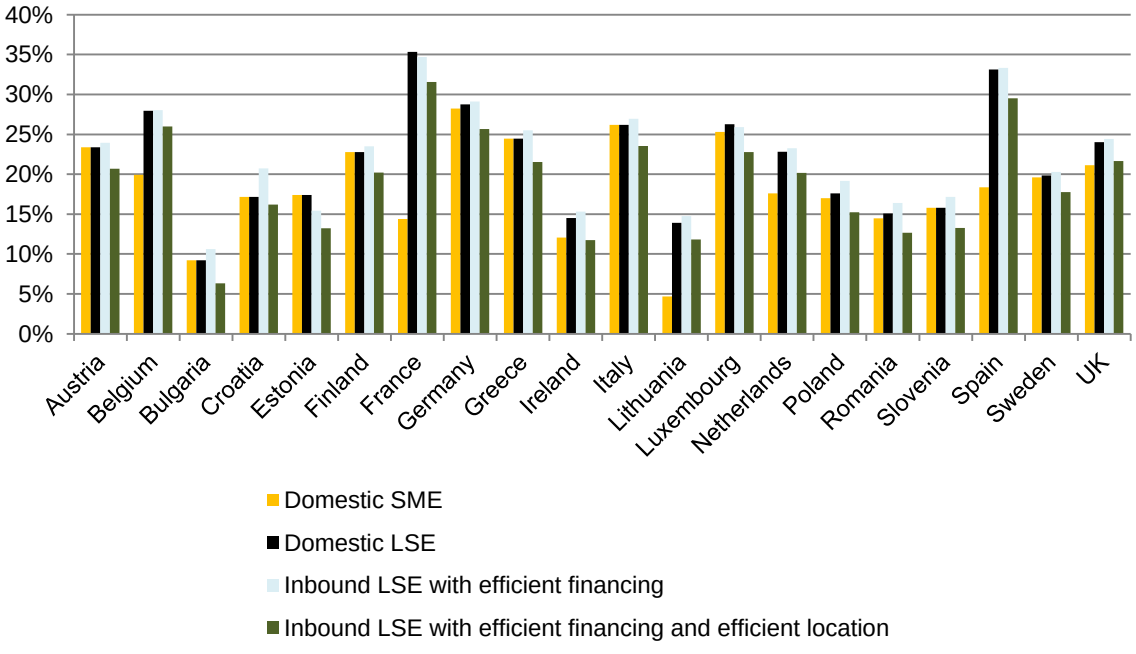


Figure 6.19 Comparison of Effective Average Tax Rates for SMEs and multinational LSEs with most tax efficient way of financing; Pre-tax rate of return: 25%

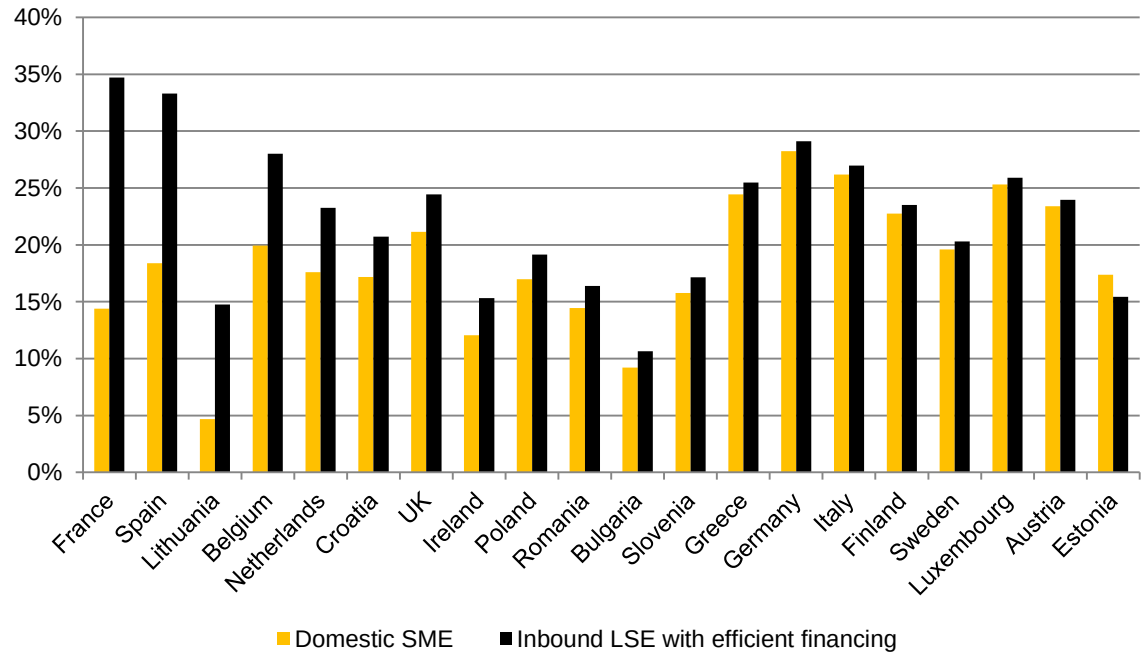
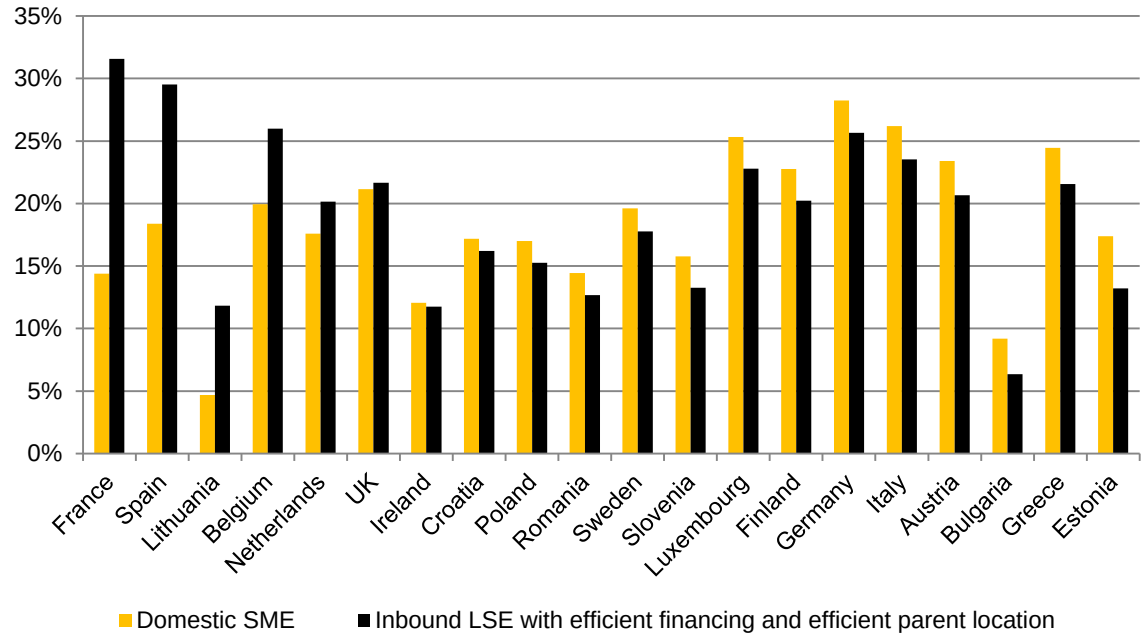


Figure 6.20 Comparison of Effective Average Tax Rates for SMEs and multinational LSEs with tax efficient way of financing and tax efficient location of the parent; Pre-tax rate of return: 25%



6.4 Micro regime in Romania and Slovenia

6.4.1 Romania

For the years 2009, 2011, 2012 and 2013, there was a micro enterprise regime in Romania. The special tax regime allows companies to pay tax on their turnover rather than on their profit. A company is actually obliged to apply this system if it meets certain criteria (e.g. it generates income less than EUR 65,000 (in 2013) and is 100% privately owned).

The tax payable by a micro-enterprise is computed by applying a 3% rate to the total number of income.

If we apply this regime to a domestic SME in our model, the EATR reduces from 14.1% to 5.11% (in all relevant years). This large reduction needs to be interpreted cautiously since the regime is especially advantageous for profitable microenterprises and the Devereux-Griffith model assumes a profitable investment when computing the EATR. The benefit of the micro regime is less clear when looking at marginal investments.

Furthermore, the regime is not applied if the income is derived from operational subsidies.

6.4.2 Slovenia

Slovenia has introduced a micro enterprise regime with effect from January 2013. Taxpayers whose annual revenues do not exceed EUR 50,000 may apply a lump-sum deduction for their expenses. The deduction is 70% of the annual revenue. Consequently, the lump-sum deduction is an (exclusive) substitute for the normal depreciation methods and for interest cost deductions.

If we apply this regime to a domestic SME in our model, the EATR reduces from 15.5% to 7.1% (in 2013). Again, this large reduction needs to be interpreted cautiously since the lump-sum deduction from revenue is especially advantageous for profitable corporations. The Devereux-Griffith model assumes such a profitable investment when computing the EATR. The benefit of the micro regime is less clear when looking at marginal investments.

6.5 International Tax law on cross-border investments and optimal behaviour by corporations

In the cross-border case, taxation of profit repatriation becomes a relevant topic. In this section, we summarize the relevant aspects and interactions of national tax regulations, withholding taxes levied in the host territories of the subsidiaries and the method for avoiding international double taxation in the home country of the parent corporation.[26] With respect to the latter, one can differentiate between the exemption method and the credit method which are both set out in Article 23 of the OECD Model

[26] Please also see Endres, D., Fuest, C. and C. Spengel (2010) for this topic. We partly borrow explanations from that study in this section.

Convention[27]. Figure 6.21 outlines the tax burden associated with different financing strategies and methods to avoid double taxation in case of equity financing.

In case of debt financing, interest costs are – in general – deductible at the level of the subsidiary (i.e. interest reduces domestic profits) and are taxable at the level of the parent corporation. If, in the source country's jurisdiction, a withholding tax is levied on the interest, the credit method is the accepted approach to avoid double taxation on these payments at the level of the parent corporation. Therefore, in case of cross-border debt financing, the relevant tax on the profits is the tax borne at the level of the foreign parent corporation. This implies that for a given country constellation, it is tax efficient for a parent to finance its subsidiary by debt if the level of taxation in the subsidiary's country is higher than at the location of the parent.[28]

In case of equity financing, profits are subject to tax at the level of the subsidiary. If these profits are distributed as dividends to the parent corporation, double taxation is avoided by either the exemption method or the credit method. Within Europe, the exemption method[29] is common practice. However, some Non-European countries apply the credit method[30] (e.g. the USA). This is the main reason why we also include five Non-European countries as possible locations of the parent into our analysis. This is necessary in order to ensure representativeness since the implications which follow from applying the exemption or the credit method differ. If the exemption method is applied, the tax burden borne at the level of the parent corporation in principle equals the tax burden at subsidiary level (if withholding taxes on dividends are disregarded). Hence, the investment conducted by a subsidiary in a given country will be taxed according to its location. It does not matter where the parent is located as long as it is located in an exemption country. In contrast, if the credit method is applied, profit taxes borne at the level of the subsidiary are credited against the corporation tax on the underlying profits at the level of the parent corporation.[31] Consequently, if the tax level of the subsidiary is lower than the tax level of the parent corporation, the tax burden on dividends is grossed-up to the tax level of the parent's home country. Since the tax credit on dividends is usually limited to the domestic corporation tax (parent) on the underlying profits, the tax burden in the jurisdiction of the parent corporation constitutes the minimum tax burden that the multinational investor faces. The overall tax burden of the investment exceeds this minimum if the foreign tax level of the subsidiary's location is higher. Whether withholding taxes on dividend payments will result in a definite tax burden depends on whether the exemption method or the credit method is applied. In case of the exemption method, dividend withholding taxes always result in definite tax burdens. In the event of the credit method, dividend withholding taxes only become definite if they - together with the host corporation tax (subsidiary) - exceed the home country's tax level (parent). For all country constellations we consider the exact levels of withholding taxes in place when computing the EATR.

[27] OECD (2012), Model Tax Convention on Income and on Capital 2010 (updated 2010), OECD Publishing.

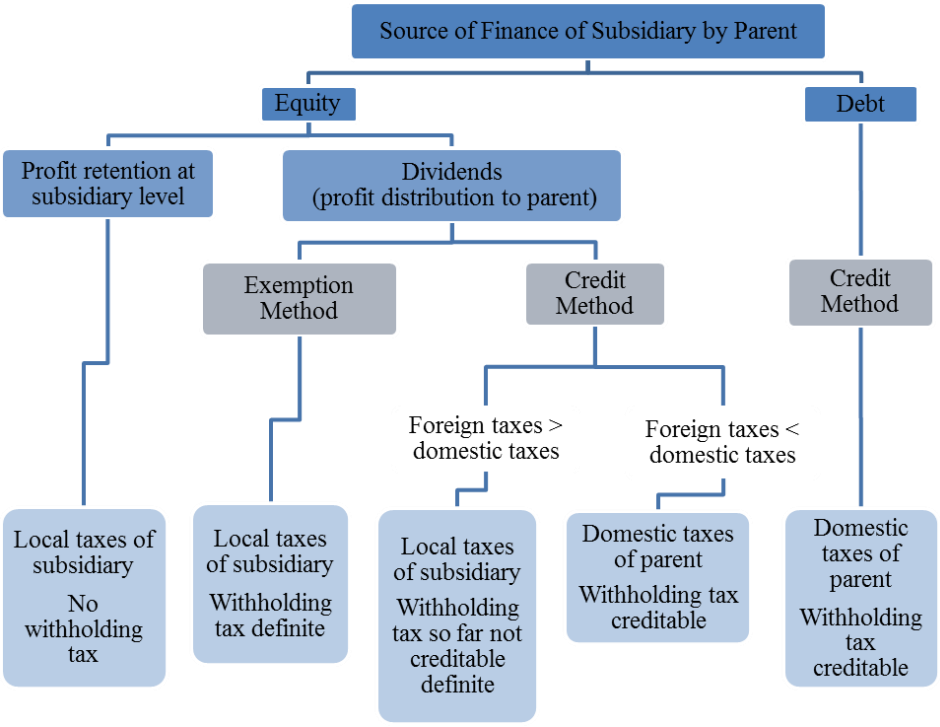
[28] Note that thin capitalization or earnings-stripping rules limit the deductibility of interest payments. For the computation of EATRs, these limitations were not taken into account here.

[29] With this method, a tax subject's income from abroad is not considered when computing the taxable income. Thus, income received from abroad is directly exempt from taxation.

[30] The credit method allows to deduct taxes which are paid abroad on foreign income from the tax payable in the state of residence if there is an equivalent tax for this foreign income in the state of residence.

[31] For further explanations on the exemption and credit methods see for example Russo, R. (2007): Fundamentals of International Tax Planning, IBFD.

Figure 6.21 Taxation of cross-border income depending on the source of finance



Source: Endres, D., Fuest C., and C. Spengel (2010), Company Taxation in the Asia-Pacific Region, India, and Russia, Heidelberg.

The interaction of different national tax levels, withholding taxes and systems of avoidance of double taxation establishes possibilities for multinationals to reduce their tax burdens. In the following paragraphs, some general conclusions on the most tax-efficient financing strategies will be drawn building up on the explanations above.

For the repatriation of profits to the parent corporation, the optimal tax planning strategy depends on the relationship between the level of foreign taxes (i.e. taxes (including withholding taxes) borne at the level of the subsidiary) and the level of domestic taxes in the home country of the parent corporation (in the selected 20 EU countries and 5 Non-EU countries).

Where the host country's taxes (i.e. the subsidiary) exceed the corporation tax rate of the parent's country, debt financing of the subsidiary is more tax efficient than equity financing regardless of the method which is employed to avoid double taxation. Thus, if subsidiaries are located in high tax countries it is more tax efficient to finance them by debt. Given a stand-alone SME and a LSE which are both located in a given high tax country, the SME might benefit from general SME incentives which it receives whereas the parent corporation of the LSE can make use of debt financing (if it is located in a relatively lower tax jurisdiction) in order to reduce the tax burden. At the end of the day, asking which advantage dominates is an empirical question.

Whenever taxes are lower at the location of the subsidiary than at the parent's location, the optimal financing strategy depends on the method applied to avoid double taxation. If the subsidiary's parent corporation is located in a relatively high tax

country that exempts dividend income, equity-financing is the most tax efficient way of financing. The respective withholding tax on dividends, however, becomes definite. If, instead, the parent corporation is located in a country that applies the credit method (e.g. the USA) the way of financing has no impact on the tax burden unless the subsidiary is located in a high-tax jurisdiction. Again here, debt financing turns out to be more tax efficient than equity financing.

7 CASE STUDY 1: IMPACT OF SPECIAL CIT RATES FOR SMES ON SUPPLY OF VENTURE CAPITAL

7.1 Introduction

This case study is focused on four European Member States: France, Italy, the Netherlands and UK. These countries were selected taking into account the dynamics of their venture capital markets and differences in terms of tax provisions that may affect either the investment funds or the start-up.

Case study 1	Objective	Topics
Case study 1 *Impact of CIT on supply of finance to SMEs by type of financing source*	Overall objective is to understand how venture capitalists make their decisions on where to invest and if these are affected by CIT.	Drivers of investment decisions by VC funds Importance of CIT in VC investment decisions Importance of deductions and incentives for VCs on level of activity and investment decisions Importance of special CIT provisions for start-ups on creation of VC funded enterprises.

Through the European Private Equity and Venture Capital Association (EVCA) six interviews were conducted. The experts included in this case study were: venture capital CEOs, tax experts of national associations of venture capital enterprises and legal experts specialised in start-up financing. Table 1 lists the organisations already interviewed for this first case study.

7.2 The impact of special CIT rates on the supply of venture capital

7.2.1 Theoretical explanations

Venture capital is defined as the "money of invention" (Cumming & Johan, 2009) but it is more than that: managers of venture capital funds provide their expertise and other value-added resources to entrepreneurial enterprises they support. VC funds provide mostly equity finance to selected companies with the objective to support their growth and resell when the value of the enterprise is higher. As a consequence, venture capitalists have a strong interest in selecting the best start-ups and in supporting them not only in monetary terms, but also providing the managerial expertise to protect their investment.

Tax systems have a drastic influence on the financial structure of start-ups, favoring private equity investments when CIT is low and bank loans when taxation is higher. In uncertain economic environments and under scarce liquidity, other financing forms like Mezzanine funding can provide additional support to start-ups.

From the point of view of a single investor, corporate income taxation might not seem particularly relevant for decisions to invest or not in a start-up, with many other aspects such as taxation on capital gains being more important.

However, corporate income tax rates become more relevant for cross-country investments. From the interviews for this case study, it emerges that most of operators tend to invest in their own country. The reasons are manifold, including the need to know the market and national regulations.

Any investment decision made by a venture capital enterprise is subject to a due diligence process in which the target company and the whole operation is evaluated under several points of views such as the market the company operates in, the legal and fiscal aspects related to the operation and, most importantly the value and the profitability of the enterprise for the future disinvestment strategy.

The tax due diligence analyses the fiscal aspects related to the operation of investment and the enterprise. In particular, it evaluates the fiscal implications of the structure adopted for the acquisition, determines future potential fiscal benefits and assesses the tax effects on the future disinvestment strategy.

The investment valuation is the process of estimating the monetary amount that the start-up enterprise is worth based on its future expected returns. The enterprise value is a function of risk and return and takes into account the expected return from an investment in the enterprise and the risks associated with the expected return.

There are several approaches to business valuations: asset-based, income-based and market-based. The "Discounted Cash Flow Analysis" is one of the most widely used and it determines the value of an enterprise on the future cash flows generated by the company. The "equity side method" calculates the enterprise value as:

$$EV = \sum_{i=1}^{n} \frac{FC_i}{(1+k)^i} + \frac{TV}{(1+k)^n}$$

Where:

- EV is the calculated enterprise value;
- FC indicates the calculated cash flows for the period taken into account;
- TV is the value of the expected cash flows after n years;
- n indicates the number of years for which it is possible to calculate the expected cash flows; and
- k is the cost of capital.

The cost of capital is usually calculated using the weighted average cost of capital (WACC) where corporate income tax impacts:

$$WACC = \sum_{J=1}^{n} K_j(1-t) * \frac{D_j}{E+D} + K_E * \frac{E}{E+D}$$

Where K is the cost of the n sources of debt Dj, Ke is the cost of equity and t is the tax rate.

Thus, a higher tax rate influences the cost of capital (higher tax rates reduce the cost of capital because of the deduction of interest) and at the same time it influences the value of the activities of a potential investee (EV). In countries where the corporate income tax is higher, the effect is double: first, a higher tax rates decreases the value of the discounted cash flows, thus decreasing the EV counterbalanced by the increase of value generated by a reduced WACC; second, enterprises are incentivised to finance their activities using debt instead of equity (see separate case study). This practice reduces the equity value of the enterprise since:

$$Equity\ value\ =\ Enterprise\ Value\ -\ Debt$$

This is confirmed by the analysis of the tax ratios (section 3) where the correlation between average country debt ratios and effective tax burden is positive. From the point of view of the investor (the venture capital enterprise in our case) that operates cross-border, fiscal pressure (including corporate income tax) decreases the attractiveness of a market.

7.2.2 A brief review of empirical studies

In a recent study funded by the European Commission, the authors present a European landscape of SMEs with weak own equity bases and facing difficulties when accessing financial resources (Hoche, 2008). Equity is particularly important for young and innovative companies which usually have difficulty to access capital and debt financing because of their limited assets and lack of credit record. Taxation of VCs and other equity based financing vehicles hinders start-ups' performance. In the literature, several studies (Djankov et al., 2010; Da Rin et al., 2009) demonstrate how increases in corporate income taxation have a significant negative effect on market entry rates (an increase in the first-year effective corporate tax rate reduces the official entry rate by 1.4%). In particular, taxation of start-ups' capital gains may be harmful and lead to higher failure rates and hinder the quality of venture capital backed enterprises (Keuschnigg & Nielsen, 2004).

Djankov et al. (2010) prove that an increase in corporate taxation has a dramatic effect on the equity/debt ratio: increasing the tax levy by 10% leads to an increase of the equity/debt ration of at least 40%. The authors conclude that *"higher effective corporate taxes are also associated with lower investments in manufacturing but not in services, a larger unofficial economy, and a greater reliance on debt as opposed to equity finance*" (Djankov et al., 2010).

Even though the European Union is taking measures to improve the functioning of Venture Capital markets, the performance of VC-backed companies in Europe is lower than comparable companies in US (Hege et al., 2009). US venture capitalists generate significantly more value with their investments than their European counterparts. However, US Venture Capitalists do not perform better than European peers when operating in Europe, meaning that the causes of lower performances need to be found in the regulatory and policy framework in which venture capital and entrepreneurs operate. However, the study does not provide insights on substantial differences to the US system that prevent the growth of a European Venture Capital market.

7.2.3 The impact of CIT special rates on the supply of venture capital in the EU

The European Union, in the Europe 2020 Strategy and Innovation Union, recognizes the importance of a dynamic Venture Capital industry to allow innovative enterprises in their early stages to develop and receive those funds that other financial institutions would not provide due to the risk of the investment. An active VC market would be an important driver for the growth of the European economy. However, as a recent study shows[32], the fiscal environment across Europe prevents the development of a dynamic European VC market.

To support European entrepreneurs' access to finance, the EU has taken several initiatives with the common objective to reduce obstacles to venture capital flows. The adoption of the Small Business Act (SBA)[33] in 2008 is one of the major steps in creating a comprehensive SME policy framework for the EU and its Member States. The sixth of ten principles listed in the SBA is dedicated to access to finance by SMEs. In particular it states that the EU promotes measures that "facilitate SMEs' access to finance, in particular to risk capital, micro-credit and mezzanine finance".

As noted in the SBA, "investors and banks shy away from financing enterprises in their start-up and early stages": for this reason EU action must be oriented to correcting possible market failures in terms of SME finance provision, fostering the European risk capital market and improving SME access to micro-credit and mezzanine finance.

Following these principles, the Commission engaged in action to facilitate cross-border venture capital investments. Amongst other things, the SBA invited Member States to tackle regulatory and tax obstacles that prevent venture capital funds operating in the Single Market and to ensure that taxation of corporate profits encourages investments[34].

Specifically, the SBA identifies two elements as being critical for growth:

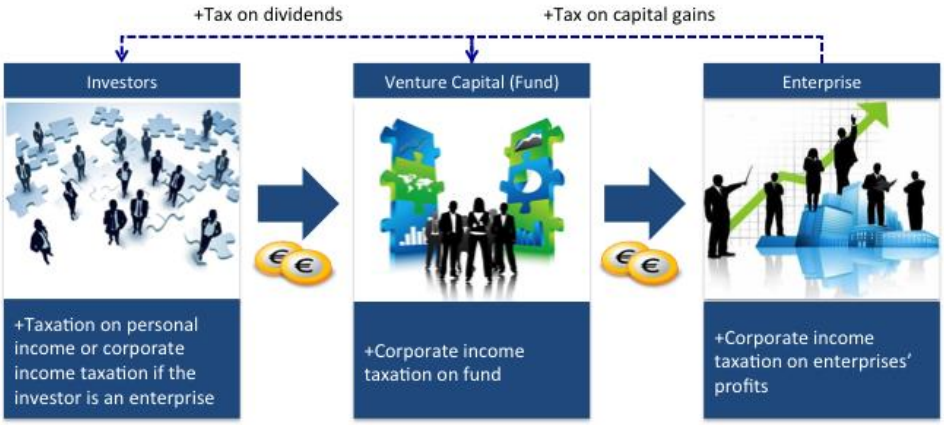
1. access to finance by enterprises in their early stages;

2. the impact of taxation on the financial structure of enterprises.

In terms of availability of funding, the European market seems to be recovering after the financial crisis: in 2012 overall fundraising activity decreased to €24bn compared with the previous year (figure 37a) and equity investments in the venture capital market similarly decreased to €37bn[35].

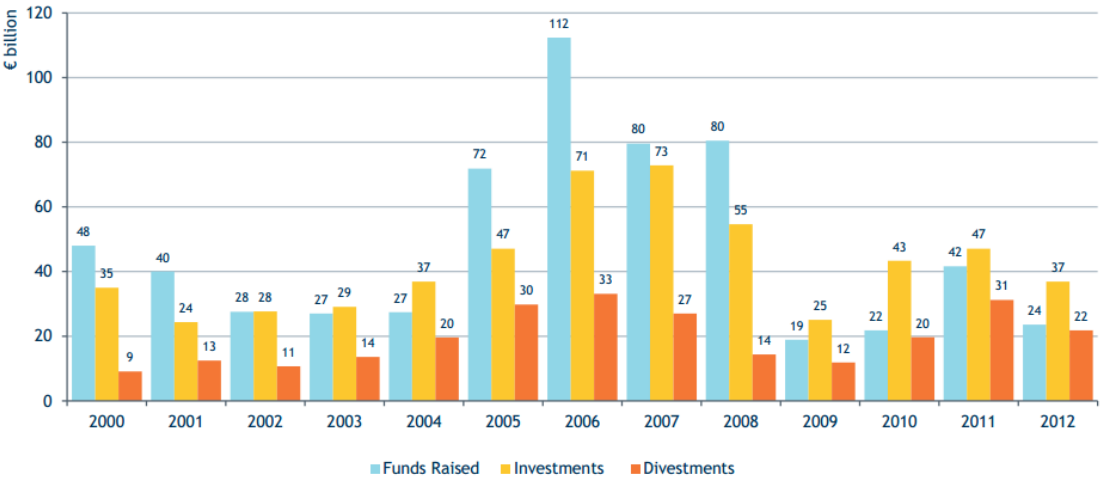
[32] Report of Expert Group on removing tax obstacles to cross-border Venture Capital Investments, European Commission, 30th April 2010
[33] Small Business Act. Think small, 2008
[34] Ibid
[35] 2012 Pan-European Private Equity and Venture Capital Activity. Source: http://www.evca.eu/uploadedfiles/home/knowledge_center/evca_research/2012_Pan-European_PE&VC_Activity.pdf

Figure 7.1: Corporate income tax on investors, venture capital funds and enterprises



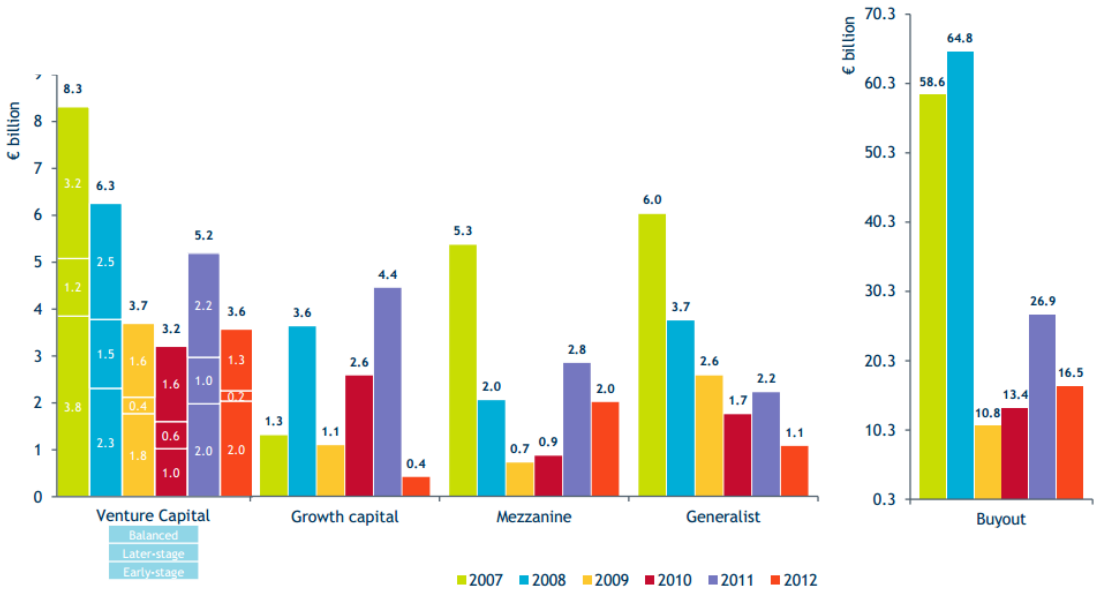
Source: own depiction

Figure 7.2: 2000-2012. Venture Capital and Private Equity statistics on volume of funds raised by VCs and PEs, investments and disinvestments. Data based on the European Union



Source: Thomson Reuters / EVCA (2000-2006) & EVCA / PEREP_Analytics (2007-2012)

Figure 7.3: Incremental amount raised during the year by type of financing in the European Union



Source: EVCA / PEREP_Analytics

Data on venture capital investments show that early stage funding, after an initial recovery in 2011, fell to €3.6bn in 2012. Mezzanine funding also grew to €2.8bn in 2011 and decreased to €2bn in 2012. These data show that liquidity in the market, even though lower than in 2007, is rising and the European capital market is expected to grow in the next years.

In terms of taxation of start-up enterprises and tax incentives for entrepreneurs it is the overall structure of tax systems (i.e. personal income taxation, corporate income tax and capital gains taxes) that influences decisions regarding financing, start-ups, self-employment and incorporation (OECD, 2002b). At the startup stage the effective tax burden affects the financial structure of new enterprises and the tax environment creates incentives and disincentives for entrepreneurs to make use of specific funding solutions.[36]

In 2008, a study conducted by the European Venture Capital Association, with the technical support of KPMG audit, analyzed the different effective tax burdens in European countries at the start-up stage. The results show a fragmented market where countries like France, Ireland, Belgium and the United Kingdom rank at the top providing incentives to venture capitalists and fiscal exemptions for expenditure on R&D. Other countries like Greece, Spain and Portugal, have implemented reforms, to develop a more attractive environment for investments. On the other hand, the tax

[36] Effective tax burdens on existing enterprises are covered in depth in other parts of this study.

systems in countries like Germany, Estonia, Sweden and Norway are less favorable to venture capital investments[37].

With the objective of reducing imbalances in tax regimes and facilitating cross-border venture capital market integration, the European Commission established, in May 2007, the VC Tax Experts Group. The purpose of the group was to provide the Commission with independent advice on tax policies applied at Member State level and possible obstacles to the free circulation of VC investments.

The study confirms that while VC can act as a source of economic growth, there are obstacles to a single European VC market. The main concerns are related to double taxation risks arising from lack of cohesion across European tax systems, but also tax treatment uncertainties (whether VC funds are considered transparent or non-transparent to taxation) and other administrative obstacles. As a result, investments currently tend to stay within national borders[38].

7.3 Country profiles

Europe is characterised by a significant variety of fiscal regimes and not only corporate income taxation is relevant to venture capital enterprises. The objective of VCs is to collect funds from across Europe and target their investments where the potential return is the highest supporting the target company to develop and express its potential.

For this reason, our interviews show that rather than CIT rates, capital gains taxation and taxation of VC funds themselves have the largest impact. Asymmetries in capital gains taxation across EU member states might create multiple points of taxation causing double or triple taxation of the post-tax returns of an investment and reduce, as a consequence, the attractiveness of foreign investments. As one of the interviewees responded: *"a reduction of the burden of corporate tax would certainly be beneficial […] being honest, our priority is to find funds and capital gains taxation has a much stronger influence in our job"*. This confirms the claim of the OECD study cited above: capital gains taxation, corporate income tax and personal income tax all influence directly and indirectly investment decisions.

Corporate income tax, *per se*, influences the value of the assets of a start-up enterprise. In addition, there is a current debate on the correlation between debt financing and corporate income taxation. As the tax ratio analysis has shown, it seems that there is a positive relation between these two variables and this might affect the development of the venture capital market and the financial structure adopted by start-ups (this topic will be further analysed in the second case study).

The impact of CIT rates on the value of the enterprises however, is more relevant in cross-border investment decisions rather than investments in a single country. EVCA statistics, confirmed by our interviewees, show that cross-border investments are relatively low in comparison to investments in the home country of the VC. Since the

[37] Benchmarking European Tax and Legal Environments, European private equity and venture capital association, 2008

[38] Report of Expert Group on removing tax obstacles to cross-border Venture Capital Investments, European Commission, 30th April 2010.

value of two or more enterprises in the same country is not affected by CIT rates (unless particular tax provisions are available for companies operating in specific sectors), this suggests that CIT rates are not an important determinant of investment choices for VCs. On the other hand, two identical assets placed in different CIT regimes would have a different value and thus have a different attractiveness to VCs.

The case study focuses on four EU countries, selected to exemplify different approaches of fiscal authorities to promoting investments by VCs: France, Italy, the Netherlands and UK.

Table 7.2 – country selection

Start up stage:		
Case study 1: Impact of special CIT rate for SMEs on supply of venture capital finance to SMEs	France	France provides fiscal incentives for private equity and venture capital investments through the FCPR, FCPI (Fond Commun de Placement dans l'Innovation) and FIP (Fond d'Investissement de Proximité). The maximum tax credit for an individual investing in an FCPR, FCPI or FIP is fixed at €50,000 per year.
Hypothesis: Special CIT rate for SMEs for VC funds may impact on their decisions to invest in SMEs	Italy	The most commonly used structure is the Fondo Comune di Investimento Mobiliare Chiuso (closed-end fund) which is exempt from income taxes but subject to a 12.5% tax Foreign investors are exempt from any taxation if registered in a *white-list* country. Profits (income from capital) deriving from the participation in "venture capital" funds, defined as funds investing at least 75% of their capital in unlisted SMEs in their early stages of business activities are excluded from income taxes.
	The Netherlands	The Netherlands provides tax incentives aimed at promoting investments in private equity and venture capital funds. More specifically, private individuals investing in certain "designated venture capital funds" may exclude any return on certain investments in these funds from their taxable income and any losses incurred may be tax deductible.
	United Kingdom	Private individuals investing up to £200,000 (approximately €254,000) in a Venture Capital Trust (VCT) are entitled to income tax relief at 30% on the investment provided that it is held for at least five years. Income distributed by the VCT will not be subject to tax in the hands of the investing individual, and capital gains realized by an individual on the sale of shares in a VCT will

		be free of capital gains tax. In addition, there are tax advantages for individuals investing via Enterprise Investment Schemes (EIS) in small unquoted enterprises and up to 78% tax relief in the Seed Enterprise Investment Scheme (SEIS).

7.3.1 France

Statutory corporate income tax rates in France are particularly high, but a plethora of fiscal incentives are available to enterprises reducing the actual fiscal burden in the country, especially for SMEs (as confirmed by the analysis of the tax ratios of this study).

French VCs can choose from among four possible structures: the Fonds communs de placement à risques (FCPR) – most commonly used by French VCs; the Fonds communs de placement pour l'innovation (FCPI); the Fonds d'investissement de proximité (FIP); and the Sociétés de capital risque (SCR). All of these structures are tax-transparent for both domestic and non-domestic investors. This implies that corporate income taxation does not have a direct influence on the VC (while capital gains tax does). From the point of view of the enterprises in their early stages, French SMEs are entitled to a reduced CIT rate at 15% for their first €38,120, 33% afterwards.

Furthermore, there are specific regimes for newly incorporated companies ("entreprises nouvelles") and innovating companies ("jeunes entreprises innovantes"). France provides a fiscal incentive to support young companies in their early development phase in the form of the Jeunes Entreprises Innovantes (JEI) scheme. The JEI scheme provides temporary corporate and local tax exemptions for new and small companies in which research and development expenditures representing at least 15% of overall charges are deductible from taxable income. EVCA statistics for 2012 confirm that the "France and Benelux" area is the most relevant in Europe for investments in the start-up stage (with €1.1b).

7.3.2 Italy

Even though taxation in Italy is amongst the highest in Europe, taxation at fund level is low in comparison to other Member States and the most extensive fiscal incentives.

The most commonly used structure is the Fondo Comune di Investimento Mobiliare Chiuso (closed-end fund) which is exempt from income taxes (like in France, investors are taxed at distribution) but subject to a 12.5% tax calculated on the difference between the initial and the final value of the fund plus variations. Foreign investors are exempt from any taxation if registered in a *white-list* country.

The statutory corporate income tax (IRES) is currently at 27.5%[39]. There is not a distinction between SMEs and large enterprises not only regarding the actual tax rate, but also the accessibility to CIT related incentives[40]. Although not strictly considered a corporate income tax, Italian enterprises are liable for the regional tax on production called IRAP (Regional Tax on Productive Activities) the rate of which is between 3.9 and 6.9 percent depending on the region where the enterprise is established. The tax base for IRAP is a value similar to the operating profit (plus variations) which, under some conditions, may lead some enterprises registering losses to be liable of IRAP (and not IRES) if the operating profit is positive.

Some relevant provisions of Italian corporate income taxation may influence investments in early stage companies. For example, the possibility of tax consolidation allows corporates to deduct from their tax base losses typical of a partially owned start-up. In addition, investments in related parties are fully deductible up to the amount of interest income. The excess quota is then deductible up to 30% of the gross operating income.

To promote foreign investments, profits of closed-end funds distributed to non-resident investors mentioned in Art. 6, paragraph 1, D.Lgs. no. 239/1996 ("qualified investors") are not subject to taxation in Italy (and therefore no withholding tax applies).

Furthermore, according to Law Decree No. 98/2011 and the related implementing decree, profits (income from capital) deriving from the participation in "venture capital" funds, defined as funds investing at least 75% of their capital in unlisted SMEs in their early stages of business activities are excluded from income taxes in the hands of the investors.[41]

Regarding incentives for companies, a corporate income tax credit is provided for R&D expenses incurred in connection with agreements with universities and public research entities. The tax credit is granted up to 90% of the incremental amount of the investment against the average expenses for research made between 2008 and 2010, subject to certain conditions. This deductions are available to enterprises of any size and no difference is made between SMEs and large companies.

In 2012 the Italian government introduced in the Italian legal system the concept of "innovative start-up" and several incentives to promote investments in companies in their early stage. Regarding corporate income taxation, investors can deduct 20% of their investment up to 1.8m for each fiscal year. These percentages rise when the innovative start up is meant for "social purposes".

Like their peers, Italian VCs tend to invest in domestic companies rather than cross-border transactions. Thus, interviewees suggested that rather than the high corporate income tax rate, two aspects of income taxation have a particular relevance to VCs:

[39] But a further 10.5% is added to non-operative companies and enterprises operating in the gas and oil industries are liable of 38% of corporate income tax.

[40] Exception made to some incentives available to listed companies which, *de facto*,are available only to large companies.

[41] This tax incentive is granted only under certain conditions.

- the instability of the legal framework and complexity of the administrative aspects of taxation that hinder the development of the venture capital market in Italy for Italian investors and
- the IRAP tax, which is based on the operating income and which is due also in case of losses.

7.3.3 The Netherlands

In the EVCA's most recent statistics, the Benelux area exhibits the second highest value in terms of fundraising. The Dutch market for VC is, indeed, particularly active and amongst the top performing in Europe in terms of a fiscal environment conducive of growth in the sector.

Dutch funds do not have to establish a particular structure, this means that funds can take form of *Besloten Vennootschap* (a corporate body, private limited liability company, BV), a *Commanditaire Vennootschap* (limited partnership under Dutch law, CV), or a co-operative (Co-op). This is particularly relevant for the purpose of this study because, unlike other countries, tax transparency is possible only for funds structured as CV under certain conditions (closed CV). In general, the constitution of a closed CV is possible only with the unanimous consent of all the partners (both general and limited partners).

In the past, the Netherlands limited incentives available to start-ups to subsidies. In recent years, the approach shifted towards the use of fiscal incentives in addition to subsidies. But, since the majority of start-ups do not make any profit in their first years, these fiscal measures do not apply to many young entrepreneurs and venture capital enterprises see their intervention needed in much earlier stages and funding rounds than before.

These policy changes have created some disincentives to invest in particular sectors. Specifically, start-ups operating in the life sciences sector which is characterised by a longer development period (between 10 and 15 years) before the company begins to create profits, are less attractive for VCs and without governmental support this sector is facing a lower start-up rate.

To counter this, the Dutch government proposed the "innovation box": a corporate income tax incentive introduced in Dutch tax law in 2007. If a company earns profits from qualifying new technological know-how (a "technology intangible asset") in its business, it may elect to use the Innovation Box incentive. Then, instead of taxing the full amount of such profits at the general corporate income tax rate of 25.5%, only around one-fifth of such profits will be taxed at that rate. This means that the effective tax rate is only 5%. Before the low tax rate starts to apply, an amount of profits equal to the development expense of the asset must be "recaptured" (i.e., fully taxed at the general rate). The incentive applies to certain self-produced (i.e., not purchased), technology-based intangible assets, such as the know-how for a new product or for a new production process.

7.3.4 The United Kingdom

EVCA statistics on fundraising in Europe place the "UK & Ireland" area in the first position in terms of fundraising (17.6% in 2011) and around 0.8b invested in early stage enterprises (second to the France and Benelux area with 0.9b investments). The detail of investments in UK, provided by the British Private Equity and Venture Capital Association presents slightly lower values (not including Ireland). The overall amount of investments by UK VCs, both national and overseas, is increasing (overseas investments doubled between 2011 and 2012).

Table 7.3: Overseas and UK investments by financing stage

Financing stage	Overseas Investment		
	Amount invested (£m)		
	2012	*2011*	*2010*
Seed	2	6	0
Start-up	70	18	25
Early stage	64	68	54
Later stage VC	229	53	119
Total Venture Capital	365	145	198

Financing stage	UK Investment		
	Amount invested (£m)		
	2012	*2011*	*2010*
Seed	5	23	10
Start-up	57	47	46
Early stage	157	163	168
Later stage VC	125	115	89
Total Venture Capital	343	347	313

In the UK there are two commonly used funds structures: either the English Limited Partnership (ELP) or the Scottish Limited Partnership (SLP). The only difference between the two structures is that the SLP has a separate legal personality but this does not influence the fiscal aspects since both forms are transparent for domestic and non-domestic investors.

Corporate income taxation in UK is relatively low (20% is the rate for small profits and the statutory tax rate decreased to 23% in 2013 and further decreased to 21% in 2014), a special tax regime is available to SMEs and both related and un-related party loans interests are deductible.

Fiscal incentives are available on company level where enterprises can benefit from deductions on R&D investments and capital expenditures. To promote innovation, UK introduced in April 2013, after widespread consultation, an elective "patent box" regime with a preferential 10% rate of corporation tax on a proportion of profits from

relevant patents. The preferential rate applies to the "intellectual property" income starting at 60% of the value in 2013 up to up to 100% in 2017.

Private individuals investing up to £200,000 (approximately €254,000) in a Venture Capital Trust (VCT) are entitled to income tax relief at 30% on the investment provided that it is held for at least five years. Income distributed by the VCT will not be subject to tax in the hands of the investing individual, and capital gains realized by an individual on the sale of shares in a VCT will be free of capital gains tax. In addition, there are tax advantages for individuals investing via Enterprise Investment Schemes (EIS) in small unquoted enterprises and up to 78% tax relief in the Seed Enterprise Investment Scheme (SEIS).

7.4 Conclusions

It is well known that young entrepreneurial enterprises face a financing gap. This gap is partly bridged by specialised financial intermediaries such as venture capitalists and business angels who scrutinise enterprises before providing capital and monitor – and sometimes mentor – them afterwards.

Countries differ significantly in the supply of seed and early-stage finance. Policy makers often attempt to nurture the market for seed capital through a range of direct and indirect supply-side policy initiatives (OECD< 2013). Direct measures include: direct public VC funds, "funds of funds" and co-investment funds, whereby public funds match those of private investors. In Europe, over half of all early-stage venture capital finance is provided by publicly supported co-investment funds. Such programmes, especially funds of funds and co-investment funds, have grown in importance over the past five years. Demand-side policies can also be important in fostering early-stage equity investment. For instance, new OECD evidence which explores the determinants of VC investment in the clean technology sector suggests that regulations that aim to create a market for these technologies are associated with a higher level of VC investment, while fiscal incentives for investment in these technologies are ineffective. This likely reflects the frequent changes in the availability and generosity of such measures and further underscores the importance of a predictable policy environment for the financing of innovative ventures.

While fiscal incentives are less common, 17 OECD countries use tax incentives of some sort (OECD, 2013). Evidence on the impact of supply-side policy interventions for early-stage finance is relatively scarce, and mainly relates to the performance of public VC funds. Fiscal measures include: tax arrangements (tax deductions on investments, tax relief on capital gains and special provisions concerning the rollover or carry forward of capital gains and losses); regulations governing the types of institutions that can invest in seed and early stage venture capital, such as pension funds (venture capital activity in the United States increased significantly following the removal of restrictions on pension fund investments in 1979); the availability to venture capitalists of viable exit strategies (e.g. initial public offerings); and bankruptcy arrangements (regimes that provide strong exit mechanisms and do not excessively penalise business failure can foster the development of VC), R&D tax credits.

Three main points emerge from this case study:

1. Corporate income tax rates per se does not have a direct and significant influence on investment decisions made by venture capital enterprises. This is especially the case when the VC operates only in one country, which is the case for most VC investments to date.

2. Corporate (and other) tax rates have an indirect impact on the value of the company and this influences cross-border investments.

3. Capital gains, personal income taxation and administrative red tape have a combined impact, together with corporate income taxation on the development of a dynamic cross-country venture market in Europe.

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8 CASE STUDY 2 IMPACT OF SPECIAL CIT RATES FOR SMES AFFECTING THE START-UP PHASE

8.1 Introduction

This case study is focused on three European Member States: Belgium, France, and the Netherlands. These countries were selected taking into account that they have special provisions which aim to stimulate entrepreneurship. The aim of this case study is to understand what is the impact of corporate income tax (CIT) provisions on the establishment of new enterprises (entrepreneurship) and survival of companies.

Case study 2	Objective	Questions to be addressed
Case study 2 *Impact of CIT provisions affecting the start-up phase*	From the perspective of the enterprises, our objective is to understand what is the impact of CIT provisions meant to support the establishment of new enterprises	• How does CIT provisions affect entrepreneurship and company survival? (mechanism) • How does special CIT provisions affect the legal structure at the start-up stage? (self-employment as sole proprietorship vs. productive entrepreneurship as limited liability forms or partnerships? • How do these mechanisms interplay in the EU? (descriptive analysis using graphs) • What is the impact of special CIT provisions on enterprise sustainability/survival? • Are there any special start-up provisions in CIT or the overall taxation incentives in Belgium, France and the Netherlands?

We have conducted three interviews in Belgium, three interviews in France and four in the Netherlands, all the companies are start-ups. The names of the companies interviewed cannot be provided due to terms of confidentiality. Table 1 provides a list of the companies interviewed for the second case study. They are all at the start-up phase and have been categorized, using as criterion the number of employees, into: medium-sized, small and micro. Table 1 provides more information about the companies interviewed such as: the self-identified economic activity or industry in which they operate and the number of employees they currently have. The majority of the companies are medium-sized, three companies are small and two are micro.

Table 8.1 - Interviewees

Company category	Country	Industry	Enterprise size (Number of employees at date of interview)
Medium-sized	Belgium	Exterior furnishing	102
Medium-sized	Belgium	Cement	175
Medium-sized	Belgium	Lights	114
Medium-sized	France	Publishing	176
Small	France	R&D	21
Medium-sized	France	Energy	243
Small	The Netherlands	Infrastructure, road and water construction, construction, IT	36
Micro	The Netherlands	Event industry, entertainment industry, branding	2
Micro	The Netherlands	Web sales of gifts	2
Small	The Netherlands	Retail	16

8.2 The impact of CIT special rates on entrepreneurship

8.2.1 Theoretical explanations

The effect of corporate taxes on investment and entrepreneurship is one of the central questions in both public finance and development (Djankov et al., 2010, p.31). This effect matters not only for the evaluation and design of tax policy, but also for thinking about economic growth (see Robert J. Barro 1991; J. Bradford DeLong and Lawrence H. Summers 1991; and William J. Baumol, Robert E. Litan, and Carl J. Schramm 2007 in Djankov et al., 2010, p.31). Starting with Dale W. Jorgenson (1963) and Robert E. Hall and Jorgenson (1967), many public finance economists have addressed this topic (Djankov et al., 2010, p.31). Bruce and Deskins (2012) argue that while some of the studies have indicated that higher tax rates on self-employment income have ambiguous effects on self-employment rates, a growing consensus suggests that tax rate increases reduce entrepreneurial entry, growth, hiring, investment, and survival.

Fiscal policies that favour self- employed individuals and SMEs to encourage growth include: lower corporate income tax rates, exemptions from value-added taxes and investment tax credits, policies to improve the overall tax climate, reduction in progressivity of personal income tax rate schedules (which penalises successful entrepreneurs and discourages risk-taking), lower taxes on income earned by entrepreneurs (capital gains, dividends and other income) since it might discourage entrepreneurs, removal of the tax bias favouring longer-term assets (which can hinder the reallocation of capital towards start-ups), provisions for carrying-forward losses in corporate income tax (which would assist start-ups that take more time to become profitable), minimise tax compliance and administrative costs, which are especially burdensome for small enterprises (OECD, 2002). It is, however, not clear that the benefits of preferential tax treatment of self-employed individuals and SMEs outweigh the costs of moving away from tax neutrality (OECD, 2002).

The mechanisms through which CIT taxation has an impact on entrepreneurship is through:

- the overall level of CIT
- the level of CIT taxation relative to PIT taxation
- the progressivity of PIT and CIT
- the interplay between the CIT levels and other fiscal policies such as for example the treatment of losses
- the offset of CIT incentives by other existing policies/lack of policies

It is worth mentioning that preferential treatment for SMEs with regards to lower CIT levels can also have unintended effects such as:

- firms can shift from employee status to self-employed as a result of tax-avoidance,
- lower CIT levels could hinder growth
- lower CIT levels could encourage business fragmentation.

Although one might expect that higher taxation reduces the level of profit opportunities (incentive effect), and therefore it will likely reduce productive entrepreneurship and therefore growth, the empirical literature has found mixed effects of the level of CIT on entrepreneurship. In general, the literature shows a

negative link between corporate tax rates and economic growth and between tax structure (how progressive it is) and entrepreneurship (Baliamoune-Lutz, Garello, 2014). However, some studies have pointed out that the effect of higher taxes on entry into entrepreneurship could be positive (Domar and Musgrave, 1944) or ambiguous (de Mooij and Nicodeme 2007, Gentry and Hubbard 2000, 2004).

Domar and Musgrave (1944) developed a simple theoretical model of financial investment risk based on two assets: A safe asset that yields no real return (e.g., it rises at the rate of inflation with certainty), A risky assets that yields an expected return with some uncertainty. The expected return is the return to a successful investment times the odds of success, plus the return to an unsuccessful investment times the odds of failure. Domar and Musgrave (1944) pointed out that taxing the returns from the risky asset would increase risk taking because any tax on the returns could be completely undone by taking more risk. This assumes gains are taxed, but losses are deductible. While high tax rates may discourage effort and investment in the economy as a whole, Domar and Musgrave (1944) argue that high tax rates make risky projects *relatively* more attractive thus encouraging risk-taking (Cullen and Gordon, 2002). High tax rates mean that substantial risk is transferred to the government through random tax payments. If adverse selection in financial markets makes risk-sharing with outside investors difficult, then the tax system provides an alternative means to share risk that is free from these adverse selection problems. With more risk sharing available, an entrepreneur's risk premium will be lower, and risk taking should be greater. The implication for tax policy is important: by raising taxes on capital income, the government can raise revenues without reducing the individual's wellbeing. Domar and Musgrave (1944) developed a simplified model which did not take into account: a) less-than-full tax loss offset implying asymmetrical treatment of gains and losses b) the impact of redistributive taxation.

De Mooij and Nicodeme (2007) investigate the impact of corporate tax on entrepreneurship in the EU using data from Eurostat. Their results suggest that lower corporate taxes exert an ambiguous effect on entrepreneurship. They measure entrepreneurship using three measures: the birth of new enterprises, the rate of self-employment and the birth of self-employment. Corporate income tax has a negative significant effect on the birth of new enterprises, a positive significant effect on the rate of self-employment and a non-significant close to zero effect on the birth of self-employment. The authors also look at whether the effect of CIT is different for enterprises of different sizes choosing the following categories: 0, 1-4 employees, 5-9 employees, 10-19 employees, 20 or more employees. They find that the effect of CIT is not significant for sole proprietorships since they are not subject to CIT in the first place, a significant 13% negative effect on companies with 1-4 employees and a non-significant effect close to zero for the other company sizes. The average personal tax rate is negative across employed proxies of entrepreneurship, however its largest effect is on sole proprietorship and it is close to 25% reduction on enterprise birth rate[42]. PIT only has a significant negative effect on enterprises employing 10-19 people. De Mooij and Nicodeme (2007) argue that simply looking at corporate tax-to-GDP ratios can be misleading as part of the revenue consequences of corporate tax relief shows up in lower personal tax revenue, rather than lower corporate tax revenue.

[42] 'Birth rate' is the ratio of the number of new companies created in year t on the number of active companies in year t.

The difference between the CIT levels and the PIT levels can have a high impact on the choice of entrepreneurship and on the type of legal form. The estimates on incorporation suggest that the impact of income shifting in response to a larger tax gap is sizeable (De Mooij and Nicodeme, 2007). Time series studies have focused on US federal tax policies and have generally concluded that higher federal income or payroll tax rates cause higher rates of entrepreneurship, specifically defined as self-employment (Bruce and Deskins, 2012, Long 1982; Blau 1987; Parker 1996; Cowling and Mitchell 1997; Robson 1998). Explanations often rest on the idea that high tax rates drive workers out of paid employment, or wage jobs, into entrepreneurial ventures where they can more easily avoid or evade taxes (Bruce and Deskins, 2012). De Mooij and Nicodeme (2007) found in the EU that the impact of corporate taxes on entrepreneurship is ambiguous: while the corporate tax is found to reduce the rate of enterprise births, especially of medium sized companies, it exerts opposite effects on indicators for the degree of self- employment. Hence, entry of small companies (with zero employees) is affected differently by corporate taxes than are larger companies. They found that the tax gap between personal and corporate tax rates exerts a significant positive effect on the degree of incorporation, e.g. choosing a limited liability or partnership versus sole proprietorship. Their result was robust for alternative indicators and specifications.

In addition to the taxation level it is important to recognize also the importance of the relative neutrality of taxation on employee versus self-employment (Baliamoune-Lutz, Garello, 2014). The relative neutrality of taxation is important not only with respect to treatment of profits but also with respect to treatment of losses. Differences in the tax treatment of profits versus losses also can have strong effects on the incentives to choose a more risky occupation (Cullen and Gordon, 2002). For example, under a progressive tax schedule, profits will push the entrepreneur into higher tax brackets while losses will have the opposite effect. This implies that profits will be subject to a higher tax rate than the rate against which any losses can be deducted, making risk-taking less attractive (Cullen and Gordon, 2002). By the very nature of their business, entrepreneurial enterprises undertake risks and sometimes incur losses. In a system that adheres to taxing economic income, profits and losses should be treated symmetrically so as not to discriminate against risk-taking, i.e. tax profits and provide tax refunds for losses (Shome, 1995 in OECD, 2002). Moreover, the asymmetric treatment of operating losses in the corporate tax system may put start-ups and SMEs at a disadvantage since it may take years before they become profitable. However, it can also be argued that full-loss offsets or rebates may prolong the life of less-efficient and economically obsolete enterprises and tie up valuable capital. In practice, operating losses are carried backward and forward for a limited number of years in most OECD countries, whereas profits are always taxed without exception (OECD, 2002).

Other policies might have a high impact on entrepreneurship such as the overall tax climate, the administrative burden and costs of entry and of exit (The World Bank, 2013), the social attitudes that are promoted via culture and social norms dealing particularly with the status of the self-employed in society and the punishment for failure (GEM, 2012).

Lower taxation of the self-employed can have unintended consequences such as underreporting of income by the self-employed or the division of businesses into separate corporations for tax purposes by the self-employed (OECD, 2002). Moreover, lower tax rates for SMEs can discourage their growth when small business owners try to keep reported income below certain thresholds to take advantage of the preferential

tax treatment of small businesses (Hendricks, Amit and Whistler, 1997). Lower corporate tax rates which can help address market failures in the availability of SME finance, should be accompanied by anti-fragmentation rules to prevent larger enterprises from artificial tax-induced divisions. OECD (2002) gives examples from the United Kingdom which had special rules to prevent businesses from establishing very small companies in order to benefit from the 10% corporate tax rate. Canada also had "associated corporation" rules to address this issue.

8.2.2 A brief review of empirical studies

In general, the literature shows a negative link between corporate tax rates and economic growth and between tax structure (how progressive it is) and entrepreneurship (Baliamoune-Lutz, Garello, 2014). However, some studies have pointed out that the effect of higher taxes on entry into entrepreneurship could be positive (Domar and Musgrave, 1944) or ambiguous (Gentry and Hubbard 2000, 2004).

There is little literature on the impact of corporate tax, the majority of the literature focuses on personal income taxation (De Mooij and Nicodeme, 2007). However, Baliamoune-Lutz and Garello (2014) provide an overview of existing studies that investigate the impact of various taxation measures on entrepreneurship (See Table 2). Their literature review table has been updated to include additional papers and suggests that the effects of the level of CIT depends very much on the measurement of entrepreneurship and the CIT levels employed: which categories are included and which categories are excluded, the level of measurement chosen such as marginal tax rate or average tax level, the variables controlled for, the countries included and the functional form of the specification (quadratic or linear).

Part of the issue lies in the measurement of entrepreneurship based on self-employment rates. This measurement inflates the estimation of entrepreneurship in an economy, since some occupations by default imply self-employment without the aspiration to grow and foster new jobs in the economy. One instance is the inclusion of agricultural jobs in the measurement of self-employment as argued by Parker (2004). Another issue has to deal with the inclusion of zero employee entrepreneurship in the measurement of self-employment (Buligescu, Hollanders and Saebi, 2011). This issue is also connected with the differential between the personal income tax rate and corporate income tax which might encourage 'false entrepreneurship' as a mechanism of tax avoidance.

Below we present a table summarizing the literature on taxation and entrepreneurship. Table 2 includes various fiscal measures, their impact on taxation and it is not restricted to CIT.

Robson (1998) uses time series data for the UK to explore -- among a large set of variables -- the impact of the small business' corporate tax rate on the rate of self-employment. He reports a positive but statistically insignificant effect. Cullen and Gordon (2002) use their individual data on self-employment to estimate the effect of corporate taxes. They find a positive effect on account of the risk-taking effect, which outweighs the negative impact via income shifting. Bruce and Mohsin (2006) use time series data for the US to explore the impact of corporate taxes on the rate of self-employment. They report a negative effect for some but not all indicators of entrepreneurship. The effect for the corporate tax appears to be rather small though. Garrett and Wall (2006) use a panel for 50 US states during the 1990s to estimate the

effect of corporate taxes on entrepreneurship, measured as the share of the working-age population in proprietorships. They report a large negative impact that is, however, not significant at the 5% confidence level.

De Mooij and Nicodeme (2007) explore two channels of income shifting from the personal towards the corporate tax base, induced by corporate tax cuts: one is increased entrepreneurship; the other is an increase in the degree of incorporation of companies. Their results suggest that the impact of corporate taxes on entrepreneurship is ambiguous: while the corporate tax is found to reduce the rate of enterprise births, especially of medium sized companies, it exerts opposite effects on indicators for the degree of self- employment. Hence, entry of small companies (with zero employees) is affected differently by corporate taxes than are larger companies. We find that the tax gap between personal and corporate tax rates exerts a significant positive effect on the degree of incorporation. This result is robust for alternative indicators and specifications. The estimates on incorporation suggest that the impact of income shifting in response to a larger tax gap is sizeable. Using regression results, the authors find that around 10% of the corporate tax-to- GDP ratio was due to income shifting in the early 1990s but this share has grown to 17% in recent years due to the growing tax gap. Accordingly, income shifting has contributed to the stabilization of the corporate tax-to-GDP ratio by around 0.2%-point since the early 1990s.

Djankov et al. (2010) investigate the relationships between corporate taxes, investment, and entrepreneurship using a macro data set on 85 countries and controlling for confounding factors. They find that effective corporate tax rates have a large and significant adverse effect on corporate investment and entrepreneurship controlling for other tax rates, including personal income taxes and the VAT and sales tax, for measures of administrative burdens, tax compliance, property rights protection, regulations, economic development, openness to foreign trade, seignorage, and inflation. The authors also find that higher effective corporate income taxes are also associated with lower investment in manufacturing but not in services, a larger unofficial economy, and greater reliance on debt as opposed to equity finance. The authors find a large and significant positive association between the effective corporate tax rate and the aggregate debt to equity ratio.

Da Rin et al. (2011) use a panel database with data on entry (by incorporation) for 17 European countries between 1997 and 2004 to study if tax policy fosters the creation of new companies. The authors find a significant negative effect of corporate income taxation on entry rates. The effect is concave and suggests that tax reductions affect entry rates only below a certain threshold tax level.

Kneller and McGowan (2013) using a panel database of 19 OECD countries find that entry rates are affected by adjustments to either personal and corporate income tax rates, whereas exit rates, which capture the response of those that are currently enterprise owners, are only weakly affected by adjustments to personal income taxes and not at all by corporate taxation. Their findings show that increases in corporate tax rates are found to decrease entry rates, and those effects are strongest in more profitable industries. Kneller and McGowan (2013) finds that that increases in corporate taxation does affect the rate of exit, but only though its effects on the rate of entry. The authors show that the results for exit rates they derive are dependent on controlling for the (positive) correlation between entry and exit rates (Geroski, 1995).

The literature on the effect of higher personal income tax rates on income shifting and entrepreneurship, leaves us with an ambiguous picture on the effect of personal income taxes on entrepreneurship (De Mooij and Nicodeme, 2007). Earlier studies used time-series data and concluded that higher personal income tax rates encourage entrepreneurship. More recent studies, based on cross-sectional or panel data, have been less conclusive on the tax effect on entrepreneurship and even argued that the relationship is in fact be U-shaped: small and high levels of income taxes encourage entrepreneurship (De Mooij and Nicodeme, 2007). More recent studies, based on cross-sectional or panel data, have been less conclusive on the tax effect on entrepreneurship (Bruce, 2000, 2002; Gentry and Hubbard, 2000; Schuetze, 2000; Carroll et al., 2001; Parker and Robson, 2003; Bruce and Mohsin, 2006 in De Mooij and Nicodeme, 2007). In particular, some studies report positive and others negative effects. Georgellis and Wall (2006) and Garrett and Wall (2006) argue that the relationship between personal income taxes and entrepreneurship might in fact be U-shaped: small and high levels of income taxes encourage entrepreneurship. They indeed find evidence for this non-linear relationship however their results are not statistically significant. Kneller and McGowan (2013) also find that the effect of personal income taxation on entrepreneurship entry and exit depends on the income levels: an increase in the marginal rate of personal income taxation at low-income levels (67% of the average wage) lowers entry rates, whereas an increase to marginal tax rates applied at high income levels raises entry rates and lowers exit rates. Overall, the literature leaves us with an ambiguous picture on the effect of personal income taxes on entrepreneurship.

Less ambiguity is found for the degree of progression in the income tax schedule, which generally tends to discourage entrepreneurship (De Mooij and Nicodeme, 2007, Robson and Wren, 1999; Gentry and Hubbard, 2000 and 2004). This is consistent with the theoretical predictions based on the risk taking effect.

Table 8.2- Overview of literature

	Summary of recent research on entrepreneurship and taxes			
Data	Author	Country (countries)	Tax variable(s)	Effect of taxes on
				entrepreneurship
Cross-section and panel	van Stel et al. (2004)	36 countries at various	Social security	-
country data (macro)		development levels (from	expenditure cost	
		GEM)	Government tax revenues	?
	Parker and Robson (2004)	12 OECD	Average tax rate	?

			Social sec. cont.	-
	Wennekers et al. (2005)	36 countries at various	Social security	-
		development levels (from	expenditure	
		GEM)	Government tax revenues	?
	Georgellis and Wall (2006)	USA (state aggregate data)	Marginal tax rate	- then ? (U-shaped)
	Garett and Wall (2006)	USA (state aggregate data)	Homestead exemption rate	S
			Minimum personal income tax rate	U
			CIT	-
	De Mooij and Nicodeme (2007)	EUROSTAT, 20 EU countries		-
	Djankov et al. (2010)	85 Countries		-
	Bruce and Deskins (2012)	USA	Progressivity of PIT	?
	Kneller and McGowan (2013)	19 OECD countries	CIT	
Cross-section and panel	Bruce (2000)	USA	Marginal tax rate on self-	?
individual data (micro)			employment	
			Average tax rate on self-	-

			employment	
	Schuetze (2000)	USA and Canada	Federal and local average	?
			tax	
	Carroll et al. 2001	USA	Entrepreneur's personal	-
			marginal income tax	
	Cullen and Gordon (2002)	US		+
			(effect on enterprise	
			growth)	
	Parker (2003)	UK	Tax incentives	0
	Gentry and Hubbard (2000)	USA	Marginal tax rate	-
			Average tax rate	?
			Progressivity	-
	Gentry and Hubbard	USA	Marginal tax rate	0
	(2004a)		Progressivity	-
	Gentry and Hubbard (2005)	USA	Marginal tax rate	-
			Progressivity	-
	Stabile (2004)	Canada	Marginal tax rates	-
			Payroll taxes on	?
			employees	
	Gurley-Calvez and Bruce	USA	Marginal tax rates for	?
	(2009)		workers	

			Marginal tax rates for	-
			entrepreneurs	
	Fossen and Steiner (2009)	Germany	Marginal taxes on SMEs	-
	Bacher and Brulhart (2010)	Switzerland	Corporate tax	?
			progressivity	
	Hansson (2012)	Sweden	Marginal tax rate	-
			Average tax rate	-
	Da Rin et al. (2011)	17 European countries	Corporate income tax	-
		(1997-2004)		
Time series	Parker (1996)	UK	Marginal tax rate	?
	Robson (1998)	UK	Marginal tax rate	0
			Average tax rate	?
	Robson and Wren (1999)	15 OECD	Marginal tax rate	-
			Average tax rate	?
	Bruce and Mohsin (2006)	USA	Various tax measures	-
	Stenkula (2012)	Sweden	Payroll taxes	-
			Labor income tax	0
			Capital gains tax	0

Source: updated from Baliamoune-Lutz, Garello, (2014), "Tax structure and entrepreneurship", Small Bus Econ 42:165–190

To summarize, this short literature review has shown that there is mixed evidence on effect of CIT on entrepreneurship. Whereas the majority of authors found a negative effect, a recent author suggests that the effect is concave and that tax reductions affect entry rates only below a certain threshold tax level (Da Rin et al 2011). The literature on the effect of higher personal income tax rates on income shifting and entrepreneurship, leaves us also with an ambiguous picture. New research argues that the relationship between personal income taxes and entrepreneurship might in fact be

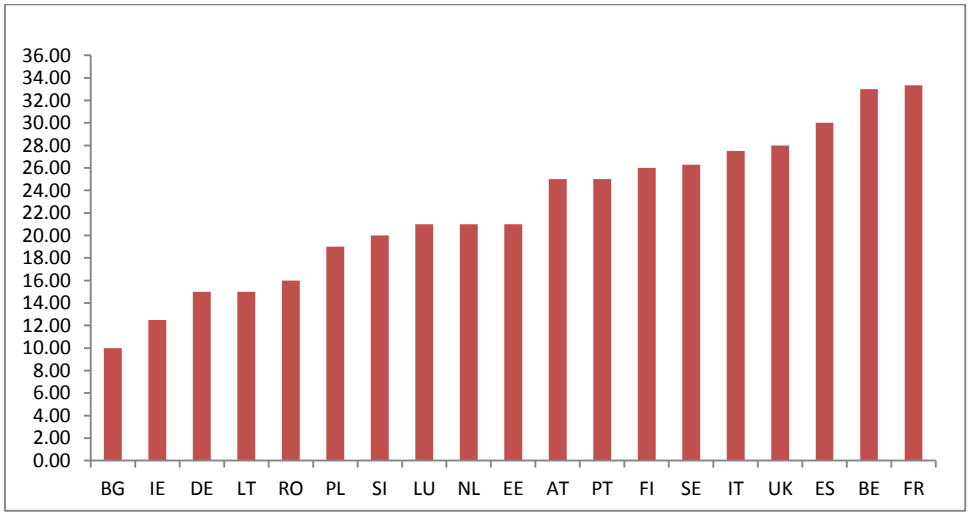
U-shaped: small and high levels of income taxes encourage entrepreneurship (Georgellis and Wall 2006, Garrett and Wall 2006, Kneller and McGowan, 2013). Less ambiguity is found for the degree of progression in the income tax schedule, which generally tends to discourage entrepreneurship (De Mooij and Nicodeme, 2007, Robson and Wren, 1999; Gentry and Hubbard, 2000 and 2004). This is consistent with the theoretical predictions based on the risk taking effect.

8.2.3 The impact of CIT on entrepreneurship in the EU

We first provide and a descriptive overview of the tax burden on SMEs using statutory corporate tax and of entrepreneurship. Secondly we formulate several hypotheses and we test them using secondary macro data and correlation analysis. Thirdly we briefly mention some of the latest reforms which were recently introduced by European Union member states to enhance entrepreneurship. We used several data sources: statutory CIT rates from ZEW (2012) and the OECD Tax Database, entrepreneurship data from EUROSTAT (2013) and Global Entrepreneurship Monitor (2012). All the data refers to 2010.

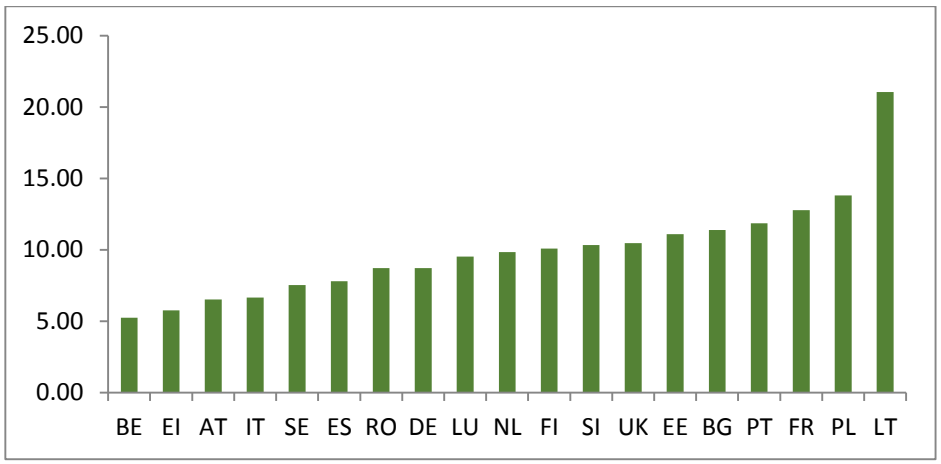
Figure 1 and 2 show the variation in statutory corporate income tax in the EU and the variation in entrepreneurship. Figure 1 shows that both Belgium and France have the highest CIT levels, whereas the Netherlands is in the middle of the distribution. Figure 2 shows that Belgium has one of the lowest entrepreneurship rates, whereas France has one of the highest entrepreneurship rates, The Netherlands being again in the middle of the distribution. The figures on entrepreneurship do not make any distinction between enterprises with zero employees and enterprises that have more employees, therefore the incorporation choice is not taken into account. Some countries have a reduced rate of corporate income tax in place for SMEs in order to encourage entrepreneurship and growth. Figure 3 shows that in France the corporate income tax for SMEs is half of the basic rate applied to large companies. In Belgium the difference is a bit smaller but still a significant reduction of 9% points. In Netherlands the reduction is 5.5% for SMEs.

Figure 8.1- Statutory Corporate Tax Rate



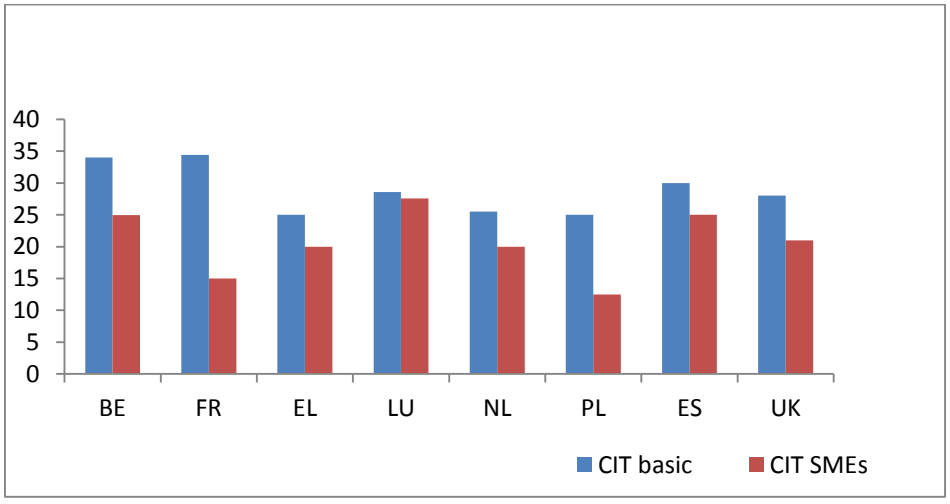
Source: ZEW (2012) own calculation.

Figure 8.2 – Enterprise birth rate



Source: based on Eurostat figures, Business demography database, own calculation. Notes: The birth rate of the enterprises is calculated as the number of new enterprises out of the number of active enterprises in 2010.

Figure 8.3-CIT rates for SMEs and large companies



Source: data from Blažić (2012) adapted from OECD (2010).

Several hypothesis have been formulated based on the literature:

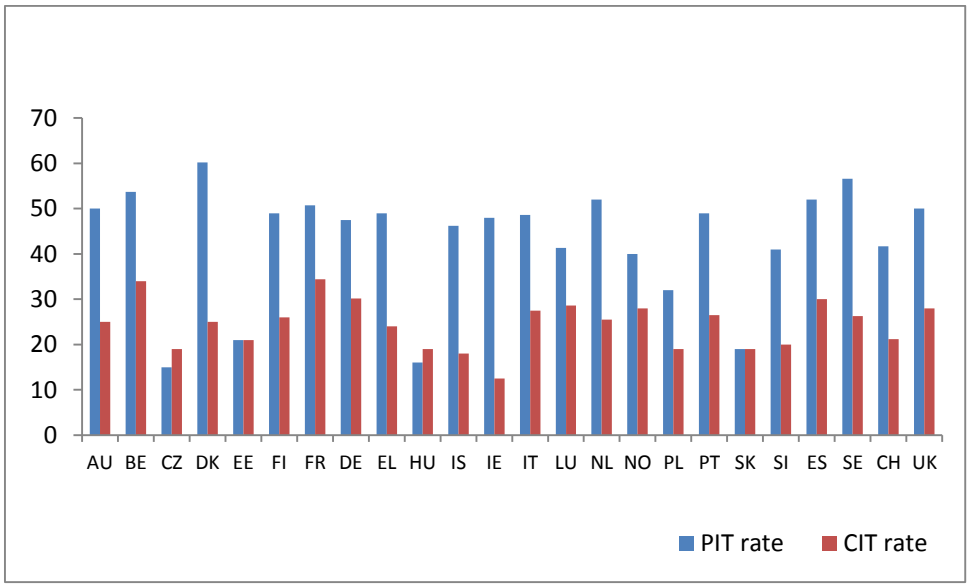
1) The higher the differential between personal income taxation (PIT) and corporate income taxation (CIT) the higher the entrepreneurship rate (tax avoidance)

2) The higher the CIT rate the lower the entrepreneurship (lower gains from profit)

3) The higher CIT SME rate the lower the entrepreneurship

Figure 4 shows the difference between personal income tax and corporate income tax in the European Union. The figure shows large differences between the tax rates for the following countries: Austria, Belgium, Denmark, Finland, Greece, Island, Ireland, Netherlands, Portugal, Slovenia, Spain, Sweden, Switzerland and United Kingdom. The following countries have small differences between the two tax rates: Czech Republic, Estonia, Hungary and Slovakia.

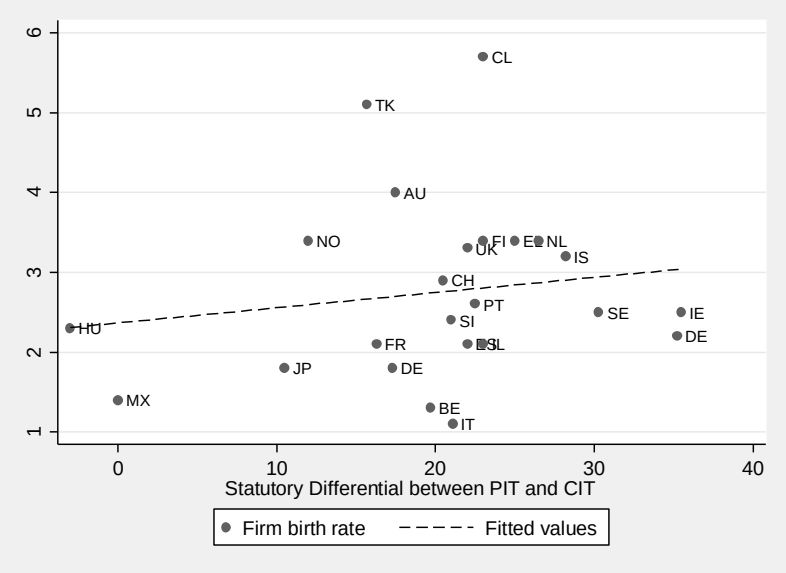
Figure 8.4 - gap between PIT and CIT rates



Source:OECD Tax Databsase (2013), data for the year 2010.

We conducted correlation analysis to see if there is any association that points in the direction of the hypotheses formulated. Correlation analysis is descriptive by nature, therefore any findings cannot be interpreted in a causal manner. The analysis indicated that the direction of the relationship is in line with the one predicted by existing literature although the association is weak. Figure 5 shows a positive association between an increase in the entrepreneurship rate and the widening of the gap between PIT and CIT.

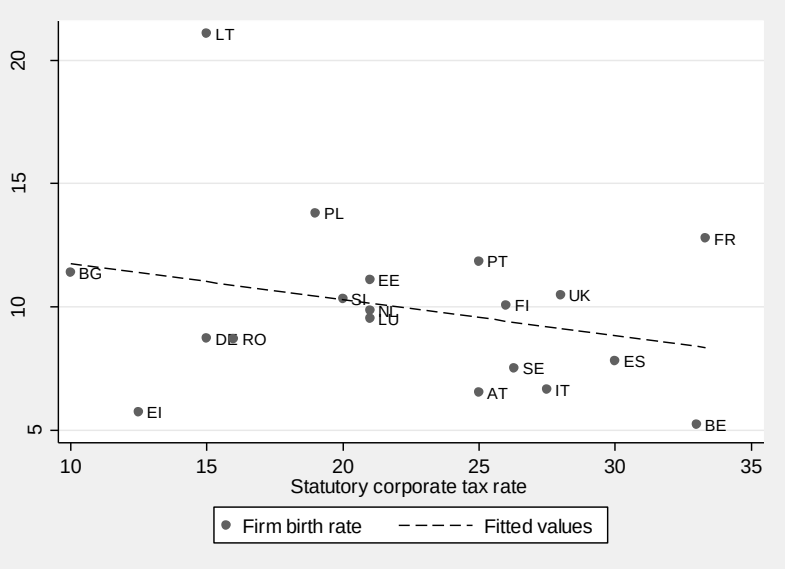
Figure 8.5 - Differential between PIT and CIT statutory rates and entrepreneurship rate: 2010



Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t. Data for Greece, Croatia and Slovakia not available. Data for 2010 from Eurostat (2013). CIT and PIT rates from OECD Tax Database (2013) for year 2010.

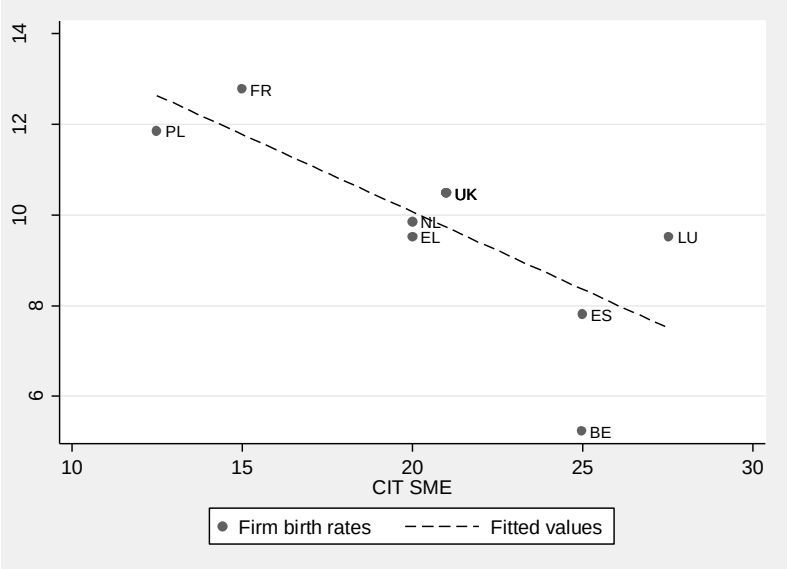
Figure 6 shows the higher the CIT rate level the lower the entrepreneurship, however the correlation is not statistically significant. We argue that this is the case because the statutory rate of corporate tax is not a good measure of taxation for SMEs since they often benefit from reduced rates. Figure 7 therefore shows a strong negative correlation which is statistically significant at 0.05 level between the CIT SME rate and entrepreneurship. The figure shows the higher the CIT SME rate the lower the entrepreneurship rate.

Figure 8.6- Rate of birth of enterprises versus nominal CIT rate for SMEs, 2010



Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t. Data for Greece, Croatia and Slovakia not available. Data for 2010 from Eurostat (2013). Nominal corporate income tax rate for SMEs from ZEW (2012) for 2010.

Figure 8.7 - CIT rate SMEs and birth rate of entrepreneurship: selected countries, 2010



Source: data from Blažić (2012) adapted from OECD (2010). Birth rate of enterprises: data from Eurostat (2010)

Note: Strong Correlation negative and significant at 0.05 level, value= -0.7389

The European Commission (2013, p.24) report on tax reforms in EU member states highlights that "several Member Sates introduced tax measures aimed at incentivising entrepreneurial activity and investment in small unquoted companies. Some Member States introduced or expanded their existing tax incentives for start-ups and entrepreneurs (e.g. BE, IE, ES, IT and HU). Italy introduced a set of regulatory and tax-related measures aimed at facilitating the emergence and growth of innovative start-ups. R&D-intensive start-ups will be subject to favourable tax treatment and individual and corporate investors will receive tax incentives to provide equity to such start-ups. In Spain, new corporate start-ups will be subject to a 15 % tax rate on their annual profits under 300 000 €, and 20 % on the excess as of the first and second year in which profits arise. Individual entrepreneurs will also be able to deduct 20 % of their positive net income. In 2013, Hungary introduced two optional tax schemes for small businesses: a lump sum tax for micro-businesses (KATA) and a flat-rate tax for small businesses (KIVA). In Luxembourg, a new minimum CIT rate applies to small companies. Supporting entrepreneurship requires a well- functioning and stable business tax environment. The benefits of introducing reduced corporate tax rates for specific enterprises need to be weighed against the potentially increased costs in terms of tax compliance and possible disincentives to grow."

Although many members states have introduced special tax measures to support self employment, encouraging this specific form of behaviour (i.e. becoming self-employed) could lead to differential and unequal fiscal treatment of essentially similar activities and could result in tax windfalls (European Commission, 2013, p.61). Preferential treatment for self-employed might encourage enterprises to outsource their employees, resulting in the substitution of employees by 'fake' self-employed people, who are physically and functionally part of the business thus resulting in a tax windfall.

To summarize this section has provided descriptive analysis regarding the CIT and entrepreneurship in Europe and found that Belgium is amongst the lowest on entrepreneurial rates and with one of the highest corporate income tax in the EU, France has a high entrepreneurship and a high corporate income tax and the Netherlands has a middle range entrepreneurship and a middle range level of corporate income tax. Correlation analysis indicated that: a) the higher the differential between personal income taxation (PIT) and corporate income taxation (CIT) the higher the entrepreneurship rate (tax avoidance) b) the higher the CIT rate the lower the entrepreneurship (lower gains from profit) c) the higher the difference between CIT for large companies and the CIT for SMEs the higher the entrepreneurship rate. However although the direction of the association is consistent with these hypotheses, the associations are generally weak, suggesting that other aspects than CIT are more important drivers of entrepreneurship. In addition, statutory corporate income tax is not a good a measure of the tax burden on SMEs since they are often income tax exempt as we will see in the next section.

8.3 Country profiles

The case studies focus on Belgium, France and the Netherlands to exemplify the range of schemes that are in place, which as we will see differ over a number of important dimensions. As we have seen from the previous section Belgium combines a high CIT rate with a low entrepreneurship rate, the Netherlands combines a middle income CIT rate with a middle income entrepreneurship rate, and France combines a high CIT rate with a high entrepreneurship rate.

Not only CIT schedules differentiate between smaller and larger enterprises. In fact, they may allow for more complex, graduated tax schedules. This is the case of Belgium, where there exist three different brackets with the CIT rate increasing gradually with turnover. However, turnover needs not be the only condition for eligibility. In France, the preferential rate is contingent on both turnover and profits. Moreover, CIT rates may target specific business areas. In the Netherlands, lower rates are granted for small enterprises that foster innovation (the CIT focus on R&D is explored at greater length in Case Study 8).

The OECD 2013 Tax database (OECD, 2013: Part II., Table II.2) provides us with a more in depth overview of the preferential rates that are subject to scrutiny in the case studies. In France, there are preferential tax rates specifically aimed at small businesses. The tax rate is 15% and is applicable for SMEs whose annual turnover does not exceed € 7.63 million. As a further eligibility condition, their gross profit must not exceed € 38.120. In the Netherlands, a 20% SME specific preferential rate applies to the first € 200.000 of taxable income. Income stemming from research and development (R&D) operations, as well as for all activities for which a patent has been obtained, are taxed at a 5% rate in an "innovation box".

Table 8.3

	Country	Description
Case study 2: Impact of CIT provisions affecting the start-up phase	Belgium	Belgium provides fiscal incentive scheme to support young and innovative companies in their early development phase. In particular, these benefit from a 65% exemption from the payment of wage withholding tax on the remuneration paid to researchers, research technicians and research project managers.
	France	There are several programmes that aim at fostering start-ups for example the national programme EDEN and the *"prime d'aménagement du territoire"* which is an incentive scheme for businesses setting up in 'special development' zones – geographical areas declared to be in need of development, including urban areas (zones de redynamisation urbaine/ZRU), rural areas (zones de revitalisation rurale/ZRR) and other regions.

	The Netherlands	The tax system provides a corporate income tax rate of 20% on the first €200.000, and 25.5% on taxable profits in excess of €200.000, which is well below the EU national average. Furthermore, start-ups may benefit, from the new *"innovation box"*, a tax rate of 5%. This rate applies to all income derived from innovative activities for which a patent has been obtained or which results from qualifying research & development projects.

8.3.1 Belgium

Belgium has one of the highest corporate income taxes in Europe and one of the lowest birth rates of enterprises (See Figure 4 and Figure 5). The corporate tax rate is 33 % and the birth rate of new enterprises in 5,23[43]. Both resident companies and Belgian branches of non-resident companies are, in principle, subject to a 33 percent tax rate (increased by a three percent crisis surcharge up to 33.99 percent). Under certain conditions — inter alia if more than 50 percent of the share capital of the company is held by individual shareholders, and the taxable profit does not exceed 322,500.00 €, reduced progressive rates will apply (KPMG, 2012).

Belgium has numerous incentives for SMEs in place. An SME for tax purposes must meet two of the following criteria:

- not more than 50 employees;
- turnover does not exceed € 7.3 million;
- balance sheet total does not exceed € 3.65 million.

Small and medium-sized companies benefit from a reduced progressive tax rate, provided certain conditions are met (e.g. taxable income does not exceed €322,500 and no more than 50% of the shares in the Belgian company are held by another company) (Ministry of Brussels, Invest in Brussels, 2014)[44]. This reduced rate amounts to:

- 24.25% on income up to €25,000.
- 31% on income between €25,000 and €90,000.
- 34.5% on income between €90,000 and €322,500.

The reduced rates only apply if the following conditions are met:

- The company's taxable profit does not exceed €322,500.
- The company is not a 'financial institution'.
- Fifty percent or more of the shares are not held by one or more other companies.
- The company does not distribute dividends for an amount exceeding 13% of the issued share capital of the income year.

[43] Birth rate of new enterprises is calculated as the rate of new enterpsises out of active enterprises in 2010.
[44] http://www.investinbrussels.com/en/index.cfm/setting-up-for-business/tax-overview/

- The company pays a salary of at least €36,000 to at least one of its managers.
- The company is not part of a group which owns a coordination center.

In Belgium, the preferential rate is applicable to the first 25.000 € of taxable income when turnover is less than 322.500 €. The rate is 31,93% up and until € 90.000 of taxable income, and 35,535% (34,5) on the remainder up to € 322.500. Moreover, the effective CIT rate can be reduced by a notional allowance for corporate equity (ACE), whereby the CIT rate is lowered based on a notional interest rate (3,242% for SMEs**)**.

The tax credit on R&D investments is adjusted for companies with taxable incomes below € 322,500 according to the progressive schedule. As a last major relief, SMEs could incur twice the normal depreciation rate on all assets in the first three years of usage until 2010. The regime was curtailed in 2011. Since then, SMEs are merely allowed to deduct 100% of the ordinary annual depreciation for an asset in the year of acquisition, irrespective of the exact date of acquisition. Moreover, all costs related to the acquisition of depreciable assets can be immediately depreciated. An incentive that relates to newly founded companies is that all costs related to the establishment and the creation of a company can be immediately depreciated.

There are many tax incentives that aim to facilitate investment. They can be divided into seven categories:

- profits immunized
- the over taxation of certain capital gains
- exemption from tax increase
- the deduction for investment
- encouragement to venture capital
- regional aid with impact on corporate tax
- Other tax benefits (for innovative companies, investment, retraining ...)

Belgium offers several investment allowances. The general investment deduction for SMEs amounts to 11.5% of depreciation taken on assets. The rate has varied between 10.5% and 12.5% since 2009. The incentive is restricted to companies with fewer than 20 employees. Unused amounts can be used in subsequent years with a maximum carry-forward of € 933,350. Additionally, an allowance of 21.5% is granted to SMEs for investments in safety measures either in the year of the investment or the following year. Concerning carry-forwards the same rules apply as for the above deductions. A notional interest deduction is available for all Belgian companies. It amounts to 3% of qualifying equity. SMEs are allowed to deduct an additional 0.5%. Since 2012, carry-forwards are no longer possible. Further incentives for SMEs include the possibility for income to enter a tax-exempt reserve of at most € 37,500 or 50% of retained earnings. The maximum size of the reserve can be further reduced by the following circumstances:

- capital gains on shares that are eligible for participation exemption;
- the exempt part of capital gains on cars used for business purposes;
- gains on debt claims against managers, shareholders and their spouses or children;
- decreases of paid-up capital.

Other incentives to entrepreneurship include (Nair &Co, Government of Flanders, Invest in Flanders, 2014)[45]:

- No minimum limit has been set on carry forward of unused investment deduction. However, maximum carry forward limit has been set at € 933.350.
- Companies that opt for R&D credit of 33,99% on the invested amount are not eligible for deductions that relate to assets used for the R&D activities. On the other hand, they can claim unlimited carry forward for a maximum amount of € 466.670 for the unused part of investment deduction.
- Notional Interest Deduction (NID) is 3,5% for SMEs.
- Companies with up to 11 employees are eligible for a profit exemption of: € 5.600 for each additional employee and € 15.050 for managers
- Maximum business, professional or employment income can be allocated as follows: € 13.100 for working spouse and € 10.090 for non-working spouse (huwelijksquotiënt)
- R&D-personnel tax incentives
- Tax deduction for patent income
- Expatriate tax regime
- Night and shift work tax incentives
- Investment deduction applicable when the new company acquires new tangible or intangible fixed assets used in Belgium for business purposes. It amounts to an investment deduction of 13.5% (one-time deduction) or 20.5% (staggered deduction for the duration of the depreciation) on taxable profit amounting to a percentage of the acquisition or investment value.
- Exemption of withholding tax on dividends

All companies subject to Belgian tax and Belgian branches of non-tax resident companies are allowed to claim a notional interest deduction on tax reflecting the economic cost of using capital. The cost of capital is calculated as the average of published interest rates for 10-year Belgian government bonds (OLOs). No advance ruling (see 'Advanced ruling' hereunder) is required to apply for the deduction. It is equal to the amount of risk capital multiplied by 3.8 for a large company and 4.3 for small and medium sized companies.

If there are insufficient tax liabilities in the year of deduction, the taxable amount can be carried forward for seven years. This measure has the following advantages:

- Reduces the taxable base of the company, thus providing attractive tax savings.
- Protects the capital of companies, so they can be financially stronger and more independent.
- Provides flexibility, because under certain circumstances it is possible to carry forward any unused amount of the deduction.
- Complies with EU regulations and offers companies legal certainty.

The interviews with Belgium enterprises highlighted the use of: Notional Interest Deduction, the capital-gain deduction and dividend-withholding tax exemptions, the possibility to deduct income from patents, a scheme foreign-tax credit that protects SME income from foreign royalties and interests (the last one being less used). The

[45] http://www.investinflanders.be/EN/Sector/ICT/chapter/Setting-up-your-business/page/Business-incentives

interviews conducted highlighted that particularly the Notional Interest Deduction is perceived as having a positive effect on growth, since enterprises are able to retain more profit and to reinvest.

Despite these measures Belgium has one of the lowest entrepreneurship rates. The Global Entrepreneurship monitor (2012) highlights that government policy is one of the main hindering factors. "A further analysis learns that Government Policy is perceived as inhibiting so called 'pulled entrepreneurship' that is mainly driven by market opportunity. In particular the difference in social benefits of the employee and self-employed status are perceived to be inhibiting for pulling new entrepreneurs, experts talk about the 'Golden cage for employees' and the non-beneficiary fiscal status of the self-employed. The difference in status of employee and self-employed is often perceived as overwhelming. Also in this context unemployment policy and a lack of employment encouragement is mentioned. Additionally linked to Government Policy, high labour costs are mentioned as the number one inhibitor for (job) growth aspirations. Also, instability of both the tax system and environmental legislation are called barriers for entrepreneurial trust. Here the sense of random inspection is mentioned as well. Regulation seems complex and often changes. Administrative burden is called to interfere with an essential entrepreneurial pace. Regulation seems often disparate, bureaucratic, inordinate and permits are received slowly."

8.3.2 France

In France the statutory corporate income tax rate is 33.33% and the birth rate of new enterprises in 12.78%. Small and medium size companies with a turnover of EUR 7.63 million or less owned at least 75 percent by individuals (or owned by companies meeting the same conditions) are subject to a corporate income tax rate of 15 percent. This reduced rate applies to taxable profits up to EUR 38,120. These small and medium size companies are not subject to the above-mentioned social contribution and temporary surtax.

France offers a multitude of tax incentives specifically designed for SMEs. The provisions include tax credits, special tax rates and exemptions of certain kinds of income. Apart reduction or exoneration from tax or social contributions there also a few actual grant aids or soft loans towards the establishment of a business (APCE, 2014).

Determining the tax system is done in two steps:

- First, the imposition of profits (income tax or corporate tax which depends on the legal form chosen);
- Secondly, (micro or Real Plan) tax regime.

The French tax system differentiates between three categories of taxes for entrepreneurs: 1) income tax (Impôt sur le revenue-IR), new enterprises which are exempt of corporate income tax in their first year of activity (Impôt sur les sociétés-IS) and micro-enterprises (Bénéfices industriels et commerciaux-BIC)46. The type of scheme eligibility depends on:

[46] http://www.entreprises.cci-paris-idf.fr/web/reglementation/creation-entreprise/fiscalite-entreprise

- the legal form choice for the company created (exercise of the activity in their own name (EI or EIRL) or as a commercial company (EURL, SARL, SA, etc.).
- the sales forecast;
- the nature of the activity.

There are five types of legal forms: sole proprietorship, EIRL, SNC, EURL, SARL Family, Ltd-SA-SAS[47] (Table 4). The first four types of legal forms qualify for payment under the income tax regime and only under certain conditions under the corporate income tax regime. The last two forms qualify for corporate income tax and can opt as well for income tax. The sales forecast is another threshold in taxation (See Table 5). SMEs whose annual turnover does not exceed: a) 82 200 € for purchase and resale companies, sales of food to take away or eat on site, accommodation services; b) 32 600 € for services companies, qualify for the micro-enterprises taxation regime.

Table 8.4 – Tax regimes and legal form

Form of society	Income tax (Impôt sur le revenue-IR)	Corporate income tax (Impôt sur les sociétés-IS)
Sole Proprietorship	**X**	
EIRL	**X**	Under certain conditions
SNC	**X**	Under certain conditions
EURL	**X**	Under certain conditions when the sole shareholder is a natural person (1)
SARL Family	Possibility of an option	**X**
Ltd. - SA - SAS	Possibility of an option under certain conditions	**X**

[47] SA (sociétés anonymes) =joint-stock, SAS (sociétés par actions simplifies)=simplified joint-stock companies, SARL (sociétés à responsabilité limitée)= limited liability companies, SCA (sociétés en commandite par actions) =partnerships limited by shares, SARL= family owned, EIRL (entreprises individuelles à responsabilité limitée)= limited liability sole proprietorships.

Source: Paris Chamber of Commerce and Industries' (CCI-Paris Ille de France)

Table 8.5 – thresholds, legal form and tax regime

Sales marketing activity	Sales activity services	Legal form	Tax regimes
<82 200 € HT	<32 900 € HT	Sole proprietorship (including auto-entrepreneur)	Micro-entreprise/versement flat-rate withholding can Option for simplified real or actual normal
<82 200 € HT	<32 900 € HT	Proprietorship EIRL EURL Partnerships Capital companies	Simplified real option possible for the real normal
Between 82 200 and 783 000 € HT	Between 32 900 and 236 900 € HT 000 HT	Proprietorship EIRL EURL Partnerships Capital companies	Simplified real option possible for the real normal
> 783 000 HT	> 236,000 € HT	All legal forms	Mandatory normal real

Source: Paris Chamber of Commerce and Industries' (CCI-Paris Ille de France); Notes: The simplified scheme is the common law regime for companies whose annual turnover does not exceed 783 000 HT for companies to purchase and resale and 236 000 € for companies to provide services. This scheme is open to businesses normally option under the micro plan. Beyond the set limits for real simplified, the system applies the real normal. The scheme is also applicable, optionally, to companies in the micro-enterprise scheme or the simplified scheme.

New companies are exempted from payment of tax instalments until the end of their first year. There is a surcharge of 3.33% dispensed for all SMEs meeting the turnover criterion, whereas all other SMEs incur the surcharge on all income taxes paid beyond the threshold of € 763,000. Since 2012, another surcharge of 5% is in place for all companies with an income of more than € 250 million, which SME do not qualify for by definition.

Micro enterprises might incur even bigger advantages than the abovementioned. Upon election they can be subject to special tax rates of 13% (income from the sale of goods) or 23% (income from the sale of services) if their income is below certain thresholds (€ 82,200 for income from the sale of goods and € 32,600 for income from the sale of services). Micro enterprises also can determine their tax base in a simplified manner if two of the three following criteria are met:

- turnover ≤ € 534,000;
- balance sheet total ≤ € 267,000;
- number of employees ≤ 10.

The company is also liable to pay a fixed annual flat tax (IFA), the amount determined flat rate varies depending on the sales. This tax is a charge the company has reduced its taxable income. The IFA is not paid by the following companies:

- Whose turnover is less than 15 million €;
- Or whose capital is made for at least half cash contributions for the first three years of activity;
- Or installed in some areas of the country (see the tax benefits section).
- Or liquidation for the period after adjudication of liquidation.

Since January 1, 2009, individual entrepreneurs have the opportunity to opt for a payment of income tax. Three conditions are required:

- Be subject to the taxation of micro-enterprises (see the table with the different tax regimes);
- Have opted for the "micro-social" system;
- The income tax reference household under the penultimate year must be less than or equal to a share of the family quotient, the upper limit of the third tranche of the scale of the income tax of the year preceding that for which the option is exercised. This limit is increased by 50% or 25% per quarter or half share of additional share.

Support measures from the French authorities comes in various forms (AFII, 2012):

- Subsidized or interest-free loans
- Grants for physical investment projects and R&D
- Reduced real estate costs
- Tax exemptions
- Exemptions from employer social security contributions
- Tax credits
- Covering certain expenses (e.g. training costs for new employees, etc.)
- Government guarantees
- Equity investments
- Research and development project grants, notably for businesses located in competitiveness clusters
- Special tax treatment for company headquarters
- Local and regional tax holidays and special subsidies
- "Industrial conversion" zones featuring tax breaks and grants for job-creation
- Special access to credit for small and medium-sized enterprises
- Assistance for training, including a portion of wages paid to employees in training.

Tax relief applies to two sorts of income: First, capital gains on the sale of a complete branch of activity excluding gains on immovable property are affected, if the value of the branch does not exceed € 300,000 (100% exemption) or if it is between € 300,000 and € 500,000 (50% exemption). The exemption only comes into effect if at least 75% of the disposing SME are held directly or indirectly by individuals or other SMEs. Second, 100% of the income of innovative SME in the first year of their

innovative activities are exempt and 50% in the second year. The incentive also includes reliefs from several other taxes than the corporate income tax and used to be granted for five years until 2011 (three years with an exemption of 100% and two years with 50%). In order to be eligible, SMEs must pursue R&D activities that account for at least 15% of the expenses incurred and they must not be older than eight years. Enterprises are generally considered to be SME if they meet the criteria set by the European Commission.

In addition to these measures there are several fiscal incentives for start-ups (APCE, 2014):

- Tax exemption on profits of companies creating a new industrial, commercial , craft or profession (under certain conditions) , in a regional aid (AFR) area. 100% exemption for the first 2 years. The exemption is gradually reduced to 75 %, 50 %, 25 % for 3 periods of 12 months following . The tax-exempt may not exceed € 225,000 over 3 years
- Tax exemption on profits from new businesses or repeatedly until 31 December 2014 carrying out an industrial , commercial, craft or profession , or implanted locating in an area of rural revitalization (AIR) . 100% exemption for the first 5 years. Then exemption is progressively reduced to 75 %, 50 %, 25 % for 3 periods of 12 months following .
- Exemption from local taxes (property contribution business , premium value added businesses, property tax, additional tax on property contribution of companies to benefit CCI or CMA) for 2 years by decision of local authorities and consular bodies concerned .
- Individual entrepreneurs under the micro- social system can benefit from an exemption from land premium business year of establishment of their business and the next two years , if:
- The option for micro- social system is made not later than 31 December of the year of establishment of the company or , in the case of creation after October 1 , within three months from the date creation of the company,
- The entrepreneur 's spouse, the partner to whom he is bound by a civil solidarity pact , ascendants and descendants , have not exercised during the preceding three years creating a similar activity to that of the newly created company .
- Exemption from annual flat tax (IFA) for 3 years for new companies subject to corporate tax and made at least half of contributions in cash.

The interviews which have been conducted with French start-ups highlighted the use of tax exemptions for CIT and deductions for staff-training "All of our investments could be credited against the tax assessment, restricting our taxable income by roughly 40–45% in the last two years, plus we have always been deducting all our staff-training expenditures since our very starting year."

Tax credits are the third major group of tax incentives for SMEs in France. First of all, a 20% credit is granted on expenditure related to innovative activities with a maximum expenditure of € 400,000 being eligible. Furthermore, a credit is available for all SME with at least 20 employees. The size of the relief is equal to the difference of the income tax payable multiplied with a rate reflecting the size of the increase in employment and the average corporate income tax paid effectively in the preceding year (→ income tax payable$_t$ * employment rate – income tax payable$_{t-1}$). The employment rate ranges from 0 to 100% with 100% reflecting an increase of 15% or more in personnel expenses compared to the preceding year. The credit only applies if the number of employees compared to each of the previous two years increased by at

least 15%. Another one-off corporate tax credit is granted to SME for expenses related to the hiring of one employee to develop export activities outside the EU. The credit amounts to 50% of qualifying expenses and is limited to € 40,000 over a two-year period if no such activities have been pursued so far. Lastly, a credit for certain SMEs (turnover ≤ € 40 million, number of employees ≤ 250 and at least 75% of shares held by individuals or other SME) exists that is limited to the island of Corsica. It amounts to 20% of all qualifying investments in the year of investment. Qualified investments include:

- depreciable assets that qualify for declining-balance method depreciation;
- the installation or arrangement of commercial premises;
- software necessary for the use of the aforementioned assets or premises;
- the renovation of hotels.

The primary investment incentive offered through DATAR is a financial bonus called the Prime d'Amenagement du Territoire (PAT) for investment in an eligible geographical zone. Three implementing decrees (2007-809 decree in May 2007, 2007-1029 in June 2007, and 2009-333 in March 2009) provide details on the current PAT system. The system requires job creation from investors (see Performance Requirements), but its subsidies can be generous. PAT may also be collected by enterprises that maintain employment when the investment is significant. The system is even more flexible for small and medium-sized companies. Other investment incentives may also be available. Potential investors should consult DATAR and AFII to determine the full range of possibilities, including:

- Firms with low turnovers are subject to lower minimum taxes (in 2013, all enterprises with turnover < € 15 million did not incur any minimum taxes).
- Investments in SME incur benefits with regard to personal income taxes: 18% of amounts invested in qualifying SME can be deducted from the personal income tax base up to an amount of € 50,000 and capital gains of directors of SME who sell their shares upon retirement are exempt if certain requirements concerning the holding period are met.
- 50% of investments in qualifying SME are deductible for wealth tax purposes up to an amount of € 45,000.
- SME are eligible for an immediate refund of the R&D credit.
- SME are subject to beneficial provisions concerning the recognition of losses from foreign branches.

Support can be provided at national level and by regional and local authorities. This support depends on the type of investment project (productive investment, research and development, innovation, training, etc.), its location (priority development areas or non-priority areas) and the type of company conducting the project (large company, mid-size company or SME) (AFII, 2012). The creation of France’s public Investment Bank in 2013 consolidates this array of state aid and financing to help companies, particularly those with fewer than 5,000 employees, to expand in France and increase their exports.

Financial subsidies and tax incentives are offered at the local, regional and national government level to attract investment to France's less affluent areas. Incentives are available equally to French and foreign investors and eligibility requirements are the same. Companies established in certain economically and socially disadvantaged parts of the country, such as Corsica, small business investment support zones (zones PME), regional assistance zones (ZAFR), rural revitalisation zones (ZRR), priority urban

development zones (ZUS), urban renewal zones (ZRU), urban free zones (ZFU), employment revitalisation zones (BER), defence restructuring zones (ZRD), and in clusters are granted temporary exemptions under certain conditions (Ministere de l'Economie des Finances et de l'Industrie, 2011) .

Newly created companies benefit from tax exemptions in certain regions for the first five years of operations (the exemption is reduced from 100% to 75%/50%/25% in the last three years of the five-year period). Maximum reliefs of € 200,000 are in place for this incentive.

Encouragement au Développement d'Entreprises Nouvelles (EDEN) national programme was originally established for young people and those in 'precarious situations' (i.e. working on fixed-term contracts), but in 2004, the programme was opened up to include people over 50 who have been unemployed for some time. EDEN is an interest free loan, repayable within a maximum period of 5 years. The first payment must be made no later than 12 months after payment. This advance is granted after an assessment of the proposed establishment or business recovery. The amount of the advance varies depending on the financial characteristics of the project and the number of individuals receiving assistance under the same project.

Besides DATAR/IFA at the national level, several French cities and regions have developed their own investment promotion agencies that advise potential investors, offer administrative assistance, and oversee investment incentives. The February 27, 2002 Local Democracy Law gives regional councils full powers to establish schemes for direct aid to companies (subsidies, reduced interest rates on loans, and advances). All incentives are subject to EU regulations.

The Hollande administration's reform of corporate taxation announced in 2012 a new tax rate on income over 940.000 €, and increased taxation of stock options have increased investor concerns. Foreign investors most often cite high wages, including a minimum wage ("Salaire Minimum Interprofessionnel de Croissance – SMIC") of 1 445,38 € gross per month, payroll taxes and complicated labour regulation as the greatest disincentives to investing in France (US Department of State Diplomacy in action, 2013, KPMG, 2012b).

8.3.3 The Netherlands

Statutory corporate income tax was 21% in 2010 and the level of entrepreneurship was 9.85%. Overall Netherlands is in the middle of the European Union distribution of corporate income tax and of entrepreneurship. However, SMEs benefit from several tax exemptions schemes.

The corporation tax rate depends on the taxable amount. The taxable amount is the taxable profit in a year less deductible losses. The corporate tax rate is 20%/25% - The first EUR 200,000 of taxable profit is taxed at 20%. These rates have been in force since 2011.

- If the taxable amount is less than €200,000, the tax rate is 20%.
- If the taxable amount is €200,000 or higher, the tax rate is 25%.

There are several government schemes supporting entrepreneurship in the Netherlands (Holland Trade, 2014):

- SME profit exemption is a deductible item of 14% (2014) of the company's profits, after deduction of the entrepreneur's allowance(ondernemersaftrek). Companies are eligible if the Dutch Tax and Customs Administrations considers them an entrepreneur for income tax purposes.
- Small business scheme
- Private business ownership allowance
- R&D payroll tax allowance (WBSO)
- R&D investment tax allowance (RDA)
- Tax relief for new companies
- Microcredit
- Entrepreneurs' allowance is deducted from profit so that the entrepreneur pays less tax, the entrepreneur's allowance consists of: private business ownership allowance; tax relief for new companies; working partner's abatement; R&D tax credit (WBSO); discontinuation relief; tax relief for new companies in the event of incapacity for work.
- SME loan guarantee scheme (BMKB)
- Small business scheme focuses on VAT exemption of SMEs of payment and administrative compliance
- SME+ Innovation Fund (aimed at provision of capital)
- Small Business Innovation Research Programme (SBIR) is a subsidy of the Dutch government supporting innovative solutions for social issues in the area of: transport and logistics; renewable energy; formal care; safety/security; food.

Fiscal measures supporting self-employment (Holland Trade, 2014):

- Private business ownership allowance which reduces the taxable income (zelfstandigenaftrek)
- Tax relief for new companies (startersaftrek) is an increase in the private business ownership allowance intended for new businesses.
- SME profit exemption exemption (MKB-winstvrijstelling) is an allowable deduction for small and medium-sized enterprises. The SME profit exemption is a deductible item of 14% (2014) from the SME profits, after deduction of the entrepreneur's allowance (ondernemersaftrek).
- Small businesses scheme (kleineondernemersregeling), is a scheme for self-employees with low income and consists of a reduced VAT or exemption from payment of VAT. In addition, some services (in journalism and education, for example) are exempt from VAT.
- Working partner's abatement (meewerkaftrek)
- Tax-deferred retirement reserve
- Discontinuation relief (stakingsaftrek)applies to situation where there is a stop trading, and supports individuals
- R&D tax credit (aftrek voor speur- en ontwikkelingswerk) is available for self-employed professionals who spend at least 500 hours a year on research and development work.
- Microcredit is available for (start-up) businesses in need of a loan or guidance. This scheme consists of a loan of up to 50,000 € and coaching.

Dividends received by resident corporations that qualify for the "participation exemption" are exempt from corporate income tax. This exemption is one of the most

important provisions of Dutch corporate income tax legislation. Dividends received by a resident company from a qualifying shareholding are exempt from corporate income tax. Furthermore, any capital gains derived from the disposal of such a qualifying shareholding are also exempt from corporate tax.

The interviews which have been conducted highlighted the use of Start-up allowance , self-employed deduction, starters deduction, small entrepreneur deduction. One respondent highlighted that the use of these schemes reduces the tax burden but others highlighted the difficulty of tax compliance which is costly for the company. "We don't have to pay any taxes as long as we stay under 20.000 € a year. We also get all of the VAT we have paid back, so we don't have to give up any money" . However "these policies reduce the burden, but that's all. They do not stimulate anything. If you want to be eligible for these kind of rules, you need to arrange a lot. And that's costly, the rules are not smart. The more rules, the more costs."

Recent considerations embedded in a recent report consider that the preferential treatment of self-employed might induce distortions in the market by encouraging people to become entrepreneurs but discouraging SMEs from growing and therefore suggest the phasing out of these facilities over an eight year period and using the financial resources to increase the employed person's tax credit (Income Tax and Benefits Committee, 2013).

Young and entrepreneurial enterprises account for most of net job growth in the Netherlands and are an important source of radical innovation. However, start-ups grow only little in the Netherlands as they age and many never grow beyond one employee (OECD, 2014, forthcoming, p14). The OECD's Dynamics of Employment (DynEmp) project, which covers 18 countries from 2001 to 2011, found that: i) for the Netherlands the share of start-up companies (those with more than one employee) is relatively low, and is declining over time, as for other countries in the sample; ii) Dutch companies do not grow very dynamically as they age; and iii) the share of enterprises that never grow beyond one employee is among the highest in each main sector (manufacturing, business services and construction), and the highest in construction (OECD, 2014, forthcoming, p14). Other data point to a large share of people who consider starting a business, but who have relatively low aspirations for job growth. Taken together these findings suggest that while it is relatively easy to start a business, there may be barriers to growth. An important inhibiting factor seems to be the increased scarcity of bank lending since the financial crisis, especially to small and medium-sized enterprises (SMEs), combined with the limited role of venture capital in risk financing (OECD, 2014, forthcoming, p14).

There are several support measures to support innovation in the Netherlands such as: The Innovation Box, WBSO which is a tax credit for R&D and RDA which is an allowance for R&D. WBSO reduces taxes on labour costs of R&D personnel. In 2012 the tax reduction corresponded to 42% of the first 110 000 € of R&D labour costs (OECD, 2014, forthcoming, p.192). Econometric evaluation showed that by reducing the R&D wage costs this policy had a positive effect on private R&D expenditure, in particular each € of WBSO was accompanies by 1.77€ of private R&D (OECD, 2014, forthcoming, p.193). In addition WBSO had a positive effect on the share of turnover due to new or developed products and improvements in labour productivity. The effects of WBSO scheme proved particularly helpful for SMEs helping them take more risks, perform more R&D, improve R&D planning and absorb external knowledge. The last evaluations showed that there are decreasing returns as the average of share of tax reduction is increasing therefore the government reduced the tax benefit from

60% to 50% for young companies and from 42% to 35% for other companies and increased the threshold of the first tax bracket from 110 000 € to 250 000 €. This measure proved to be particularly beneficial for SMEs (OECD, 2014, forthcoming, p.193). The RDA allows enterprises to deduct investment in R&D equipment exploitation costs. In 2012, the tax relief corresponded to 40% of declared R&D expenditures and was increased to 60% after 2013. The share of RDA support claims of SMEs was 32.5% in top sectors and 57.2% in non-top sectors.

The Innovation Box offers to innovative businesses a preferential tax rate of 5% for income on intangible assets that are self-developed excluding trademarks, logos or other similar assets. The intangible assets that qualify are: a) self-developed intangible assets protected by a patent granted to the tax payer, b) self-developed intangible assets that result from a qualifying R&D project for which an R&D statement has been obtained from the Dutch authorities. In practice this means that technological innovations qualify for the Innovation Box. The Innovation Box replaced in 2010 the Patent Box regime which was implemented in 2007. In practice the Patent Box has been reformed and renamed. The reform meant: lowering the tax rate from 10% to 5% and eliminating the maximum applicable amount of the regime, it is no longer required that the intangible asset is patented, the innovation Box does not apply to acquired IP it only applies to the extent that further development by the tax payer leads to a new self-developed intangible asset. The innovation Box is a tax incentive where innovation-linked profits benefit from a tax rate of 5% in lieu of the general rate of up to 25.5%. This facility is interesting for companies that make a profit by receiving royalties from self-developed assets. Based on a resolution issued by the State Secretary for Finance, the losses made with the self-developed intangible assets are fully deductible at the regular rate of 25%. The innovation Box was not formally evaluated, an evaluation is scheduled for 2015.

Recent research by Griffith et al (2012) simulates the effect of patent box schemes across countries. Their findings for UK and the Benelux countries show that such schemes will not introduce benefits in the system since it will not be possible to attract extra income to compensate for the lower tax rate. General criticism is that they seem to target the income of successful projects rather than the underlying research and therefore do not provide an incentive for new and risky research. By being applicable to the final and commercial phase of R&D these incentives prove be less effective in promoting R&D than other measures. Furthermore patent box schemes may introduce distortions in enterprise behaviour by encouraging multinationals to locate and declare income generated by IP on the basis of the generosity of these schemes.

Furthermore, the OECD Report (2013) on *Supporting Investment in Knowledge Capital, Growth and Innovation* makes the case that although helping young enterprises is crucial, since evidence from 15 OECD countries suggests that these enterprises generated nearly half of all new jobs over the past decade, they often do not generate enough profit to make use of non-refundable tax incentives. Better policies to help them would be cash refunds, carry forwards or the use of payroll withholding tax credits for R&D related wages. OECD analysis also suggests that well-designed direct support, such as grants and contracts, may be more effective in stimulating R&D than previously thought, especially for young enterprises.

8.4 Conclusions

This Case study highlighted that from a theoretical background corporate income tax could have a positive, negative or ambiguous effect on entrepreneurship (section 2.1).

In general, the literature shows a negative link between corporate tax rates and economic growth and between tax structure (how progressive it is) and entrepreneurship (Baliamoune-Lutz, Garello, 2014). However, some studies have pointed out that the effect of higher taxes on entry into entrepreneurship could be positive (Domar and Musgrave, 1944) or ambiguous (de Mooij and Nicodeme 2007, Gentry and Hubbard 2000, 2004).

The mechanisms through which CIT taxation has an impact on entrepreneurship is through: a) the overall level of CIT b) the level of CIT taxation relative to PIT taxation c) the progressivity of PIT and CIT d) the interplay between the CIT levels and other fiscal policies such as for example the treatment of losses e) the offset of CIT incentives by other existing policies/lack of policies

The short literature review in section 2.2 has shown that there is mixed evidence on effect of CIT on entrepreneurship whereas the majority of authors found a negative effect, a recent author suggests that the effect is concave and suggests that tax reductions affect entry rates only below a certain threshold tax level (Da Rin et al 2011). The literature on the effect of higher personal income tax rates on income shifting and entrepreneurship, leaves us also with an ambiguous picture on the effect of personal income taxes on entrepreneurship. New research argues that the relationship between personal income taxes and entrepreneurship might in fact be U-shaped: small and high levels of income taxes encourage entrepreneurship (Georgellis and Wall 2006, Garrett and Wall 2006, Kneller and McGowan, 2013). Less ambiguity is found for the degree of progression in the income tax schedule, which generally tends to discourage entrepreneurship (De Mooij and Nicodeme, 2007, Robson and Wren, 1999; Gentry and Hubbard, 2000 and 2004). This is consistent with the theoretical predictions based on the risk taking effect.

Other policies might have a high impact on entrepreneurship such as the overall tax climate, the administrative burden and costs of entry and of exit (The World Bank, 2013), the social attitudes that are promoted via culture and social norms dealing particularly with the status of the self-employed in society and the punishment for failure (GEM, 2012).

Preferential treatment for SMEs with regards to lower CIT levels can also have unintended effects such as: enterprises can shift from employee status to self-employed as a result of tax-avoidance, lower CIT levels could hinder growth ,lower CIT levels could encourage business fragmentation.

The impact of corporate income tax rates on entrepreneurship has been explored quantitatively in section 2.3 where we show that certain countries have a lower CIT rate for SMEs. The higher the rates for corporate income tax of SMEs the lower the entrepreneurship rates, this effect is strongly statistically significant. We argue that in practice the standard rate for CIT is not a good proxy for tax burden. This is because SMEs benefit from reduced rates in many countries or tax exemptions. Although the difference between CIT and PIT is positively related to entrepreneurship levels suggesting income shifting for tax avoidance purposes, the correlation is weak and not statistically significant.

In section 3 we explore in detail the tax incentives for start-ups in Belgium, France and the Netherlands. Not only CIT schedules differentiate between smaller and larger enterprises. In fact, they may allow for more complex, graduated tax schedules. This is the case of Belgium, where there exist three different brackets with the CIT rate

increasing gradually with turnover. However, turnover needs not be the only condition for eligibility. In France, the preferential rate is contingent on both turnover and profits. Moreover, CIT rates may target specific business areas. In the Netherlands, lower rates are granted for small enterprises that foster innovation (the CIT focus on R&D is explored at greater length in Case Study 8).

Belgium has a progressive tax schedule for SMEs. Small and medium-sized companies benefit from a reduced progressive tax rate from 33%, provided certain conditions are met (e.g. taxable income does not exceed €322,500 and no more than 50% of the shares in the Belgian company are held by another company) (Ministry of Brussels, Invest in Brussels, 2014) up to: 24.25% on income up to €25,000; 31% on income between €25,000 and €90,000; 34.5% on income between €90,000 and €322,500. The birth rate of new enterprises in 5,23% in Belgium, the lowest in Europe. Apart from this, SMEs benefit from 3.5% Notional Interest Deduction (NID) compared to 3% for other business entities. Several hindering factors of entrepreneurship have been identified (Global Entrepreneurship Monitor, 2012): in particular the difference in social benefits of the employee and self-employed status are perceived to be inhibiting for market opportunity new entrepreneurs, high labour costs are mentioned as the number one inhibitor for (job) growth aspirations, instability of both the tax system and the environmental legislation are called barriers for entrepreneurial trust, administrative burden is called to interfere with an essential entrepreneurial pace, regulation seems often disparate, bureaucratic, inordinate and permits are received slow.

In France the standard corporate income tax rate is 33.33%, however SMEs with a turnover of EUR 7.63 million or less owned at least 75 percent by individuals are subject to a corporate income tax rate of 15%. This reduced rate applies to taxable profits up to EUR 38,120. New companies are exempted from payment of tax instalments until the end of their first year. Newly created companies benefit from tax exemptions in certain regions for the first five years of operations (the exemption is reduced from 100% to 75%/50%/25% in the last three years of the five-year period). Maximum reliefs of € 200,000 are in place for this incentive.

Micro enterprises might incur even bigger advantages than the abovementioned. Upon election they can be subject to special tax rates of 13% (income from the sale of goods) or 23% (income from the sale of services) if their income is below certain thresholds (€ 82,200 for income from the sale of goods and € 32,600 for income from the sale of services).

France offers a multitude of tax incentives specifically designed for SMEs. The provisions include tax credits, special tax rates and exemptions of certain kinds of income. Apart reduction or exoneration from tax or social contributions there also a few actual grant aids or soft loans towards the establishment of a business (APCE, 2014). The birth rate of new enterprises in 12.78%. Despite these measures, France has one of the highest taxes on labour which acts as a disincentive for entrepreneurship. Foreign investors most often cite high wages, including a minimum wage ("Salaire Minimum Interprofessionnel de Croissance – SMIC") of 1 445,38 € gross per month, payroll taxes and complicated labour regulation as the greatest disincentives to investing in France (US Department of State Diplomacy in action, 2013, KPMG, 2012b).

In the Netherlands, the corporate tax rate depends on the taxable amount and is 20%/25%, the first 200,000 € of taxable profit is taxed at 20%. SME profit exemption

is a deductible item of 14% (2014) of the company's profits, after deduction of the entrepreneur's allowance(*ondernemersaftrek*). The level of entrepreneurship was 9.85% in 2010**.** Companies are eligible if the Dutch Tax and Customs Administrations considers them an entrepreneur for income tax purposes. Entrepreneurs' allowance is deducted from profit so that the entrepreneur pays less tax, the entrepreneur's allowance consists of: private business ownership allowance; tax relief for new companies; working partner's abatement; R&D tax credit (WBSO); discontinuation relief; tax relief for new companies in the event of incapacity for work. The interviews which have been conducted highlighted the use of Start-up allowance , self employed deduction, starters deduction, small entrepreneur deduction. One respondent highlighted that the use of these schemes reduces the tax burden but others highlighted the difficulty of tax compliance which is costly for the company. There are several support measures to support innovation in the Netherlands such as: The Innovation Box which is a reduction in the corporate tax rate up to 5% for profit from self-developed intangibles, WBSO reduces taxes on labour costs of R&D personnel and RDA which allows enterprises to deduct investment in R&D equipment exploitation costs. While WBSO proved to be beneficial especially for SMEs, The Innovation Box which offers to innovative businesses a preferential tax rate of 5% for income on intangible assets that are self-developed excluding trademarks, logos or other similar assets was criticized as targeting the income of successful projects rather than the underlying research and therefore do not provide an incentive for new and risky research. A recent OECD report (2013) highlighted that young companies often do not generate enough profit to make use of non-refundable tax incentives. Better policies to help them would be cash refunds, carry forwards or the use of payroll withholding tax credits for R&D related wages. OECD analysis also suggests that well-designed direct support, such as grants and contracts, may be more effective in stimulating R&D than previously thought, especially for young enterprises. In addition, start-ups grow only little in the Netherlands as they age and many never grow beyond one employee (OECD, 2014, forthcoming, p14). An important inhibiting factor seems to be the increased scarcity of bank lending since the financial crisis, especially to small and medium-sized enterprises (SMEs), combined with the limited role of venture capital in risk financing (OECD, 2014, forthcoming, p14).

The importance of labor costs was highlighted in all the three countries as acting as a disincentive for entrepreneurship and the fact that reduced corporate income taxes might not have the estimated effect for SMEs since most of them do not make any profit in the first years.

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9 CASE STUDY 3 IMPACT OF SPECIAL CIT RATES FOR SMES ON LEGAL STRUCTURE

9.1 Introduction

This case study is focused on three European Member States: Ireland, Estonia and Romania. These countries were selected because they present three different possibilities: Ireland provides a strong incentive to create companies instead of partnerships because taxation of corporate income and tax on dividends is significantly lower than personal income tax while in Estonia corporate taxation and personal one are the same, but dividends are taxed giving an incentive to small companies to prefer partnerships. In Romania there is no difference between CIT and personal income tax. Furthermore there is no special tax rate for capital gains. The tax regime is neutral with regard to legal form.

Case study 3	Objective	Questions to be addressed
Impact of CIT on legal structure	The aim of this case study is to understand if CIT rates are a barrier or an incentive to establish a company instead of preferring a partnership.	• Relevance of CIT in the decision to establish the enterprise • Relevance of Incentives (tax schemes, allowances, deductions etc.) in the decision to establish the enterprise

We have conducted four interviews in Ireland, two interviews in Romania and three in Estonia, all the companies are in the early stage. The names of the companies interviewed cannot be provided due to terms of confidentiality. Table 1 provides a list of the companies interviewed for the third case study. They are all at the early stage phase and have been categorized, using as criterion the number of employees, into: medium-sized, small and micro. Table 1 provides more information about the companies interviewed such as: the self-identified economic activity or industry in which they operate and the number of employees they currently have. The majority of the companies are small, two are medium and one is micro.

Table 9.6 – Interviewees

Company category	Country	Industry	Enterprise size (Number of employees at date of interview)
Small	Ireland	Editing	27
Small	Ireland	Engineering research	16
Medium	Ireland	Interior furnishings	60
Medium	Ireland	Light design	109
Micro	Romania	Clothing	8
Small	Romania	Interior and light design	21
Small	Estonia	IT	30
Small	Estonia	IT	21
Small	Estonia	IT	48

9.2 The impact of CIT special rates for SMEs on legal form structure

9.2.1 Theoretical explanations

Corporate taxes influence business behaviour in several ways. The type of legal form chosen will determine such factors as liability and taxation. There are many different types of legal forms which are country specific, however several types have been identified as most common from our literature review: sole proprietorship, partnerships and limited liability companies.

A sole proprietorship is a business that is owned and run by a single individual and therefore it is an unincorporated business (with our without employees). There is no legal distinction between the owner and the business. They are one and the same for tax purposes, in other words, the business is not taxed as a separate entity. Sole proprietorships are subject to personal income tax and self-employed social security contributions (in countries with social security taxes). There is no method for sheltering tax in a sole proprietorship. Earnings are taxed regardless if they are actually distributed. In addition, the individual is held liable for the actions of the business or business-related obligations such as debt-obligations to creditors and business tax liabilities. If the business fails the individual is liable for any debts that the business incurs and personal assets may be seized to meet to meet these liabilities.

A partnership is an extension of a sole trader and is when two or more people go into business together and equally share in its profits. For tax purposes, partnerships are treated similarly to a sole proprietorship - the owners pay tax on their "distributive share" of the business's taxable income. The partners must agree on how the income of the business will be allocated. The partners are jointly responsible for running the business and if it fails all partners are jointly liable for the any debts that the partnership incurs. With a general partnership each individual partner may be personally liable for business liabilities. With a limited partnership personal assets of investors may not be regarded as business assets and at risk so that the maximum capital that a limited partner may lose is the amount of capital he/she has invested in the business.

In a limited company legal form the business is a separate legal entity and, therefore, is separate and distinct from those who run it. If the company gets into debt, the creditors generally only have a claim on the assets of the company. The primary characteristic an LLC shares with a corporation is limited liability, and the primary characteristic it shares with a partnership is taxation on the ownership level. Most EU Member States have at least two kinds of companies. The first kind, the joint stock company (e.g. the AG, SA, NV, plc, etc), is designed for large companies. It is often subject to a high minimum capital requirement and detailed internal organisation rules. Its shares may be listed on the stock market. This kind of company is often referred to as "public companies". The second kind of company is designed for smaller companies (e.g. the GmbH, the SARL, the Sprl, etc). While this form offers its founders and members the much needed limitation of liability, it is often designed some way between a joint stock company and a partnership to take account of the fact that the personal involvement of shareholders usually is very strong in small companies. This makes of this second kind of company the preferred legal form for small companies. These company forms cannot offer their shares to the public and as a result are often referred to as 'private companies'[48].

When a business is incorporated profits/losses are normally subject to corporate income tax, with distributions of after-tax profits subject to shareholder-level dividend taxation. Capital gains realized on retained after-tax profits may be subject to shareholder-level taxation at the time of the dispositions of the shares. Distributed after-tax profits are normally subject to shareholder-level dividend taxation, while capital gains on shares resulting from the retention of after-tax profits may be subject to capital gains taxation upon the dispositions of shares. An assessment of the combined average statutory tax rate on profits of incorporated enterprises factors in both company-level (corporate) and shareholder-level taxation (OECD, 2009, p. 44). However in practice the inclusion of capital gains taxation is difficult to measure since it varies depending on the holding period of shares (OECD, 2009). In taxing distributed profits of incorporated enterprises a number of solutions have been implemented (OECD, 2009): a) some countries (e.g. Austria) apply a flat withholding tax rate to distributed profit, at the company level, without further shareholder taxation. B) others tax individual shareholders on the full amount of dividend income received at personal tax rates without special relief for tax imposed at the corporate level (classical tax systems) c) many countries "integrate" corporate and personal taxation in order to avoid or limit double taxation through: a dividend paid deduction at the corporate level, or at the personal shareholder level.

[48] http://ec.europa.eu/internal_market/company/docs/epc/impact_assesment_en.pdf

For enterprises reinvesting their earnings (a cheaper source than new equity), the taxation of corporate profits at a low rate, compared with a top PIT rate on personal business income, combined with the ability to defer shareholder taxation of profits, tends to increase the relative attractiveness to profitable SMEs of incorporation as a choice of business form, where small business tax rates apply (OECD, 2009, p.51).

De Mooij and Nicodeme (2008) argue that it is unclear to what extend the tax on dividends affects the effective tax burden on the corporate form, since small companies usually have other ways to distribute profits. Mackie-Mason and Gordon (1997), for instance, determine the effective personal tax on equity income by a weighted average of the tax on dividends and the tax on capital gains, where the weight is determined by the average dividend payout ratio. The weight on the capital gains tax is adjusted as tax deferral and the tax exemption of some types of capital gains provide relief. Mackie-Mason and Gordon (1997) compute the accrual equivalent of these gains at more than ¾ of the capital gains. Hence, capital gains taxes hardly seem to play a role for the personal tax on equity income. Goolsbee (2004) argues that this means that a zero tax on equity income at the personal level is probably the most accurate since small businesses usually pay very few dividends.

To summarize, sole proprietorships are subject to personal income tax while corporations are first subject to corporate income tax and are then possibly taxed again at the personal level, via taxes on profit distributions or realized capital gains (whereby sometimes double-tax relief is applied) (De Mooij and Ederveen,2008, 682).

The choice of legal form does not only have an impact on the level of taxation but also on liability. Research in economics refers to limited liability advantages such as the use of the corporate form as a means to save taxes which leads to a larger rate of incorporation. By incorporating, entrepreneurs might be able to avoid high personal income taxes under the sole proprietorship and instead become liable to low corporate tax and personal dividend and capital gains taxes (Egger, Keuschnigg, and Winner, 2009).

Which legal form to take is driven by the objectives of the company, but taxation also plays a role. 12 out of the 25 countries examined apply special CIT rates. The incentives, however, significantly differ in their magnitude. Tax law contains built-in trade-offs for each corporate form, and companies often must give up some liability protection or flexibility. The different tax treatment of corporate versus non-corporate income creates opportunities to capitalize upon the imbalance. If corporate income were taxed more lightly than non-corporate income, people would have an incentive to become entrepreneurs, while entrepreneurs would have an incentive to incorporate, so as to reduce their tax liability (De Mooij and Ederveen,2008, 682). Corporate tax rates which are below top marginal personal income tax rates – along with provisions for deferral of personal taxation through reinvestment of profits – can provide incentives for the self-employed to incorporate their businesses (King, 1977 in OECD, 2002). A decrease in the rate of corporate tax increases the incentives for incorporation, ceteris paribus, and results in a lower level of self-employment than might otherwise have been the case (Robson, 1998 in OECD 2002). This type of tax-induced changes in the form of organisation may trigger income shifting in the form of compensation without affecting the real activity and thus creating distortionary effects in the market and reduce economic efficiency (OECD,2002).

However, decisions on the legal form of business are not only made on the basis of tax but also taking into account the non-tax benefits and costs (De Mooij and

Ederveen,2008, MacKie-Mason and Gordon 1997, Goolsbee 1998, 2004). For instance, some businesses organized in the corporate form may collect substantial non-tax benefits, such as gains from limited liability or the advantage of attracting capital. Others may incur costs from incorporation, e.g. owing to capital requirements or legal obligations (De Mooij and Ederveen, 2008, 682). Economists mention limited liability and improved access to external capital as main advantages of incorporation (Egger, Keuschnigg, and Winner, 2009). Non-tax costs and benefits should, therefore, be weighed against the net tax advantage of corporate versus non-corporate income.

The decision to incorporate lies in the differences that exist between the personal and corporate tax regimes. MacKie-Mason and Gordon (1997) and Goolsbee (1998; 2004) propose a simple model for the choice between sole proprietorship and incorporation. The models suggest that the choice of legal form of an enterprise is determined by the net tax costs from incorporation compared to the net non-tax benefit from incorporation.

A business organized in the corporate form may also collect non-tax benefits. These can be related to the limited liability of incorporation, which reduces the individual risk of doing business. As discussed above, limited liability means that the entrepreneur does not risk his individual assets or income when taking part in the enterprise, since he is only liable for the capital invested in the company. Moreover, corporate businesses may have an advantage in attracting capital due of the public trading of shares. Incorporation may also bring along non-tax costs related to capital requirements and legal obligations for companies in the corporate form. The net non-tax benefits from incorporation may differ across enterprises. The models suggest that an entrepreneur will choose the corporate form as long as the non-tax benefits exceeds the net tax loss of the corporate form. De Mooji and Nicodèm (2007) conclude that, generally, the entrepreneur will choose to incorporate so long as the non-tax benefits (or costs, if negative) exceed the net tax loss of the corporate form (ibid.: 23). This comparison can be made by looking at the consequences of choosing each form.

While personal income tax is levied on personal income alone, being subject to the CIT regime has two main implications, which Gordon and MacKie-Mason (1993) denote as "tax effects other than tax rates" and "non-tax factors". An important tax effect is due to differences in the tax levels levied on profit distributions or capital gains, which are often taxed at a higher rate for corporations. As a result, if an enterprise gives priority to capital gains, this might act as a disincentive to incorporation. "Double taxation" of corporate income has the same effect, since personal income tax is levied after taxation at the corporate level. For this reason many European countries have put in place policies in order to avoid this. Other minor tax effects are, for example, due to differences in how pensions and fringe benefits are deducted, and the possibility for partnerships[49] and sole owners to take advantage of loss offsets and at-risk rules (Gordon and MacKie-Mason, 1994). "Non-tax factors" are of two types. The first stems from the possibility for businesses to list shares on public exchanges, which incentivises incorporation by facilitating capital raising. The second lies in the difference between the limited liability of corporate shareholders and the unlimited liability of partners and unincorporated sole proprietors. While shareholders of small

[49] Personally owned limited and unlimited liability partnerships can be considered as hybrid categories that can be taxed under either the corporate income tax or the personal income tax.

companies must often pledge personal assets in order to obtain external bank loans, partnerships may impose discretional liability limits.

9.2.2 A brief review of empirical studies

Several studies have attempted to assess empirically the impact of CIT on the legal form of enterprises. Unincorporated SMEs are subject to personal income tax whereas incorporated SMEs are subject to corporate income tax. Given the binomial decision that the entrepreneur has to make between two different regimes, the literature looks at the tax differential between personal and corporate tax rates. This and similar indicators are assessed against proxies for variation in the organisational form used by enterprises. Another strand of research looks into this decision by assessing empirically income shifting between household and corporate tax bases. The choice of legal form is one way to achieve this. The study of Fuest and Weichenriieder (2002) includes OECD EU countries and finds a significant effect of the tax rate of personal income on corporate saving, which suggests substitutability between the personal and the corporate sector.

The difference between CIT and PIT levels can have a high impact on the choice of entrepreneurship and on the type of legal form. The estimates on incorporation suggest that the impact of income shifting in response to a larger tax gap is sizeable (De Mooij and Nicodeme, 2007). Time series studies have focused on federal tax policies and have generally concluded that higher federal income or payroll tax rates cause higher rates of entrepreneurship, specifically defined as self-employment (Bruce and Deskins, 2012, Long 1982; Blau 1987; Parker 1996; Cowling and Mitchell 1997; Robson 1998). Explanations often rest on the idea that high tax rates drive workers out of paid employment, or wage jobs, into entrepreneurial ventures where they can more easily avoid or evade taxes (Bruce and Deskins, 2012).

De Mooij and Nicodeme (2007) found in the EU that the impact of corporate taxes on entrepreneurship is ambiguous: while the corporate tax is found to reduce the rate of enterprise births, especially of medium sized companies, it exerts opposite effects on indicators for the degree of self- employment. Hence, entry of small companies (with zero employees) is affected differently by corporate taxes than are larger companies. They found that the tax gap between personal and corporate tax rates exerts a significant positive effect on the degree of incorporation, e.g. choosing a limited liability or partnership versus sole proprietorship. Their result was robust for alternative indicators and specifications. De Mooij and Nicodeme (2008) use a panel of European data on the corporate share of companies and the corporate share of employment in different European countries between 1997 and 2003. In different specifications and for different indicators, they report a semi-elasticity of around −1.0. The authors find that the effects of taxation in the European Union are small, suggesting that non-tax factors are more important in determining legal form.

Gordon and MacKie-Mason (1994) provide estimates of the non-tax costs of conducting entrepreneurial activities under a personal income taxation regime in the US, which were found to be large and significant (yet highly dependent on the industry sector). On balance, non-tax factors are estimated to be substantially greater than "tax effects other than the tax rates" (Gordon and MacKie-Mason, 1997).

Goolsbee (2004) uses cross-section data for US states and industries in the retail trade sector in 1992. He explores the impact of taxes on several indicators of the size of the corporate sector, including the share of companies, employment, and sales. His estimates suggest a larger semi-elasticity of the corporate tax base with respect to the corporate tax rate than earlier studies: εOF =−0.4. De Mooij and Ederveen (2008) assume that semi-elasticity of the corporate tax base with respect to the corporate tax rate to be the average of the results of Goolsbee and De Mooij and Nicodeme and: εOF =−0.7. This implies that a 10 percentage-point higher tax rate on corporations would ceteris paribus reduce the corporate share of business, and therefore the corporate tax base, by 7 per cent.

Table 9.7 - Overview of empirical studies on the impact of corporate income taxation on the legal form of the enterprise

Author	Time Frame	Country	Main finding
Gordon and MacKie-Mason (1994)	1970-1986	US	Non-tax costs are large and significant
MacKie-Mason and Gordon (1997)	1959-1986	US	Non tax-costs are larger than direct tax effects (other than the tax rates)
Goolsbee (1998)	1900-1939	US	A larger semi-elasticity of the corporate tax base with respect to the corporate tax rate than earlier studies: εOF =−0.4.
Fuest and Weichenriieder (2002)	1985-1997	17 OECD countries	Evidence of tax shifting behaviour (savings) between the corporate and personal tax bases
Alstadsaeter (2003)		Norway	Corporate form can be used as a tax shelter for high income entrepreneurs (Norwegian split model)
Liu (2013)	1909-1919	US	Relative taxation of corporate to personal income has a (statistically significant) impact on the corporate share of economic activities.

9.2.3 The impact of CIT on legal structure in the EU

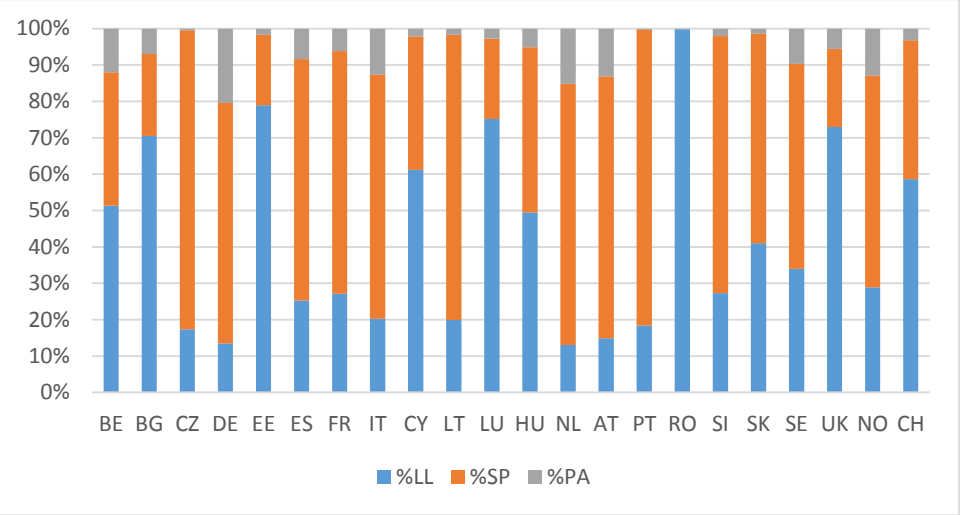
We use data from Eurostat to gain insight into the entrepreneurial decision to incorporate businesses. Eurostat provides demographic information on sole proprietorships (SP) and private or publicly quoted joint stock companies with limited liability (LL) for those owning shares[50]. From this, the share of the corporate sector in the economy can be derived. Moreover, it is possible to obtain data on the ratio between the top personal income tax rate and CIT rate for businesses. The higher this measure, the greater, everything else being equal, the incentive to incorporate.

The following countries have a high rate of limited liability registered companies (Figure 1): Romania (99%), Estonia (78%), Luxembourg (75%), Sweden (72%), Bulgaria (70%), Cyprus (61%), Norway (58%). The following countries have a small rate of companies registered under limited liability: the Netherlands (13%), Germany 13%, Austria 14%, Czech Republic 17%, Portugal 18% Lithuania 19%, Italy 20%. The following countries have a medium level of incorporation: Spain 25%, France 27%, Slovenia 27%, United Kingdom 28%, Finland 33%, Slovakia 41%, Hungary 49%, and Belgium 51%.

Figure 1 shows the degree of incorporation in the European Union of start-ups by type of legal form. Figure 2 compares the degree of incorporation of start-ups with the degree of incorporation of active enterprises. In some countries the degree of incorporation is similar, in a few countries the degree of incorporation is higher for start-ups compared with active enterprises: Sweden, Bulgaria, Hungary, Norway, Slovakia, Cyprus, Estonia. The degree of incorporation is higher for active enterprises compared to start-ups in the following countries: United Kingdom, Lithuania, Portugal, Spain, France, the Netherlands, Slovenia and Belgium. The difference in the degree of incorporation between start-ups and active enterprises could come from legal form changes. An alternative explanation would be if the legal forms are affected differently by survival and death rate of enterprises.

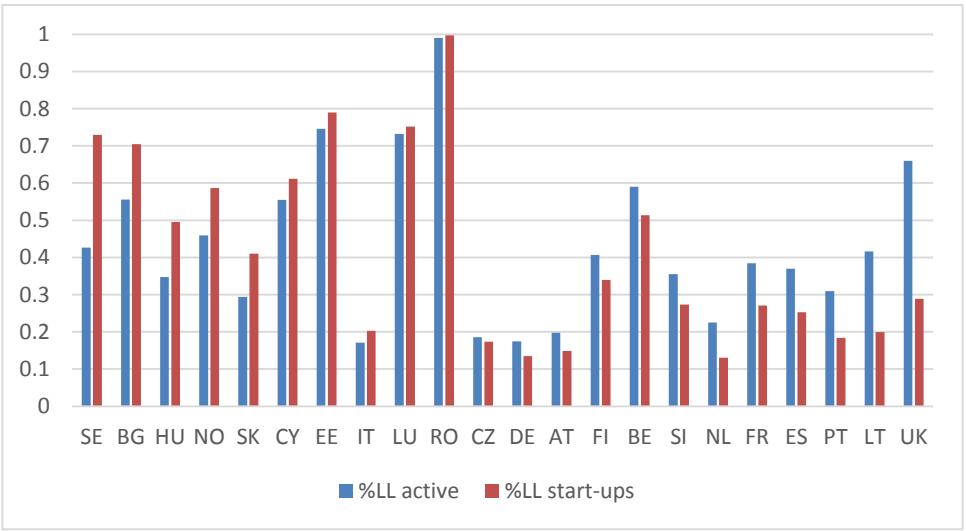
[50] Unfortunately, the available Eurostat data do not allow us to differentiate this subset further by firm size (e.g. SMEs versus LSEs).

Figure 9.8 Share of start-up companies by organizational form



Source: own calculation based on Eurostat, Business Demography Database which includes Industry, construction and services except insurance activities of holding companies (B-S except K614) for the year 2010. Notes: 1. Share of the corporate sector in the economy is calculated with the following formula: %LL=LL/LL+SP+PA, %SP=SP/LL+SP+PA, %PA=PA/LL+SP+PA, where LL= number of corporations, or quoted joint stock companies with limited liability for those owning shares, and SP= sole proprietorship, or personally owned enterprises that have no limit to personal liability, PA= Personally owned limited and unlimited liability partnerships. Included are also other level forms such as co-operatives, associations etc. 2. Please note that these figures are not directly comparable with figures from before 2007 as there is a break in the series.

Figure 9.9. Comparing the degree of incorporation of start-ups with the that of active enterprises in 2010



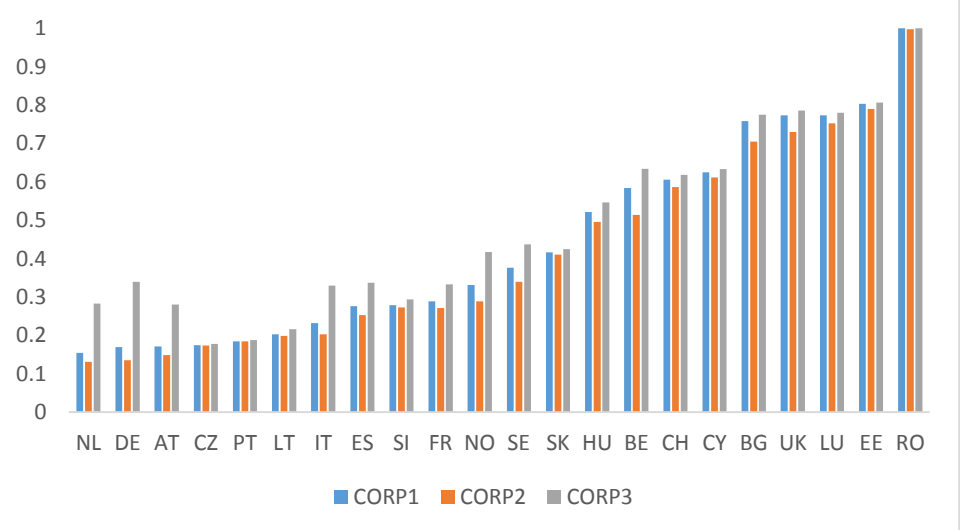
Source: own calculation based on Eurostat, Business Demography Database which includes Industry, construction and services except insurance activities of holding

companies (B-S except K614) for the year 2010. Notes: 1. Share of the corporate sector in the economy is calculated with the following formula: %LL=LL/LL+SP+PA, where LL= number of corporations, or quoted joint stock companies with limited liability for those owning shares 2. Please note that these figures are not directly comparable with figures from before 2007 as there is a break in the series.

Including personally owned limited and unlimited liability partnerships in the calculation of the incorporation rate increases the rate of enterprises incorporated for the following countries: Netherlands, Germany, Austria, Italy, Estonia, Norway and Sweden (Figure 3) . Figure 3 also shows that the biggest difference in the calculation of incorporation is caused by taking into account partnerships and that taking the denominator by including all the companies or only the limited and the sole proprietorship (CORP1 and CORP2) does not make so much difference.

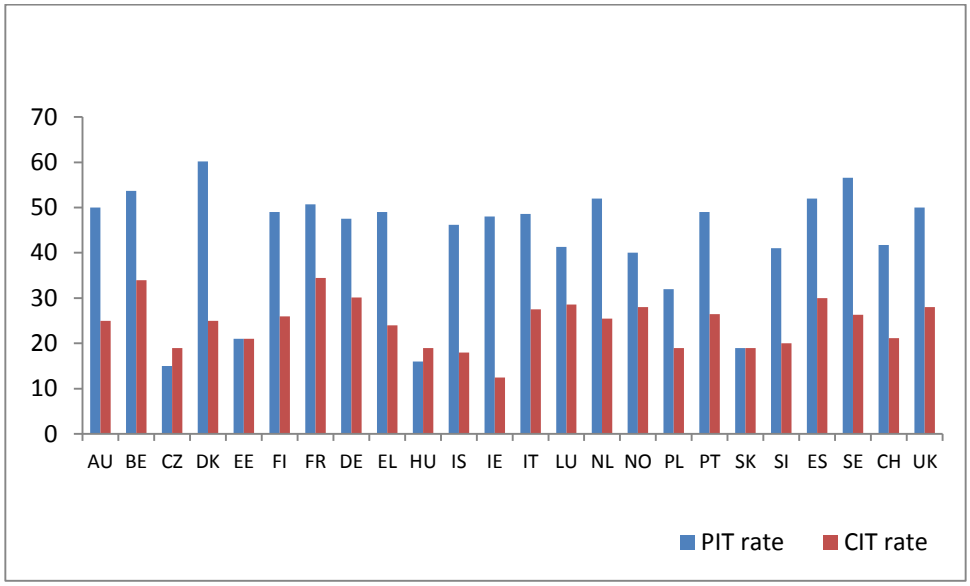
Previous research highlighted that in the choice of the legal form of the enterprise the difference between the corporate income tax and the personal income tax might play a role. Fuest and Weichenriieder (2002) show evidence of tax shifting behaviour (savings) between the corporate and personal tax bases, whereas Liu (2013) showed that relative taxation of corporate to personal income has a (statistically significant) impact on the corporate share of economic activities. Figure 4 shows the difference between personal income tax and corporate income tax in the European Union. The figure shows large differences between the tax rates for the following countries: Austria, Belgium, Denmark, Finland, Greece, Island, Ireland, Netherlands, Portugal, Slovenia, Spain, Sweden, Switzerland and United Kingdom. The following countries have small differences between the two tax rates: Czech Republic, Estonia, Hungary and Slovakia. We test further whether these differences are positively or negatively associated with the degree of incorporation. Therefore, Figure 5 shows the degree of incorporation as a function of the difference between corporate income tax and personal income tax. Figure 5 shows the correlation as a measure of association between the two variables. The association is negative, the higher the gap between the PIT and CIT, the lower the degree of incorporation.

Figure 9.10 Degree of incorporation of start-up companies



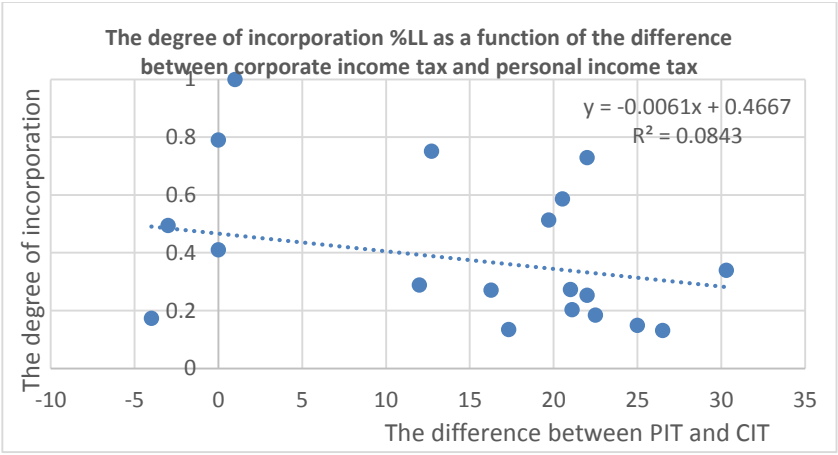
Source: own calculation based on Eurostat, Business Demography Database which includes Industry, construction and services except insurance activities of holding companies (B-S except K614) for the year 2010. Notes: 1. Share of the corporate sector in the economy is calculated with the following formula: CORP1=LL/LL+SP, CORP2=LL/LL+SP+PA, CORP3=LL+PA/LL+SP+PA, where LL= number of corporations, or quoted joint stock companies with limited liability for those owning shares, and SP= sole proprietorship, or personally owned enterprises that have no limit to personal liability, PA= Personally owned limited and unlimited liability partnerships. Included are also other level forms such as co-operatives, associations etc. 2. Please note that these figures are not directly comparable with figures from before 2007 as there is a break in the series.

Figure 9.11- The gap between PIT and CIT rates



Source: own elaboration based on data from OECD Tax Databsase (2013), data for the year 2010.

Figure 9.12. Correlation between the degree of incorporation and the difference between corporate income tax and personal income tax



Source: own elaboration based on data from OECD on PIT and CIT and data from Eurostat on the degree of incorporation of start-ups.

In practice in the analysis, dividend taxes should also play a role in comparing taxation effects on the choice of legal form. Blazic (2010) analyses the effect of the incentives to incorporate based on OECD 2010 tax data. She argues that in Europe almost all countries with reduced CIT rates for SMEs do not possess the disincentive to incorporate. In the remaining three countries, the disincentive is remarkably

reduced (France), almost negligible (UK) or generally small before and after the rate reduction (Luxembourg). For countries with no preferential CIT rates for SMEs, there exists in general a disincentive to incorporate (the overall rate on dividends is higher than the top PIT) (OECD, 2009, p. 48). In Croatia and Slovenia, there is, however, the incentive to incorporate, which is especially strong in Croatia with the top PIT rate of 45 % and CIT rate of 20% (with the exemption of dividends on personal level, making that also final DIV rate).

Table 9.8. Incentives to incorporate based on differences in CIT and PIT tax rates

Rate / Country	CIT basic	CIT SMEs	**Δ CIT**	**ΔCIT/ CIT basic[1]**	DIV basic[1]	DIV SMEs[1]	**Δ DIV**	**ΔDIV/ DIV basic**	Top PIT	**ΔPIT –DIV basic**	**ΔPIT –DIV SME**
	1	*2*	***3= 1-2***	*4=3/1*	*5*	*6*	***7= 5-6***	***8=7/5***	*9*	***10= 9-5***	***11= 9 6***
Belgium[2]	33,99	24,98	**11**	0,32	44	36	**8**	**0,18**	53,70	**9,7**	**17,7**
Canada	31,32	15,92	**15**	0,48	47	35	**12**	**0,26**	46,20	**-0,8**	**11,2**
France[3]	34,43	15,00	**19**	0,55	56	43	**13**	**0,23**	40,00	**-16,0**	**-3,0**
Greece[4]	25,00[4]	20,00	**5**	0,20	25[4]	20	**5**	**0,20**	40,00	**15,0**	**20,0**
Hungary*[5]	20,00	14,00	**6**	0,30	40	36	**4**	**0,10**	36,00	**-4,0**	**0,0**
Japan	39,54	24,79	**15**	0,38	46[6]	32[6]	**14**	**0,30**	50,00	**4,0**	**18,0**
Korea*	24,20	12,10	**12**	0,50	46	38	**8**	**0,17**	38,50	**-8,0**	**0,5**
Luxembourg	28,59	27,55	**1**	0,04	43	42	**1**	**0,02**	38,00	**-5,0**	**-4,0**
Netherlands*	25,50	20,00	**5**	0,20	44	40	**4**	**0,09**	52,00	**8,0**	**12,0**
Portugal*	25,00	12,50	**12,5**	0,50	40	30	**10**	**0,25**	42,00	**2,0**	**12,0**
Spain	30,00	25,00	**5**	0,17	43	39	**4**	**0,09**	43,00	**0,0**	**4,0**
UK	28,00	21,00	**7**	0,25	46	41	**5**	**0,11**	40,00	**-6,0**	**-1,0**
USA	39,10	20,02	**19**	0,49	50	34	**16**	**0,32**	41,85	**-8,1**	**7,8**

Source: Blazic, H., (2010), Preferential Income tax rate for SMEs in Europe.

9.3 Country profiles

Depending on the weight of personal taxation, capital gains tax and corporate income taxation there might be an incentive to prefer a partnership instead of establishing an enterprise. This case study is focused on three European Member States: Ireland, Estonia and Romania. These countries were selected because they present three different possibilities: Ireland provides a strong incentive to create enterprises instead of partnerships because taxation of corporate income and tax on dividends is significantly lower than personal income tax while in Estonia corporate taxation and personal one are the same, but dividends are taxed giving an incentive to small companies to prefer the partnership form. In Romania there is no difference between CIT and personal income tax. Furthermore there is no special tax rate for capital gains. The tax regime is neutral with regard to legal form.

9.3.1 Ireland

In Ireland there are several legal forms for business available: as a sole trader, as a partnership or as a limited company. The type of structure chosen will depend on the type of business being run, with whom one will be doing business and the entrepreneur's attitude to risk. There are two types of limited companies in Ireland, private companies and public companies. Ireland does not directly provide major tax incentives to SMEs. For personal income tax purposes, however, individuals can deduct up to € 150,000 for the acquisition costs of shares in qualifying unquoted trading SMEs. The share in the company must not be higher than 30% unless the investment amounts to less than € 500,000. Holding restrictions and other anti-avoidance rules are in place.

Companies resident in Ireland and non-resident companies which carry out a trade in Ireland through a branch or agency, are, with a small number of specific exceptions, liable to corporation tax on their taxable profits. The place of incorporation of a company is largely irrelevant in determining its taxation status under Irish law as the country of tax residence is primarily based on the place of management and control rather than the place of incorporation (KPMG, 201451). As a result of this, the differentials in laws between countries with respect to conditions regarding the eligibility for taxation has been exploited by some large multinational companies which opened branches in Ireland to avoid taxation. However, few SMEs are multinational.

SMEs make up the substantial proportion of the enterprise economy, with over 99% of businesses in this sector and almost 70% of people employed[52]. According to the Revenue Commissioners, there were 230,000 tax returns from sole traders and 124,400 tax returns from incorporated companies in 2010, showing that the vast majority of SMEs are unincorporated[53] despite a high personal income tax and a low corporate income tax.

Out of the companies legal forms, the majority of companies in Ireland are private limited companies and, of those, most are small companies with one or two members. While limited Companies are required to make annual returns with the

[51] http://www.kpmg.com/ie/en/issuesandinsights/articlespublications/pages/irelands-effective-tax-rate.aspx
[52] http://www.finance.gov.ie/sites/default/files/12-17-Taxation-of-Small-Business.pdf
[53] http://www.finance.gov.ie/sites/default/files/12-17-Taxation-of-Small-Business.pdf

Company Registry Office and in general there are more compliance requirements involved, such as compliance with the Companies Act, companies can be more tax efficient. Unlike sole traders and partners in a partnership who pay income tax on business profits (20 – 40%), companies pay corporation tax on their taxable profits, which is lower than income tax rates and one of the lowest in the world (12.5%)[54]. The nominal corporate income tax is 12.5% on trading income and certain foreign dividends and 25% on non-trading income, gains and profits from mining, petroleum and land dealing activities. There is no difference between the corporate income tax paid by large companies and SMEs, however there are a few measures specially designed for SMEs: the R&D Tax Credit and the 3-Year Tax Relief for New Start-Up Companies are being extended and the Close Company Surcharge is being a mended to allow small companies to save for bad times[55]. Other measures include: deductions granted to formerly employed people who invest in a start-up. They can claim a tax refund on income from the last six years (the maximum tax refund is € 100,000). Other reliefs that may benefit SMEs include relaxed transfer pricing regulations, relaxed provisions for preliminary tax payments and an exemption of the first € 40,000 of income (exemption phases out until € 60,000) for newly founded companies in the first three years of their operations.

Personal income tax is 20% for income between 0- 32800€ and 41% for income above 32801 €. For personal income tax purposes, however, individuals can deduct up to € 150,000 for the acquisition costs of shares in qualifying unquoted trading SMEs. The top statutory personal income tax is 48% (OECD Tax database, Part 1. Table 1.7). Dividend income is taxed at the shareholder level in the same way as other types of capital income (e.g. interest income). Dividends are subject to a dividend withholding tax at a rate of 20 % and some interest and royalties are subject to similar withholding. However, there is a wide range of exemptions from withholding. Dividend payments are not deductible from income that is subject to corporation tax. On the other hand dividends received from another Irish Company are not subject to corporation tax. A surcharge of 20 % is levied on undistributed investment or estate income of a closely held company or a company providing professional services. Losses may be carried forward indefinitely, back one year in the case of continuing business and back three years in the case of a discontinued business. A substantial change in the ownership of a company, combined with a change in the nature of the trade, may result in the restriction of these losses. There are no controlled foreign company rules and no general schemes of transfer pricing or thin capitalisation rules (Eurostat, 2013, p. 98).
The interviews that VVA conducted with SMEs in Ireland, state that companies are not aware of schemes to support SMEs with regards to taxation and that they have not been influenced by existing schemes with regards to choosing their legal form. Companies highlighted that they received support from existing schemes in place to support business expansion and deduct ability of interest as well as R&D schemes. Most cited was the Employment Incentive and Investment scheme (EII). Despite the incentives for incorporation few SMEs are incorporated in Ireland.

The Employment Incentive and Investment Scheme (EII) allows individual investors to obtain income tax relief on investments made, in each tax year, into EII certified qualifying companies. The EII replaces the Business Expansion Scheme.

[54] http://www.e2-p.eu/en-ie/keyquestions/e2pNationalReportIreland.pdf
[55] http://www.finance.gov.ie/sites/default/files/CT-Strategy-Presentation-for-Website-FINAL.pdf

There is no tax advantage for the company in receipt of the EII, but securing EII status may enhance their ability to attract other external funding.

The maximum funding that a company can raise via EII is €10m. However no more than €2.5m can be raised in any 12 month period. To be compliant with the Scheme investors must hold shares in the company for a minimum of three years.

9.3.2 Romania

The general legal framework with respect to Romanian Companies is provided by Companies' Law no. 31/1990. Under the law there are five types of companies described below as follows (Reff and Associates, 2010):

- Partnerships;
- Limited partnerships;
- Partnership limited by shares ;
- Joint Stock Companies;
- Limited Liability Companies.

Partnerships, limited partnerships and partnerships limited by shares form a separate corporate entity from their shareholders but all of the shareholders in case of a partnership or only some of them in case of limited partnerships and partnerships limited by shares, are liable for the company's debts.

In case of the joint stock companies and the limited liability companies, the shareholders' liability is limited to the amount they had invested, i.e. the subscribed share capital. Due to the advantages they offer, joint stock and limited liability companies are most common types of company used in Romania. 99.7% of companies are limited liability companies (see section 2.3).

Personal income tax is a flat tax rate established at 16 %, the same as the standard rate applied on taxable corporate profits (Eurostat, 2013). This rate in general applies to income from independent work activity, royalties, income from movable and immovable property (such as rents), but also to short-term capital gains on listed shares. Interest income, too, is subject to a final withholding tax of 16 % (Eurostat, 2013).

Romanian corporate income tax follows the classical system: corporate profits are taxed at the company level and distributed profits are taxed again, by way of withholding, at the level of both corporate and individual shareholders, certain exceptions being applicable as regards corporate shareholders. The standard flat-tax rate is 16 % (25 % before 2005) A reduced tax rate of 3% on the gross income applies to microenterprises, as defined by the national legislation. Dividends received from other Romanian resident companies are exempt from corporate taxation. Capital gains are generally treated as ordinary business income and subject to the same rate (Eurostat, 2013, p.135).

Romania provides a special tax regime based on turnover for micro companies. 100% privately owned enterprises with income below € 65,000 that do not derive income in the banking, gambling, consultancy or management sectors are obliged to pay a tax of 3% on turnover. Until 2009, the regime was voluntary. In 2010, it was repealed before being re-introduced as a compulsory provision in 2011. There are no other SME-specific provisions in Romania.

In Romania there are no differences between the corporate income tax rate and the personal income tax rate. However, there are incentives for micro-enterprises. Interviews conducted in Romania included micro- and small companies. The micro-company highlighted that the reduced corporate income tax had "a stronger impact on other aspects of corporate management, capital raised was for us also more because we were more attractive from the side of costs". The micro enterprise also highlighted that as a result they had the prospect of having more liquidity left for operations but also a disincentive to grow unless market demand allowed them to expand their operations. The other interview conducted with a small company highlighted that they had to pay 16% CIT and that did not influence their choice of legal form or affected them in any other way e.g. investment. The decision to grow above the micro-CIT threshold was influenced by market reasons alone that allowed them to expand. Several suggestions were made to ease liquidity constraints for growing SMEs such as: a reduction in the CIT rate to 2% as it was before or exempt dividends from tax.

9.3.3 Estonia

The corporate tax system was reformed in 2000 with the aim of providing more funds for investment and accelerating economic growth. The basic idea of the reform was to postpone the taxation of corporate income until the distribution of profits. Hence, the tax rate on retained earnings is zero, and distributed profits in gross terms are taxed at the same rate as personal income, i.e. at 21 % since 2008. This tax rate is applied also to gifts, donations, non-enterprise expenses and fringe benefits. The system is applied to Estonian resident companies and permanent establishments of non-resident companies. The 21 % withholding tax applied on the dividends paid to non- residents was removed as of 1 January 2009. A withholding tax may still apply to other payments to non-residents, if they do not have a permanent establishment in Estonia or unless the tax treaties provide otherwise. The measures to reduce tax avoidance include Controlled Foreign Companies (CFC) rules and regulations for minimising the use of transfer-pricing schemes, as well as a withholding tax of 21 % on the payments to off-shore companies for services.

According to the Commercial Code there are five forms of business entities, which are created by entry into the Commercial Register: private limited company, public limited company, general partnership, limited partnership, or commercial association. The most popular type of legal entity being set up by foreigners in Estonia is the so-called "Osaühing, OÜ", or private limited company. In Estonia 78% out of start-up companies were private limited companies or joint-stock, 19% were sole proprietorships and 1.7% were partnerships in 2010 (section 2.3). Estonia provides no special tax incentives for corporate SMEs. This is due to the Estonian tax system that does not tax corporate income as such but only corporate distributions. Consequently, there are no reliefs of corporate income at all.

Estonia applies corporate income tax only to distributed profits (Taxes in Europe Database, 2014). Income tax is imposed only on distributed profit, fringe benefits granted to a natural person, gifts, donations and costs of entertaining guests as well as expenses and payments not related to business, made by a resident legal person. Taxation of dividends might give an incentive to small companies to prefer the partnership form.

Estonia is one of the Member States applying a flat-rate system to the PIT. The single tax rate, 21 % since 2008, has been applied on all labour and personal capital income (dividends, interests, capital gains, royalties etc.). Only income exceeding a given

threshold is taxed. The amount of the basic allowance has been increased yearly from EEK 12 000 (EUR 767) in 2003 to EEK 24 000 (EUR 1 534) in 2006 and EEK 27 000 (EUR 1 726) for 2008-2010. In 2011 it was set at EUR 1 728. The total amount of allowances is limited to EUR 3 195 per taxpayer during the period of taxation, or to no more than 50 % of the taxpayer's income. The basic allowance makes the personal income tax system as a whole progressive, in the sense that the average tax rate increases with the income level, although the marginal tax rate remains constant.

Personal income tax is shared between the central and local governments; the latter receive 11.4 % of taxable income, the remainder goes to the central government level. The central government is entitled to the entirety of the income tax paid by non-residents and to the income tax paid on pensions and capital gains. The top personal income tax is 21% (OECD Tax database Table I.7).

Interviews conducted by VVA in Estonia highlighted capital constraints on the choice of legal form. The first IT company interviewed highlighted: "We did not have enough money to start a public limited company as you need 25,000 euros, plus other expenses such as appointing a permanent auditor were not at all affordable. We started a limited partnership (we are two people) because my other partner does not have significant assets to put as security; he is in fact the limited partner." The second interviewee also established a general partnership of three because this legal form allowed them to faces less initial costs, less long-run fixed costs, and had no capital requirement. The third interviewee registered as a public limited company in order to enjoy an array of tax benefits and incurred debt for the initial-capital requirement. The company highlighted that dividends are exempted from corporate income tax if the company has a subsidiary abroad that profits are taxed at the time of distribution and not of production however that none of these measures affected their choice to establish a new business but they did affect their preferences for establishing a partnership. Out of the three interviewees, two respondents highlighted that IT companies need to engage in high initial investments in machinery, and also in highly-skilled human capital (with requires careful recruitment and selection) and therefore could benefit from lower CIT rates or other measures. The interviews emphasized that although in Estonia corporate taxation and personal one are the same, other requirements in establishing legal forms play a role in the choice of type of legal establishment such as capital requirements.

9.4 Conclusions

The choice of legal form can be influenced by liability and taxation advantages. Adopting the corporate form requires to implement tighter bookkeeping, accounting and reporting standards which imposes an extra overhead cost that would not be necessary with a sole proprietorship or partnership however, as a result of increased transparency the entrepreneur might be able to raise more external capital for any given amount of own equity. Therefore choosing a corporate legal form enhances access to capital markets (Egger, Keuschnigg and Hannes, 2009, pp. 2).

Reduced corporate income tax rates for SMEs might create an incentive to incorporate when it is lower than personal tax income rates, however taxation of dividends can also play a role. Although studies conducted in the US suggest that capital gains taxes hardly seem to play a role for the personal tax on equity income and argued that a zero tax on equity income at the personal level is probably the most accurate since small businesses usually pay very few dividends, in Europe reduced dividends

can play a role in the choice of legal form. Additionally, non-tax benefits and costs influence the decision of the legal form. Non-tax factors are of two types. The first stems from the possibility for businesses to list shares on public exchanges, which incentivises incorporation by facilitating capital raising. The second lies in the difference between the limited liability of corporate shareholders and the unlimited liability of partners and unincorporated sole proprietors. While shareholders of small companies must often pledge personal assets in order to obtain external bank loans, partnerships may impose discretional liability limits.

This case study shows that corporate income tax has an effect on the legal form choice when there are high differences between personal income tax rates and corporate income tax rates. As a result of a high gap between corporate income tax and personal income tax rates, companies have an incentive to incorporate their businesses in Ireland, however, the interviews conducted emphasized that companies were not aware of schemes to support SMEs with regards to taxation and that they have not been influenced by existing schemes with regards to choosing their legal form. When corporate income tax rates and personal income tax rates are the same as in the case of Romania and Estonia the choice of legal form could be influenced by non-tax factors such as initial costs of set-up due to capital requirements.

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10 CASE STUDY 4 IMPACT OF SPECIAL CIT RATES FOR SMES ON FINANCIAL STRUCTURE

10.1 Introduction

The aim of this case study is to understand the impact of CIT provisions on the decision process regarding financing in the early stage of the company. Debt and equity are the two main forms of financing of companies. For tax purposes, while interests on debts are considered as a cost of the activity (reducing the taxable base), equity is taxed when dividends are distributed. The hypothesis of this case study is that countries with a higher tax rate induce companies to prefer debt to finance enterprise and from the tax ratio a strong positive correlation emerges between the debt ratio (indicating the share of debt financing the enterprise) and the CIT rate in the country.

This case study is focused on three European Member States: Belgium, Ireland, and Italy. The section on financial ratios has shown that Irish enterprises tend to have relatively high liquidity ratios and among the lowest debt ratios, while on the other side of the spectrum, Italy has low liquidity ratios and higher debt in comparison with their assets (VVA and ZEW, 2014). These financial structure decisions could be due to lower access to capital or greater risk aversion in some smaller enterprises. Ireland has a very low CIT rate (12,5%) thus we would expect that companies might prefer a lower debt ratio, while in Italy and Belgium (with very high CIT rates) the expectations are the opposite: entrepreneurs might prefer debt to equity.

Case study 3	Objective	Questions to be addressed
Impact of CIT on financial structure	The objective is to understand what is the impact of CIT on the decisional process of financing the enterprise through debt or equity	• Drivers affecting the establishment of the financial structure to adopt between debt and equity • Influence of CIT on the decisional process • Relevance of CIT on capital investments' decisions • Relevance of CIT on financial investments' decisions

We have conducted four interviews in Ireland, three interviews in Belgium and three in Italy, all the companies are at the early stage growth. The names of the companies interviewed cannot be provided due to terms of confidentiality. Table 1 provides a list of the companies interviewed for the second case study. They are all at the start-up phase and have been categorized, using as criterion the number of employees, into: medium-sized, small and micro. Table 1 provides more information about the companies interviewed such as: the self-identified economic activity or industry in which they operate and the number of employees they currently have. The majority of the companies are medium-sized, three companies are small and two are micro.

Table 10.9 - Interviewees

Company category	Country	Industry	Enterprise size (Number of employees at date of interview)
Medium	Ireland	Light Design	109
Medium	Ireland	Light Design	54
Small	Ireland	Editing	18
Small	Ireland	Engineering	16
Small	Belgium	Light design	16
Medium	Belgium	Exterior furnishing	102
Small	Belgium	Exterior light design	25
Small	Italy	Light design	15
Micro	Italy	Architecture	2

While interest on debt is deductible from the corporate tax base as a cost, the return on equity is generally not. As a result, debt is almost everywhere tax favoured relative to equity which has been discussed by recent literature in terms of a debt bias in Europe (Mac and Bhaird, 2013). De Mooij and Ederveen (2008) argue that this induces firms to increase their leverage, thereby causing an erosion of the corporate tax base and a distortion in asset portfolios. Recent financial innovations—such as the arrival of hybrid financial products—seem to have increased this financial arbitrage.

The question is how large the impact of corporate taxation is on a firm's financing structure. On the one hand, the optimal source of finance generally depends on various non-tax factors, such as the risk of bankruptcy in case of the high debt ratio, or the importance of financial distress or agency costs (De Mooij and Ederveen, 2008). Moreover, thin capitalization rules may put limitations on the use of debt finance. On the other hand, taxes may create a substantial advantage of debt over equity, thereby affecting a firm's financial policy (De Mooij and Ederveen, 2008).

SMEs have a low self-financing capacity and are faced with huge initial expenses. SMEs and young innovative companies have limited access to capital markets and debt financing because they lack a credit record, tend to be small and have limited assets (Demolin, Brulard, Barthelemy – Hoche, 2008). Successive reports by central banks worldwide (e.g. CBoI, 2010, 2011; ECB, 2012) suggest that total lending to SMEs in the period following the financial crisis declined significantly as the economic

recession persisted (Mac and Bhaird, 2012). This reduction in credit may have been the result of prudent lending, as lenders decline loans to firms that represent a poor credit risk (Mac and Bhaird, 2012). Whilst funders are advancing less finance than in the previous period of expanded credit, demand for resources from SMEs has also decreased as the private sector reduces investment, and at the same time deleverages (Mac and Bhaird, 2012).

A large majority of corporate tax systems favour financing by debt versus equity, by allowing the deduction of interest costs, while there is no similar treatment for equity returns. The result is a corporate tax bias towards debt-financing. Favourable treatment of debt may create major risks as it gives companies an incentive to take on debt. It may also erode the tax base through international profit shifting and the use of hybrid instruments. Generally, the discrepancy in tax treatment can be remedied by removing or restricting interest deductibility (e.g. CBIT) and/or introducing an allowance for corporate equity (ACE) which equalises the treatment of debt- equity by offering a tax deduction for normal return on equity. Recently, an ACE has been advocated by the Mirrlees Review for the U.K. (Mirrlees and others, 2011 in De Mooij 2011). That report emphasizes that a British ACE could bring important economic benefits. A recent tax committee of the Dutch government has also proposed an ACE (Ministry of Finance, 2010 in De Mooij, 2011).

Other approaches currently discussed by the European Commission are: lowering the corporate tax rate, combining the two systems, allowing either the deductibility of (notional risk- free or actual) return on capital, irrespective of whether it is in the form of equity or debt (possibly with a cap on the total), or a cash-flow tax which thanks to immediate expensing, puts debt- and equity-financing on an equal footing when it comes to taxation. Special corporate income tax rate by reducing taxation levels could increase own equity of SMEs. The reason why own equity is important for companies is that it fosters growth and limits the effects of recessions while ensuring survival of companies.

Several reforms were undertaken in 2012 and 2013 to address the debt bias in corporate taxation (European Commission, 2013). These measures mostly tended to restrict the level of deductible interest. France and Portugal restricted the deduction of interest payments above a threshold of EUR 3 million. In France, the limit is 85 % (75 % from 2014) of interest paid, while in Portugal it is 70 % of profit obtained before depreciation, net financing expenses and taxes from 2013, falling to 30% in 2017. Spain and the Netherlands revoked their thin capitalisation rules and introduced new rules on the non-deductibility of certain interest expenses (a so-called earning-stripping rule). Spain, Sweden and Finland limited the scope of deductibility of interest expenses on intra-group loans. In contrast, Hungary introduced a cash-flow tax for small companies, which in practice allows immediate expensing of all financing costs.

10.2 The impact of CIT special rates for SME on financial structure

10.2.1 Theoretical explanations

Capital structure theories developed since the original Modigliani and Miller propositions may be broadly classified in three types; namely static trade-off theory, agency theory and theories based on information asymmetries. Whilst these theories were developed in the field of corporate finance, they have also been employed in SME studies.

Modigliani and Miller (1958) proposed the initial model in which the capital structure of the enterprise was independent of its cost of capital, and therefore of firm value. The propositions of 1958 were based on a number of unrealistic assumptions, and in 1963 Modigliani and Miller introduced taxes into the model. This led to the development of the trade-off theory of capital structure, whereby the tax-related benefits of debt were offset by costs of financial distress. Alternative approaches, based on asymmetric information between 'inside' managers and 'outside' investors, include signalling theory (Ross, 1977) and the pecking order theory (Myers, 1984, Myers and Majluf, 1984). The latter postulates that when internal sources of finance are not sufficient for investment needs the enterprise has a preference to raise external finance in debt markets, with equity issues the least preferable source. A further approach considered a nexus of relationships, characterised as principal-agent relationships, and the potential agency costs on the enterprise (Jensen and Meckling, 1976).

At the basis of any analyses of a company's financial structure lie two propositions by Modigliani and Miller. While the first concerns the invariance of the enterprise's value to its capital structure (the financial leverage ratio, e.g. the proportion of debt and equity used to finance the enterprise's projects), the second states that the value of the enterprise is independent of the enterprise's dividend policy if investments remain unchanged.

These results hinge on a number of important assumptions, including the absence of distortionary taxation[56]. Miller and Modigliani themselves were the first to attempt to relax this assumption, in the light of the existence of preferential debt treatment in the US. Allowing for the existence of distortionary taxation would substantially re-determine the optimal leverage ratio that we expect to observe. In other words, if debt payments are tax deductible, enterprises (including SMEs) might be incentivised to accumulate relatively more debt with higher CIT levels, since the deductibility mechanisms protect part of their income from tax payments, while there are no schemes that perform an analogue function for the rate of return on equity.

Under the Miller and Modigliani model, the choice of capital structure would always lead to a corner solution with full debt financing in the presence of deductibility of interest payments. According to the trade off-theory, allowing for the existence of bankruptcy costs and asymmetric information on capital markets would improve the predictive potential of the theory. In fact, increasing the leverage ratio would increase the probability of bankruptcy, which imposes monetary and reputational costs on entrepreneurs. Moreover, asymmetric information incentivises debt reduction in order to avoid those efficiency costs that exist for equity holders who do not receive the whole expected profits due to the increase in the likelihood that debt gets repaid. Following this theory, entrepreneurs will have a lower debt ratio than otherwise expected.

The free cash flow hypothesis adds an insight to the existing theory regarding the disciplinary role of having a high debt equity ratio. In fact, the management's interests may conflict with those of shareholders, who may favour debt only to the extent that companies pursues financially viable projects. The necessity to serve debt interest would reduce the free cash flow and reduce the incentive to pursue non-profit

[56] These also include perfect financial markets and the absence of real both liquidation and reputational costs in the event of bankruptcy.

maximising behaviour. The optimal debt ratio would therefore be higher under this theory.

Despite arguments according to which, on the margin, tax policy has a direct impact on the financial structure, there might be a priori behavioural reasons to place value on certain means to raise capital. In the presence of asymmetric information between managers and investors, enterprises may give priority to internal financing and debt. Equity would be issued only when other sources of financing are not available, in that issuing new equity may signal that the enterprise is overvalued (see pecking order theory, Myers and Majiulf, 1984). Myers (1984) and Myers and Majluf (1984) developed the pecking order theory based on the premise that 'inside' management are better informed of the true value of the enterprise than 'outside' investors (Mac an Bhaird and Lucey, 2010). These information asymmetries result in varying costs of additional external finance, as potential investors perceive equity to be riskier than debt (Mac an Bhaird and Lucey, 2010). They propose that enterprises seek to overcome problems of undervaluation arising from information asymmetries, preferring to finance investment projects with internal funds in the first instance (Mac an Bhaird and Lucey, 2010). When internal equity is exhausted, enterprises use debt financing before resorting to external equity.

Authors state that the pecking order theory is even more relevant for the SME sector because of the relatively greater information asymmetries and higher cost of external equity for SMEs (Ibbotson et al., 2001 in Mac an Bhaird and Lucey, 2010). Additionally, a common phenomenon in the sector is the desire of enterprise owners to retain control of the enterprise and maintain managerial independence (Chittenden et al., 1996, Jordan et al., 1998 in Mac an Bhaird and Lucey, 2010). These factors suggest that SME owners source their capital from a pecking order of, first, their "own" money (personal savings and retained earnings); second, short-term borrowings; third, longer term debt; and, least preferred of all, from the introduction of new equity investors, which represents the maximum intrusion (Cosh and Hughes, 1994 in Mac an Bhaird and Lucey, 2010). Empirical evidence supports the applicability of the pecking order theory in explaining the financing of SMEs (Mac an Bhaird and Lucey, 2010). These studies emphasize that small enterprises rely on internal sources of finance and external borrowing to finance operations and growth, and only a very small number of enterprises use external equity (Mac an Bhaird and Lucey, 2010). A number of studies report that enterprises operate under a constrained pecking order, and do not even consider raising external equity (Holmes and Kent, 1991, Howorth, 2001 in Mac an Bhaird and Lucey, 2010).

10.2.2 A brief review of empirical studies

Graham (1999) was among the first to examine the relationship between corporate taxation on the debt asset ratio in the US. To this end, he resorted to enterprise level data on loss carry forwards, statutory and federal tax rates and other associated variables. The estimated coefficient was found to be positive for a sample of more than 60000 observations over the period 1980-1994. Subsequently, Gordon and Lee (2001) attempted to exploit tax policy variation in the US to provide direct estimates of the tax effects on debt levels. Variation in tax rates could derive from two sources. The first is time in the presence of significant policy adjustments in the CIT schedule. However, such changes did not occur in the US after-war period. The second source of variation is of a cross sectional nature, due to the progressivity of taxation. This would imply that small enterprises, which normally face lower statutory rates, would borrow less than larger ones. The main finding suggests that increases in corporate tax rates

are associated positively with leverage ratios after controlling for country and year fixed effects as well as some time varying variables. Another interesting finding concerns their account of effect of tax rates on heterogeneity in enterprise size. In particular, the 20 percentage point difference in corporate rates is associated with an 8% increase in debt financing for larger enterprises.

An alternative approach would consist of exploiting cross country variation at the international level. Rajan and Zingales (1995), for example, found that debt is associated with higher CIT rates for non-financial corporations of the G-7 countries between 1987 and 1991. Altshuler and Grubert (2003) build on an US dataset by drawing observations on subsidiaries abroad that are subjects to different tax rates. On average, affiliates in high-tax countries display significantly higher debt/asset ratios than those in low-tax countries. The main coefficients show that a 10 percentage points increase in the corporate tax rate increases the leverage ratio by between 1.3 and 3.9 percentage points. Other studies, such as that of Mintz and Weichenrieder (2005), extend the empirical strategy to corporations owned by their respective German parents. In this case, a linear regression of the host country's tax rate on the debt ratio of German affiliates yields a marginal effect of 0.44: a 10-percentage-point increase in the host country's tax rate is linearly associated with a 4.4 percentage point increase in the debt ratio. Interestingly, including data on partly owned subsidiaries reduces the coefficients. The general drawback of cross country analyses is that institutional differences might be not fully accounted for in the overall empirical estimates. For this reason, the coefficients must always be interpreted with caution, although the sign of the relationship is fairly homogeneous across different studies.

Two recent meta-studies by Feld et al. (2013) and de Mooij (2011) review the existing empirical studies and find that the marginal effect of taxes on the debt ratio is about 0.27 — though results vary between studies given differences in methodologies and data quality. This means that a one percentage point higher CIT rate is associated with a 0.27 percentage point higher debt-asset ratio (European Commission, 2013).

Mac an Bhaird and Lucey (2010) make a brief literature review of the impact of taxation on the financial structure of SMEs. The approach commonly adopted in previous studies is to test hypotheses formulated from capital structure theories by testing static multivariate regression models on panel data (e.g. Michaelas et al., 1999, Chittenden et al., 1996, Hall et al., 2004, Sogorb Mira, 2005, Esperanca et al., 2003, Fu et al., 2002, Cassar and Holmes, 2003, Heyman et al., 2008 in Mac an Bhaird and Lucey 2010). These studies investigate the relationship between enterprise characteristic variables and the means of financing chosen, typically employing debt ratios as dependent variables. Studies testing multivariate models employing equity as a dependent variable are rare (Ou and Haynes, 2006, Fluck et al., 1998), despite the fact that internal equity is the most important source of financing for SMEs. Additionally, there is a consistency in the independent variables commonly selected. Hall et al., (2000, p.300) note that: "From consideration of the previous studies of the determinants of the capital structure of small enterprises it becomes clear that profitability, growth, asset structure, size and age and possibly industry are, prima facie, likely to be related to capital structure."

Mac an Bhaird and Lucey (2010) test the determinants of capital structure in Irish SMEs based on hypotheses derived from pecking order theory and agency theory using data employing data for 299 Irish SMEs. Their results suggest that the influence of age, size, ownership structure and provision of collateral is similar across industry

sectors, indicating the universal effect of information asymmetries. enterprises overcome the lack of adequate collateralizable enterprise assets in two ways; by providing personal assets as collateral for business debt, and by employing additional external equity to finance research and development projects. Their results imply that enterprises source finance in a manner consistent with Myers' (1984) pecking order theory, highlighting the importance of profitability in funding the sector. Results indicate that enterprises with a high level of fixed assets overcome problems of asymmetric information by pledging collateral to secure debt finance. When there are insufficient enterprise assets to secure business loans, the personal assets of the enterprise owner are an important source of collateral.

Another strand of research focuses on the impact of thin capitalization on financial structures within multinational firms. Multinationals investing in subsidiaries abroad can choose between debt and equity finance and the tax burden affects this choice of finance (De Mooij and Ederveen, 2008). When financed by debt, interest is deductible for the subsidiary in the host country and taxed in the home country of the parent. When financed by equity, the dividend of the subsidiary is taxed at the rate of the host country and repatriated dividends are usually untaxed in the country of the parent (if that country uses an exemption system, which is the case in continental Europe). To minimize the tax liability, a parent company will, therefore, prefer debt finance for subsidiaries located in high-tax countries and equity finance for subsidiaries in low-tax countries. Recent empirical studies explore the impact of taxation on the financial policies of multinationals, thereby using cross-country variation in tax rates.

Several studies analyze the debt financing of multinationals with either parent companies or subsidiaries in the United States, Germany, Canada and the EU. The results of these studies suggest that enterprises use intra-group loans to adapt their financial structure and minimise their overall tax burden. By shifting debt to an affiliate located in a high tax country corporate groups are able to deduct interest payments against a higher statutory tax rate while the interest received by the lending affiliate is taxed at a lower rate.

Taking data from 32 European countries between 1994 and 2003, Huizinga et al. (2008) find that a 10 % increase in the tax rate increases leverage by 1.8 %. The authors also show evidence of debt-shifting as, for multinationals with two equal-size establishments in two countries, a 10 % increase in the tax rate in one country leads to an increase in leverage of the company located in that country by 2.4 % and a decrease in leverage in the affiliated foreign company by 0.6 % (European Commission, 2013).

10.2.3 The impact of special CIT rates on SMEs financial structure in the EU

Demolin, Brulard, Barthelemy – Hoche (2008) conducted a large study on the effects of tax systems on the retention of earnings and increase of own equity of SMEs in 19 European Union countries. Their study used econometric analysis, financial ratio analysis which was supplemented by country case studies. The authors listed the following measures as promoting retention of earnings: lower corporate tax rates than the tax rate on private income, deferral of corporate tax rate meaning that means that tax liability occurs upon distribution of profits, a higher tax rate on dividends than on capital gains.

Some measures may be seen as promoting retention of earnings but they can also produce unintended negative effects such as: high dividends tax rate/double taxation,

high wage tax rate, private income is often taxed at a lower rate than business income encouraging business owners to distribute the profits in order to enable them to make private investments. In addition the authors found the following measures that although they should in theory increase retention of earnings they had either no effect or an unintended negative effect: reduced corporate tax rate for SMEs subject to various conditions, "thin capitalization rules" (general/specific) which implies that tax regulations contain a rule by which the deductibility of interest is only allowed on loans depending on the debt to equity levels of the company, the implementation of a mandatory increased legal reserve.

The authors argued that there is no indication that reduced corporate tax rate on SMEs has a significant effect since the eligibility rules are often complex and seldom sufficiently understood. Their study found the following tax measures which promoted the retention of earnings: low corporate taxes and the possibility of deferring payment of corporate taxes combined with relatively higher dividends/wages taxes will attain the objective. Both the level of taxation and differences in tax rates have an impact. In theory, a high corporate tax combined with very high taxes on distribution will promote retention of earnings.

However the authors found that in reality, the combination could produce a disappointing result because this also leads to less entrepreneurship spirit, greater black market and capital flight toward friendlier tax systems. The authors found that few countries clearly and systematically promoted the retention of earnings: Estonia, Ireland, Lithuania, Slovenia and Sweden had implemented policies over the last few years specifically aimed at the retention of earnings. The Netherlands, Romania, Spain and France were considered as biased towards debt financing. The remaining national tax systems were considered neutral either because there were no specific measures that favour either form of financing, or because when measures did exist, they were cancelled out by other provisions favouring debt financing or outright distribution of profits.

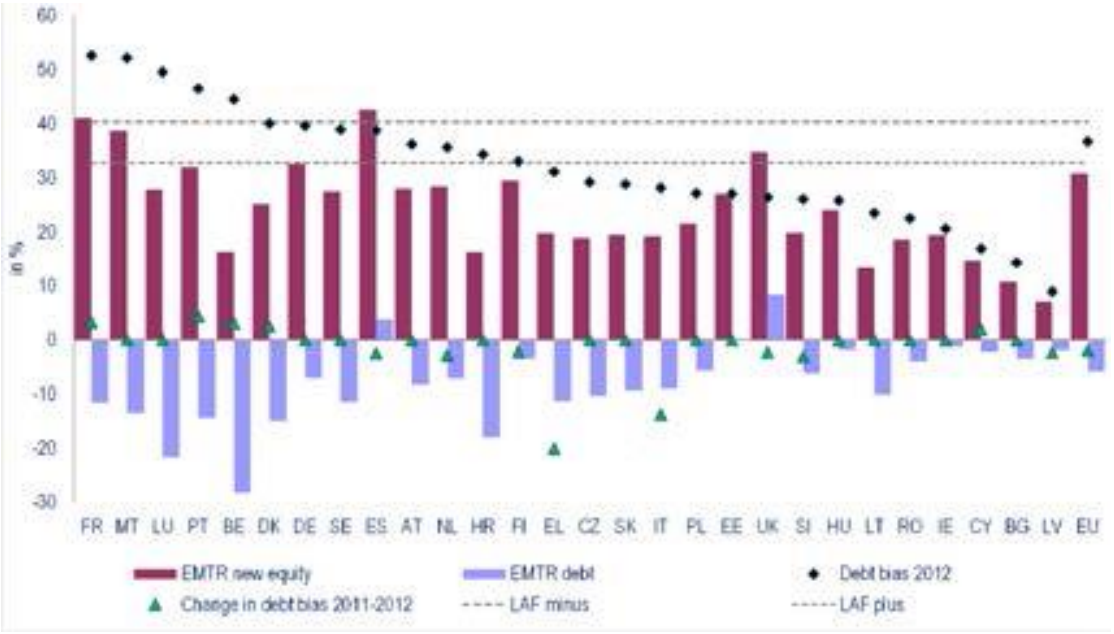
Demolin, Brulard, Barthelemy – Hoche (2008) study highlighted several key features of a tax system that will positively impact the retention of earnings:

- clear, simple regulations are essential to the understanding of business owners of how tax may be used to their advantage,
- regulations that incorporate clear aims untainted by complex sets of conditions and exclusions or counterproductive measures,
- corporate tax rates that are low and substantially lower than tax rates on personal income,
- availability of deferral of corporate tax options,
- dividends tax rates that are substantially higher than capital gains tax rates,
- tax rates that are generally low, so as to increase the tax base and deter avoidance and evasion schemes, and encourage entrepreneurship by rewarding risks taken and hard work.

Recent debates at the EU level showed that Member States share a 'debt bias' in corporate taxation, as a large majority of them allow deduction of interest paid, while there is no such deduction for equity costs (European Commission, 2013). The gap between effective marginal tax rates for debt and equity varies between Member States and is particularly high in nearly a fifth of the Member States. Figure 2.1 shows the effective marginal tax rates (EMTR) on investment financed by new equity and by debt. As in 2012, France, Malta, Luxemburg, Portugal and Belgium are among the

countries with the highest gap between EMTRs for debt and new equity. Belgium's situation illustrates that the debt gap can be positive even in countries with an allowance for corporate equity (ACE). This is because the notional interest rate in the ACE system still differs from the actual interest rate charged. Germany, Sweden and Spain maintain a debt-bias above the EU average. Figure 2.1 also indicates the change in the debt bias compared to 2011. It shows an increased debt bias in Portugal and Belgium (both resulting from changes to ACE rules) and in France (due to a new 5 % surcharge on large companies), and a considerably reduced debt bias in Greece (due to data revisions), and in Italy (after the introduction of an ACE). Italy is now below the EU average.

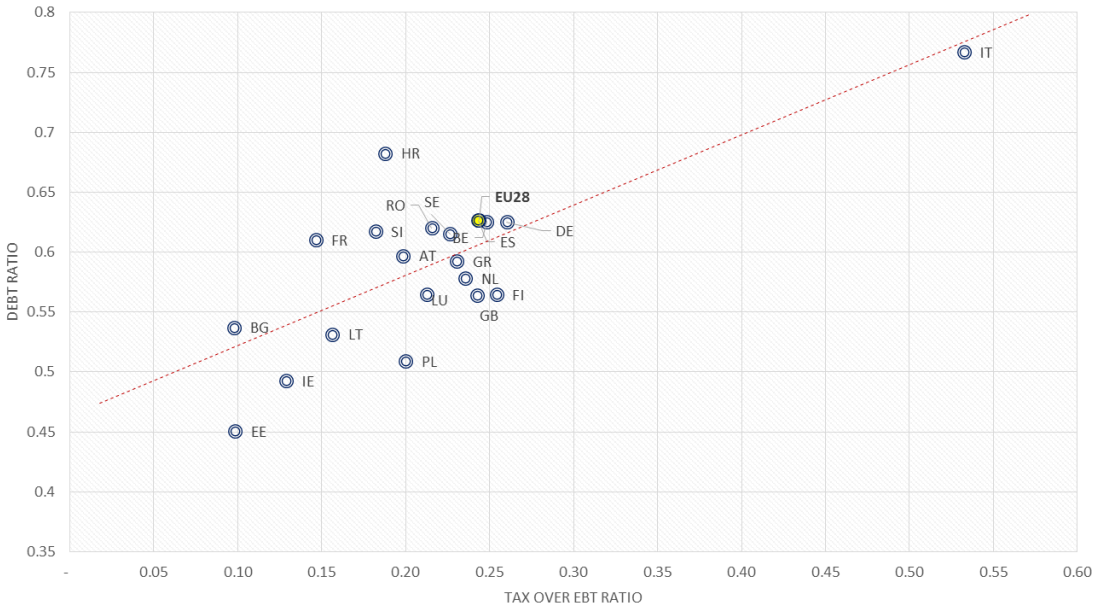
Figure 10.13: Effective marginal tax rate on investment in % on debt and equity financed new corporate investment in 2012



Source: European Commission, (2013), p.62, based on ZEW(2013).

The financial ratio analysis of the current report has shown a positive correlation between the debt ratio and TAX/EBT: this might suggest that in countries where the fiscal burden is higher, enterprises tend to prefer debt capital to finance their activities (see Italy) to reduce the taxable income.

Figure 10.14: Correlation between debt ratio and Tax over EBT Ratio 2009-2011



An ECB (2014)[57] survey on availability of funding for SMEs has several important findings. First developments in turnover and profits of other euro area countries were diverse. SMEs in the Netherlands recorded the highest increases in turnover, with the net response at 13% (up from -8%, in the previous survey period). Turnover in Ireland continued to improve, while SMEs in Belgium and Finland reported a more moderate net increase compared with the previous survey round. By contrast, SMEs in Portugal and Greece reported, in net terms, a deterioration in their turnover. Across the euro area, SMEs' profit dynamics were reported to have made a clear improvement in the Netherlands, where the net percentage of respondents rose to 8% from -13% in the previous survey round. In Germany and Austria profits were also reported to continue to increase (in net terms 4% in both countries). By contrast, the worsening in the profit situation was considerable in Greece (-55%), Italy (-54%), Portugal (-38%) and, to lesser extent, Belgium (-17%).

Second, SMEs in all euro area countries except Italy reported a decline or no change in their debt-to assets ratio. Irish and Dutch SMEs signalled strong deleveraging (-22% compared with -6% and -25% compared with -15%, respectively). Other than in France and Austria, there were fewer respondents indicating an increase in net interest expenses on debt. A net majority of SMEs in Belgium, Germany and the Netherlands reported a decline in net interest expenses on debt. By contrast with SMEs, large euro area enterprises reported, on balance, an increase in turnover in the period from October 2013 to March 2014 (31%, up from 20% from the previous survey period). In addition, large enterprises reported, on balance, an increase in their

[57] http://www.ecb.europa.eu/pub/pdf/other/accesstofinancesmallmediumsizedenterprises201404en.pdf??da920468528300ff549d8cc95522eb81

profits. Large euro area enterprises stepped up their deleveraging in the period from October 2013 to March 2014 (on balance -14%, compared with -12% in the previous survey period). Overall, the financial situation for large euro area enterprises remains more favourable than for SMEs.

10.3 Country profiles

In order to capture the greatest possible variation, the profiles investigate countries with different combinations of debt and tax ratios as well as specific tax policies. The sample is Belgium, Italy and Ireland.

10.3.1 Ireland

At the low end of the tax-debt distribution, Ireland has a very favourable statutory corporate income tax rate (12.5%) and overall low burden for SMEs and LSEs alike. Taxation provisions allow full deduction against taxable income when the loan is used for the enterprise's trade and revenue related expenses. This provision applies to both short and long term interest (i.e. more and less than one year), is allowed on an accruals basis. A number of policies have been recently put in place to limit the deductibility of interest and to prevent income shifting behaviour for loans from related parties. This provision does not apply for EU resident enterprises.

The tax and legal structure has been benchmarked by the European Venture Capital Association (EVCA) and they conclude that Ireland is currently the 2nd most favoured country in Europe for international VC activity. Support is available from state and local government in the form of favourable tax policies, common-sense regulatory structures and encouragement of basic research. Ireland's tax regime recognises the importance of capital formation and rewards long-term investment in innovation. The limited partnership structure ensures tax transparency. Carried interest is taxed as a capital gain at 12.5%. The R&D tax credit regime and the IP regime are second to none.

Government grant schemes and tax incentive equity schemes are also important sources of external equity financing for fledgling enterprises, especially in strategically targeted sectors (e.g. high-tech), as government equity schemes are targeted at nascent enterprises with high-potential for exports and employment growth (Mac an Bhaird, 2009). Mac an Bhaird (2009) finds evidence of a statistically significant positive relationship between retained profits and the enterprise age and size variables, highlighting the reliance of enterprises on accumulated internal equity over time. Additionally, the use of retained profits is significantly negatively related with both types of collateral, suggesting that debt is employed when internal equity is insufficient for investment needs. Their result is consistent with the findings of previous studies and highlights the importance of profitability in funding the sector. Further the author finds that expenditure on R&D is significantly negatively related to use of retained profits, and positively related to use of external equity supports the view that liquidity constraints due to inadequate retained profits necessitates additional resources for investment in R&D. This result provides evidence that SMEs committing a large percentage of turnover to expenditure on R&D may be restricted in their access to financing due to the nature of their assets (Bester, 1985) and their activities.

There is a substantial differential in the tax rate applicable to income and capital gains. Individuals can be taxed at a combined rate of up to 46% on income whereas the rate on capital gains is 20%. The standard personal income tax rate is currently at

20 % and the top rate at 41 %; tax allowances have also been replaced by tax credits for equity reasons (Eurostat, 2013). In general, credit is given for withholding taxes and similar deductions. Deposit Interest Retention Tax is charged at 33 % and is treated as a final payment. From 2012, taxation of individuals on capital gains has increased to 33 % with an annual exemption of EUR 1 270 (Eurostat, 2013).

The corporation tax rate of 12.5 % is applied to trading profits in all sectors since 1 January 2003. A 25 % rate applies to other passive (non-trading) income. Capital gains are subject to tax at 33 % on disposal of land (Eurostat, 2013). Other capital gains are subject to corporation tax (Eurostat, 2013). A profit resource rent tax of 5 %, 10 or 15 %, based on the profit ratio of a petroleum/gas field, was introduced in 2008 on profits from petroleum related activities, which is in addition to the existing corporation tax rate of 25 % for non-trading income. Profit resource rent tax is ring-fenced so that profits or losses cannot be offset against profits or losses from other areas of corporate activity (Eurostat, 2013).

Dividends are subject to a dividend withholding tax at a rate of 20 % and some interest and royalties are subject to a similar withholding (Eurostat, 2013). However, there is a wide range of exemptions from withholding. Dividend payments are not deductible from income that is subject to corporation tax. On the other hand dividends received from another Irish Company are not subject to corporation tax (Eurostat, 2013). A surcharge of 20 % is levied on undistributed investment or estate income of a closely held company or a company providing professional services. Losses may be carried forward indefinitely: back one year in the case of continuing business and back three years in the case of a discontinued business (Eurostat, 2013). A substantial change in the ownership of a company, combined with a change in the nature of the trade, may result in the restriction of these losses (Eurostat, 2013). There are no controlled foreign company rules and no general schemes of transfer pricing or thin capitalisation rules (Eurostat, 2013).

Demolin, Brulard, Barthelemy – Hoche (2008) survey on tax advisors showed that taxation in Ireland gives significant incentives for companies to distribute profits however that it is more advantageous for business owners to retain earnings. Demolin, Brulard, Barthelemy – Hoche (2008) listed the following tax incentives as affecting the capital structure of SMEs in Ireland affecting the decision of SMEs to accumulate rather than distribute profits:

- Trading income taxed at 12.5%
- The rate of tax on the sale of shares of an SME including buy-backs and liquidations is 20%. Combined with the corporation tax rate of 12.5%, this equates to a composite rate of 30%, which compares favourably with a
- marginal income tax and social security cost of up to 46% (Incidentally stamp duty is avoided on liquidations).
- Retirement Relief of up to €750,000 (€1,500,000 in the case of a husband and wife) is available. These amounts can be received free of any tax where the shares in the SME are sold on retirement.
- Unrestricted retirement relief for capital gains tax purposes is available on transferring shares in an SME to a child

Given the availability of relatively cheap finance, and because interest charges are fully deductible in the company, borrowing is also an attractive form of finance for an SME. Full relief for interest on loans provided to the SME is also available to the owner in calculating his or her income tax liability.

On first appearances, one would imagine that Irish SMEs would retain substantial earnings each year given the very low rate (12.5%) of corporation tax applicable to those earnings. However the debt to equity ratio for SMEs in 2005 was 1.77, higher than 1, which suggests that investments are financed by debt. Further this ratio was higher for SMEs than for large companies where the ratio was 0.86 in 2005 suggesting that investments are financed by equity in large companies (Demolin, Brulard, Barthelemy – Hoche, 2008, p.294-295).

Although the Irish tax law does not include specific measures directly aimed at motivating business owners to retain earnings in their undertakings, it provides a strong incentive for them to do so, since capital gains tax is much lower than tax paid on dividends. This incentive is amplified by the fact that an exemption applies when capital gain is realised on retirement. Besides the low corporate tax rate, lower than the tax rate on private income, the difference in rates of capital gains tax and dividends tax seems to be an important incentive in favour of retaining earnings in the company. Obviously, the significant growth the Irish economy is experiencing has an impact on corporate debt to equity ratios. However, it is difficult to evaluate this impact since economic growth implies investments by means of both own equity and debt financing.

It should be noted that there are also certain disincentives to the retention of earnings built into the Irish tax system - closely held companies need to distribute their passive (i.e. non-trading) income within a particular time period, in order to avoid a surcharge on that income. The purpose of the legislation is to prevent these companies accumulating profits that generate passive income in order to avoid income tax at higher rates in the hands of shareholders. Taking these factors into consideration it seems that the Irish tax law encourages business owners to retain earnings in their undertakings. The capital gains tax regime rather than a dividends tax regime, provides measures in Ireland that promote own equity.

Interviewee responses were mixed, with one respondent highlighting that they were not aware of any favourable tax scheme for SMEs and did not benefit from any measure. They also mentioned that the decision between equity and debt finance was not influenced by the presence of any CIT scheme. A second respondent highlighted the use of deductibility of interest payments and the Employment Incentive and Investment scheme (EII). Corporate income tax had no impact on the financing decision, however the respondent highlighted that without interest deductibility they would have changed his preferences towards equity. A third respondent also mentioned the Employment Incentive and Investment scheme which helped thee company reduce bank exposure by more than 50%. However apart from that corporate income tax did not play any role in the financing decision. Finally a fourth respondent highlighted the use of research and development grants from the government and deduction of loan interests from operating expenses. This respondent also mentioned that these schemes have influenced the decision to choose a bank loan, unlike corporate income tax which did not have any influence on his financing decision.

10.3.2 Belgium

Belgium represents an intermediate case. Despite imposing one of the highest (basic) corporate tax rates (33.99) in the EU, the overall provisions system contributes towards a more balanced burden. The national Tax authority allows for full deduction of interests on loans from unrelated parts, and on related ones under the arm's length

principle for business related loans. Since 2007, the tax authority introduced the Notional Interest Deduction, where companies/branches can claim a tax deduction for their cost of capital by deducting notional (deemed) interest on their net equity.

Companies in Belgium and the subsidiaries of foreign companies are subject to a fixed tax rate of 33.99% regardless of the origin and the destination of the profits. There is no tax consolidation of companies. Under certain conditions, a special scheme applies to SMEs having an assessed income lower than EUR 322 500: a tax rate of 24.98 % is applied on the part from EUR 0 to EUR 25 000, 31.93 % on the part of EUR 25 000 to EUR 90 000 and 35.54 % on the remaining part up to EUR 322 500 (all including the 3 % crisis surcharge). An allowance for corporate equity (ACE), referred to as 'notional interest on corporate capital', was introduced in 2006 to stimulate the self-financing capability of companies (Eurostat, 2013). The tax-free presumptive rate of return on equity applied under the ACE system is based on the rate of 10-year government bonds (OLO 10) with a cap of 3 % as of 2012 (3.5 % for SMEs) (Eurostat, 2013). As from 2013, the new rate will be based on the average OLO 10 rate for the months of July, August and September of the previous year. As opposed to the Italian ACE, the Belgian system is providing an allowance for existing stock (restricted to 7 years as from 2013). The Belgian ACE does not include provisions to prevent tax planning by the use of triangular structures (Eurostat, 2013).

The Belgian deduction of a notional or fictitious interest from companies tax base seeks to eliminate the interest tax shield and promote use of retained earnings as a source of liquidity for the company. All companies subject to Belgian tax and Belgian branches of non-tax resident companies are allowed to claim a notional interest deduction on tax reflecting the economic cost of using capital. The cost of capital is calculated as the average of published interest rates for 10-year Belgian government bonds (OLOs). No advance ruling (see 'Advanced ruling' hereunder) is required to apply for the deduction. It is equal to the amount of risk capital multiplied by 3.8 for a large company and 4.3 for small and medium sized companies.

If there are insufficient tax liabilities in the year of deduction, the taxable amount can be carried forward for seven years. This measure has the following advantages:

- Reduces the taxable base of the company, thus providing attractive tax savings.
- Protects the capital of companies, so they can be financially stronger and more independent.
- Provides flexibility, because under certain circumstances it is possible to carry forward any unused amount of the deduction.
- Complies with EU regulations and offers companies legal certainty.

Belgium offers several investment allowances for SMEs. The general investment deduction for SMEs amounts to 11.5% of depreciation taken on assets. The rate has varied between 10.5% and 12.5% since 2009.[58] The incentive is restricted to companies with fewer than 20 employees. Unused amounts can be used in subsequent years with a maximum carry-forward of € 933,350. Additionally, an allowance of 21.5% is granted to SMEs for investments in safety measures either in the year of the investment or the following year. Concerning carry-forwards the same rules apply as

[58] The exact rates in this period are as follows: 10.5% from 2009 to 2011, 12.5% in 2012 and 11.5% in 2011.

for the above deductions. A notional interest deduction is available for all Belgian companies. It amounts to 3% of qualifying equity59. SMEs are allowed to deduct an additional 0.5%. Since 2012, carry-forwards are no longer possible.

Further incentives for SMEs include the possibility for income to enter a tax-exempt reserve of at most € 37,500 or 50% of retained earnings. The maximum size of the reserve can be further reduced by the following circumstances:

- capital gains on shares that are eligible for participation exemption;
- the exempt part of capital gains on cars used for business purposes;
- gains on debt claims against managers, shareholders and their spouses or children;
- decreases of paid-up capital.

The income needs to be re-invested within three years and the investment reserve must not be used in combination with the notional interest deduction. Further incentives are provided by:

- Tax deduction for patent income,
- Investment deduction applicable when the new company acquires new tangible or intangible fixed assets used in Belgium for business purposes. It amounts to an investment deduction of 13.5% (one-time deduction) or 20.5% (staggered deduction for the duration of the depreciation) on taxable profit amounting to a percentage of the acquisition or investment value.
- Exemption of withholding tax on dividends

The interviews with Belgian SMEs highlighted the use of: Notional Interest Deduction, the capital-gain deduction and dividend-withholding tax exemptions, the possibility to deduct income from patents, a scheme foreign-tax credit that protects SME income from foreign royalties and interests (the last one being less used). The interviews conducted highlighted that particularly the NID is perceived as having a positive effect on growth, since enterprises are able to retain more profit and to reinvest: "shareholders can deduct the extra income they derive from gains (…)– which affects my growth strategy because I know they are happy to have this deduction, so that I risk the same if I offer them less." Another respondent highlighted that "being able to deduct dividends paid still helps raise more liquidity more quickly, and be more attractive in the eyes of new investors (they think you are more likely to actually pay dividends if you know you can deduct them almost completely, and usually they also know that this deductibility helps you grow more via more liquidity)."

10.3.3 Italy

In Italy, there is a high (basic) corporate tax rate (31.4%) and interest stripping rules that limit the deduction of interest expenses on related and unrelated party loans. This combination prevents both equity and loan investments.

Italy does not provide incentives to SMEs with regard to corporate income tax. SMEs are subject to particular rules for the determination of the tax base for IRAP purposes,

[59] The exact rates for large companies from 2009 to 2013 are as follows: 4.307% in 2009, 4.473% in 2010, 3.8% in 2011, 3.425% in 2012 and 3% in 2013. The respective rates for SME are 0.5% higher.

though. Additionally, companies in the fields of energy production and supply do not incur the increased tax rate of 38% (instead of 27.5%) if they have a turnover below € 10 million and taxable income below € 1 million.

The majority of businesses are family owned in Italy (Ciambotti, De Martini and Palazzi, 2013). The capital structure is deeply affected by the company structure in which the ownership is concentrated in the hands of the entrepreneur/family. The enterprise mainly uses the cash-flow produced by the corporate management and the short-term banking debts through traditional loans (Ciambotti, De Martini and Palazzi, 2013).

Today this model of financing may be called into question because of three important events: the global recession, the entrepreneurial succession and fierce international competition. Muscettola (2013) argues that first of all, it is interesting to understand that the use of bank borrowing by Italian SMEs is a basic component of the sources of support to investments. In some areas, financial debts account for even 40% of all the sources recognised in the balance sheet (Muscettola, 2013). One of the major problems of the financial indebtedness of the enterprises, i.e. the way Italian enterprises blend equity capital (capital risk) to borrowed capital in order to finance their investments, has always been the lack of alternatives to bank credit (Muscettola, 2013). For example, the bond market has always played a marginal role in Italy, because of both the entry costs and the trading of debt shares on secondary markets (Muscettola, 2013).

Eurostat (2013) presents a brief description of the corporate income tax in Italy. The CIT (IRES) rate is at 27.5 %. Special regimes exist for investment and pension funds and for non-operating companies, for which a minimum taxable income is deemed, based on assets. IRAP is not deductible (except, from 2013, for the labour costs portion). A surcharge on the CIT of 10.5 % until 2013 applies to companies operating in the energy sector. Resident companies are taxed on their worldwide income, non-resident entities (including partnerships) on income arising in Italy. Losses can be carried forward indefinitely and offset up to 80 % of taxable income. However losses incurred during the first three years of business activity are fully deductible. As from January 2008, net interest expenditure is deductible only up to 30 % of gross operating income (EBITDA); the excess may, under certain conditions, be carried forward for deduction in following years.

Inbound and outbound dividends are exempt from tax for 95 % of their amount. 95 % of capital gains are under some conditions (one-year holding period) exempted if the assets are covered by the PEX regime. Other types of capital gain are taxed as ordinary income, with an option to spread the tax over four years. Both national and worldwide group consolidation can be used under some conditions. Finally, companies located in depressed areas of the Mezzogiorno may apply for a tax credit on investments carried out in the 2007–2013 period.

The business tax (IRAP) is levied on net production value, i.e. the difference between the value of production and production inputs excluding most personnel and interest costs as well as losses on bad debts. The basic 3.9 % rate can be augmented or reduced by up to 0.92 percentage points by the Regions. IRAP raises more revenue than the CIT. Since 2007, social contributions, certain training costs on new employees, the costs of R&D and a basic amount for each employee have been exempted. The 2012 Stability Law increased the deduction of labour costs for women and younger employees by EUR 13.500 and introduced a deduction of the labour costs portion of IRAP from CIT and PIT of employers. Special rules apply to SMEs and businesses in the Mezzogiorno.

Demolin, Brulard, Barthelemy – Hoche (2008) study highlighted that the Italian tax law does not provide for any incentive that encourages business owners to retain earnings. They argue that the fact that the minority holding dividend income is taxed less than majority holding income, neither encourages nor discourages business owners to distribute profits. Nevertheless, this is compensated for by the existence of a one-to-four thin capitalisation rule that forbids deduction of interest expense when the ratio of debt to equity is too high, and the existence of a legal reserve requirement (twenty per cent of the capital). Taking these elements into consideration the authors conclude the Italian tax law neither encourages nor discourages retention of earnings in undertakings. Profits could be distributed only if the amount of legal reserve is equal to 20% of equity. In case of intangibles registered in accounting, law states that a specific reserve has to be held for an amount equal to the intangibles cost not yet depreciated, before distributing profits.

On interview respondent highlighted that his company chose 60% debt in the start-up phase. The respondent identified the following schemes as being important for his company: 10% of the regional tax on productive activities is deductible for personal income tax-determination purposes, deduction of expenses incurred for funding research and development plans, special depreciation rates played on capital acquisition plans (e.g. machinery etc.). The latter had the effect of making them buy immovable property, and renting machinery and operating equipment. However none of these schemes affected his financing decision and corporate income tax did not have any effect on the financial structure of the company. A second respondent chose 75% debt and 25% own investment. This respondent replied that although the special depreciation rates on capital acquisition plans (e.g. machinery etc.) plaid an important role they were not the most important factor determining financial structure. He was not aware of any schemes that could benefit his company, and he thought that corporate income tax plaid no role in the financial structure chosen. However he highlighted that his "enterprise in particular is less competitive because it has to give more money away in tax – including CIT – instead of just reinvesting it on productive assets/projects".

10.4 Conclusions

This case study investigated whether countries with a higher tax rate induce companies to prefer debt to finance enterprise. The case studies conducted looked at the situation in Ireland, Belgium and Italy. The countries selected present three different systems: Ireland has a very low CIT rate (12,5%) thus we would expect that companies might prefer a lower debt ratio, while in Italy and Belgium (with very high CIT rates) the expectations are the opposite: entrepreneurs might prefer debt to equity. Irish enterprises tend to have relatively high liquidity ratios and among the lowest debt ratios, while on the other side of the spectrum, Italy has low liquidity ratios and higher debt in comparison with their assets (VVA and ZEW, 2014).

In Ireland in addition to a low CIT, support is available from state and local government in the form of favourable tax policies, common-sense regulatory structures and encouragement of basic research. Ireland's tax regime recognises the importance of capital formation and rewards long-term investment in innovation and is the second 2nd most favoured country in Europe for international VC activity. The use of retained profits is significantly negatively related with both types of collateral, suggesting that debt is employed when internal equity is insufficient for investment needs. Given the availability of relatively cheap finance, and because interest charges are fully deductible in the company, borrowing is also an attractive form of finance for

an SME. Full relief for interest on loans provided to the SME is also available to the owner in calculating his or her income tax liability. Although the Irish tax law does not include specific measures directly aimed at motivating business owners to retain earnings in their undertakings, it provides a strong incentive for them to do so, since capital gains tax is much lower than tax paid on dividends. It should be noted that there are also certain disincentives to the retention of earnings built into the Irish tax system - closely held companies need to distribute their passive (i.e. non-trading) income within a particular time period, in order to avoid a surcharge on that income. The purpose of the legislation is to prevent these companies accumulating profits that generate passive income in order to avoid income tax at higher rates in the hands of shareholders. On first appearances, one would imagine that Irish SMEs would retain substantial earnings each year given the very low rate (12.5%) of corporation tax applicable to those earnings. However the debt to equity ratio for SMEs in 2005 was 1.77, higher than 1, which suggests that investments are financed by debt. Further this ratio was higher for SMEs than for large companies where the ratio was 0.86 in 2005 suggesting that investments are financed by equity in large companies (Demolin, Brulard, Barthelemy – Hoche, 2008, p.294-295). The interviews conducted highlighted that the public support schemes available allowed the respondents to take loans from banks for their business however that they did not have any direct effect on their financing decision.

Belgium offers a range of deduction on investment, a lower CIT rate for SMEs and an allowance for corporate equity (ACE), referred to as 'notional interest on corporate capital', the possibility for income to enter a tax-exempt reserve of at most € 37,500 or 50% of retained earnings , tax deduction for patent income, investment deduction applicable when the new company acquires new tangible or intangible fixed assets used in Belgium for business purposes and exemption of withholding tax on dividends. The interviews with Belgian SMEs highlighted the use of: notional Interest on corporate capital, the capital-gain deduction and dividend-withholding tax exemptions, the possibility to deduct income from patents, a scheme foreign-tax credit that protects SME income from foreign royalties and interests (the last one being less used). The interviews conducted highlighted that particularly the deductions schemes (notional interest, patent deduction) are perceived as having a positive effect on growth, since enterprises are able to retain more profit and to reinvest.

Italy does not provide incentives to SMEs with regard to the corporate income tax. SMEs are subject to particular rules for the determination of the tax base for IRAP purposes, though. Additionally, companies in the fields of energy production and supply do not incur the increased tax rate of 38% (instead of 27.5%) if they have a turnover below € 10 million and taxable income below € 1 million. Most Italian enterprises are family owned and use mixed sources of investments: cash-flow produced by the corporate management and the short-term banking debts through traditional loans. One of the major problems of the financial indebtedness of the enterprises, i.e. the way Italian enterprises blend equity capital (capital risk) to borrowed capital in order to finance their investments, has always been the lack of alternatives to bank credit (Muscettola, 2013). For example, the bond market has always played a marginal role in Italy, because of both the entry costs and the trading of debt shares on secondary markets (Muscettola, 2013). Minority holding dividend income is taxed less than majority holding income and this neither encourages nor discourages business owners to distribute profits. Nevertheless, this is compensated for by the existence of a one-to-four thin capitalisation rule that forbids deduction of interest expense when the ratio of debt to equity is too high, and the existence of a legal reserve requirement (twenty per cent of the capital). Most business owners

interviewed in 2008 by Demolin, Brulard, Barthelemy – Hoche considered that the tax treatment on retained earnings in comparison to debt financing has no impact in favour of either retention of earnings or distribution of profits in Italy (Demolin, Brulard, Barthelemy – Hoche, 2008, p. 360). The respondents interviewed by VVA highlighted the existence of the following schemes in Italy: 10% of the regional tax on productive activities is deductible for personal income tax-determination purposes, deduction of expenses incurred for funding research and development plans, special depreciation rates played on capital acquisition plans (e.g. machinery etc.). However, consistent with previous research, none of these schemes affected their financing decision and the corporate income tax did not have any effect on the financial structure of the company.

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11 CASE STUDY 5: IMPACT OF SPECIAL CIT RATES FOR SMES ON ORGANIC GROWTH DECISIONS

11.1 Introduction

This case study is focused on three European Member States: Belgium, Romania and Spain. The aim of this case study is to understand what is the impact of CIT provisions on the organic growth decisions in the expansion phase of the companies.

Organic growth can be defined as the rate of business expansion through a company's own business activity. Organic growth can be achieved by increasing the customer base, sales or output per customer. While external growth involves pursuing mergers and acquisitions (M&A, see Case Study 6), organic growth stems from the expansion of a company's existing core business. In this seminal 1958 book, Edith Penrose conceptualises the mechanisms leading to this type of growth, which can be used as a measure used to evaluate the management's skills to run the enterprise. Such measures would therefore exclude profits or growth from mergers, acquisitions or takeovers.

Case study 5	Objective	Questions to be addressed
Case study 5 *Impact of CIT on organic growth decisions*	The aim is to understand the relevance of SME specific tax schemes and if these are an obstacle to growth	• Impact of favourable tax schemes for SMEs • Impact of such tax schemes on enterprises' growth strategies • Incentives/disincentives to exit the favourable tax schemes

We have conducted ten interviews in Belgium, two interviews in Romania and two in Spain[60], all the companies are at the expansionary stage of growth. The names of the companies interviewed cannot be provided due to terms of confidentiality. Table 1 provides a list of the companies interviewed for the second case study. They are all at the expansionary phase and have been categorized, using as criterion the number of employees, into: medium-sized, small and micro. Table 1 provides more information about the companies interviewed such as: the self-identified economic activity or industry in which they operate and the number of employees they currently have. The majority of the companies are medium-sized, six companies are small and one is micro.

[60] More interviews were conducted in Spain, but only 2 firms followed internal growth strategies, whereas 2 firms followed an external growth strategy.

Table 11.10 - Interviewees

Company category	Country	Industry	Enterprise size (Number of employees at date of interview)
Small	Belgium	Light design	16
Small	Belgium	Light design	27
Medium	Belgium	Exterior furnishing	102
Medium	Belgium	Furnishing and lighting	97
Medium	Belgium	Cement	175
Medium	Belgium	Lights	114
Medium	Belgium	Cement	173
Medium	Belgium	Furnishing	69
Small	Belgium	Exterior light design	25
Small	Belgium	Light design	18
Micro	Romania	Clothing	8
Small	Romania	Interior and light design	21
Small	Spain	Paint industry	25
Medium	Spain	Power conduction, railways industry, Solar and ceramics industry, Heat treating	95

11.2 The impact of CIT special rates on organic growth

11.2.1 Theoretical explanations

Growth is usually measured in terms of increased revenue, profits or assets. enterprise growth can be achieved: a) *organically* through in-house competencies and investment to create competitive advantages, differentiate and innovate in the product

or service line or b) *in-organically* (externally through mergers and acquisitions) through leverage upon the market, products and revenues of other companies. Other growth strategies refer to: strategic alliances; joint ventures and spin-offs (Pasanen, 2007).

For internal growth to take place, enterprises can develop their own resources in various forms. In her seminal 1958 book, Edith Penrose conceptualises the mechanisms leading to this type of growth, which can be used as a measure used to evaluate the management's skills to run the enterprise. Such measures would therefore exclude profits or growth from mergers, acquisitions or takeovers. Edith Penrose argued that enterprises face a constraint on organic growth because of growth activities in previous periods. Central to her ideas about growth is the distinction between managerial and entrepreneurial capabilities. Growth in previous periods creates adjustment costs which are associated with managerial capabilities and impacts on the growth opportunities which are associated with entrepreneurial capabilities.

The growth rate of an enterprise, therefore, is influenced by two factors. The first relates to the scope of an enterprise's productive opportunity set. The larger the productive opportunity set of the firm, the greater its potential for growth. The second factor is associated with the adjustment costs incurred by enterprises when they grow. Adjustment costs relate to the problems of expanding managerial capabilities. The rate at which the enterprise can develop its managerial capabilities sets an ultimate limit to its growth, even if the productive opportunity set is immense (Locket, Windlund and Davidsson, 2007). Her arguments suggest that there are limits to both organic and acquisitive growth, and that the use of one mode of growth may restrict the use of the other type: "The significance of merger [and acquisition] can best be appraised in the light of its effect on and limits to internal growth" (Penrose, 1959: 5 in Locket, Windlund and Davidsson, 2007). For example, employees' human capital formation, designing and developing new products and investing in additional capacity or new technology could all be described as organic, or internal growth strategies. Pasanen (2007) argues that in the economy, organic growth is usually associated with genuine job creation, whereas non-organic growth, i.e. growth through acquisition, is often considered as a shift of jobs from one enterprise to another.

Gupta et al. (2013) review the different growth theories that have been used to investigate the determinants of enterprise growth: 1) life-cycle theory which assumes that an enterprise follows a linear path of start-up, growth while facing various challenges and crises, and finally mature phase and decline, 2) the resource-based perspective, 3) the motivation perspective, 4) the strategic adaptation perspective and 5) the configuration perspective. Very often the growth of SMEs is a precondition for market survival as well as a measure of enterprise performance and success (Pasanen, 2007). The literature highlights the following factors as being important for growth of SMEs: the personality of the entrepreneur, enterprise life-cycle theory, business management theory, sectoral and broader market-led approaches which focus largely on the identification of growth constraints and opportunities.

Storey (1994, p. 158 in Pasanen, 2007) claims that there are three key influences on the growth rate of a small independent enterprise: (1) the background and access to resources of the entrepreneur(s); (2) the enterprise itself; and (3) the strategic decisions taken by the enterprise once it is trading. Several growth strategies have been presented in the management and entrepreneurship identified three primary strategic clusters among high-growth enterprises: (1) build strategy, i.e. emphasis on

vertical integration; (2) expand strategy, i.e. emphasis on resource allocation and product differentiation; and (3) maintain strategy, i.e. emphasis on market dominance and/or efficiency (Pasanen, 2007). On the other hand, when looking at the product/market strategy, four options can be seen: (1) market penetration; (2) new product development; (3) new market development; and (4) moving into new markets with new products.

Few papers look at the impact of taxation on growth, and by far the majority that investigate this link use a macro-aggregate approach instead of focusing on the individual decision of the entrepreneur (Pasanen 2007, Johansson et al 2008, Gagliardi et al., 2013).

There are several channels through which taxes affect growth: through their effect on labour utilisation, investment or productivity (Johansson et al 2008). Johansson et al (2008) reviews existing empirical findings and argues that corporate income tax has an impact on: capital formation, productivity, the dispersion of effective rates can also adversely affect TFP, tax incentives have some effects on productivity through R&D, effective cross-border tax rates may also affect the international allocation of fixed capital.

Generally, the relationship between special CIT rates for SMEs and growth is a priori ambiguous. On the one hand, lower taxation would *ceteris paribus* incentivise entrepreneurial growth, since for given effort the entrepreneurs' expected returns would be higher. The resulting enhanced activity in a given environment would possibly give rise to innovation and spill over into the economy, which would reinforce the positive effect of lower rates in the long run. On the other hand, a given effort level would translate into greater after-tax profits in the presence of lower rates, which may induce entrepreneurs to simply enjoy increased consumption of goods and services and, possibly, leisure. Taxation might affect activities which have a substantial impact on the output of innovative enterprises. In addition, it might also have a long run, positive impact on non-innovative enterprises by means of spillover effects of product or production innovation. Reduced CIT rates might also create a perverse effect which disincentives growth for small enterprises below the eligibility threshold.

The neoclassical investment theory suggests that enterprises invest in order to adjust to their optimal level of capital, which in turn depends on optimal output and cost of capital (Hall and Jorgenson, 1967). The latter captures the difference between the return of the marginal investment with taxation and without taxation (Bond and Xing, 2010). It is therefore expected that lowering the tax burden is an efficient way of fostering investment, provided the elasticity of investment with regards to the user cost of capital is important enough. Two approaches can be used in order to estimate the impact of corporate tax on capital accumulation. The first one is to exploit cross-country variations in tax rates (Bond and Xing, 2010; Arnold *et al.*, 2011) and the second one is to estimate the cross-sectional variation in the impact of a tax reform on investment rates. The empirical results, both at enterprise and industry level, assessing the effect of taxes on investment are obtained by introducing the tax adjusted user cost in a standard investment equation with adjustment costs of capital (Schwellnus, 2008, Vartia, 2008, Johansson 2008). The empirical approach is based on the user cost theory of capital which stems from a neoclassical investment model in which investment decisions are made to maximise the net present value of the enterprise (Hall and Jorgenson, 1967 in Johansson 2008). In addition to the standard user cost components (the required rate of return to the investment, the economic

depreciation rate and anticipated capital gain/loss due to a change in before-tax price of the asset) the tax-adjusted user cost takes into account taxes on profits and the present value of the tax savings from depreciation allowances (Johansson 2008). Empirical evidence obtained from both enterprise-level and industry-level data covering a number of OECD countries indicates that there indeed exists a relationship between investment levels and corporate taxation. It is suggested that this effect operates through the user costs of capital[61], adjusted for taxes on profits and the present value of tax savings from depreciation. A disadvantage of using this model is that the tax effects on investment are not separable from the effects of the other components included in the user cost (Johansson 2008). At the enterprise level the following effects have been found (Johansson et al., 2008):

- Increases in tax-adjusted user cost are found to reduce investment at the enterprise-level. A reduction of the statutory corporate tax rate from 35% to 30% reduces the user cost by approximately 2.8%. This implies a long-run increase of the investment–to-capital ratio of approximately 1.9%, given its long-run user cost elasticity of 0.7.
- The size of the negative tax effect on investment appears to be similar for small and large enterprises (measured by the number of employees). In contrast, only older enterprises' investment appears to be negatively affected by increases in the tax-adjusted user cost One possible explanation is that young enterprises are generally less profitable than older enterprises and therefore less affected by corporate taxation, another explanation is that among young enterprises there is a disproportionately high share of small enterprises that benefit from exemptions or reduced rates.

When capital markets are imperfect, retained earnings are a cheaper and preferred source of financing than external funds and therefore a reduction in corporate taxation should benefit proportionally more financially constrained enterprises (Myers and Majluf, 1984; Greenwald et al., 1984, Simmler 2013). Fazzari et al. (1988) argues that the impact of corporate taxation on financially constrained enterprises is mediated by the *average* effective tax rate, while the classic capital structure theory expects only the marginal one to matter (Modigliani and Miller, 1958). Fazzari et al. (1988) explain that in the presence of information asymmetries, a lower average rate of taxation leaves more internal resources for investment.

There are several channels through which corporate taxation can affect total factor productivity (Johansson et al., 2008): 1) corporate taxes can distort relative factor prices resulting in a re-allocation of resources towards possibly less productive sectors (*e.g.* non-corporate sector) which may lower total factor productivity 2) complex corporate tax codes can cause high tax compliance costs for enterprises and high administrative burdens for governments causing productivity and efficiency losses 3) high corporate taxes may reduce incentives to invest in innovative activities by reducing their after-tax return 4) to the extent that corporate taxes reduce FDI and the presence of foreign multinational enterprises they can hinder technology transfers and knowledge spill-overs to domestic enterprises. The empirical findings at both enterprise- and industry-level suggest that there is a negative effect of taxes on TFP however, no such effects are found for enterprises that are both young and small. This

[61] This includes the required rate of return of the investment, the economic depreciation rate and the anticipated capital gain/loss due to a change in before tax price of the asset (Johansson et al., 2008: 33).

latter category of enterprises benefit from exemptions and reduced rates of corporate taxes however Johansson et al (2008) argue that they are affected because a large share of start-ups have low or zero profits and therefore the effect of corporate taxes may therefore be negligible. However, rising enterprises that are in the process of catching up with the technological frontier are particularly negatively affected by high corporate taxes because these enterprises' tax base is large.

The most important cross country review of the link between CIT rates and growth is found in a 2008 OECD working paper, which concludes that "reduced rates of corporate tax for small enterprises do not seem to enhance growth" (Johansson et al., 2008: 2). Conversely, it was pointed out that top marginal personal income tax rates can reduce productivity growth by reducing entrepreneurship (whose relationship with CIT was assessed in Case Study 2). Corporate income taxes appear to have a particularly negative impact on GDP per capita. This is consistent with the previously reviewed evidence and empirical findings that lowering corporate taxes raises TFP growth and investment. Reducing the corporate tax rate also appears to be particularly beneficial for TFP growth of the most dynamic and innovative enterprises. Thus, it seems that corporate taxation affects performance particularly in industries and enterprises that are likely to add to growth. The adverse influence of corporate taxes on GDP per capita through TFP is also consistent with the additional linkages in particular those working through entrepreneurship, innovative activity and FDI (Johansson et al. 2008).

Reduced corporate income rates for SMEs may also result in an economic inefficiency if, as a consequence, resources are allocated towards small, less productive enterprises, due for instance to threshold effects, or artificial splitting of enterprises to obtain the preferential rate which would lead to prevent some enterprises to grow to their optimal scale of production, with negative consequences on productivity performance (Johansson et al, 2008).

In the next section, we are going to describe a few empirical findings on the relationship between CIT rates and growth.

11.2.2 A brief review of empirical studies

Although the impact of fiscal policies on economic growth have generated a rich empirical literature, studies have been mainly conducted at the macroeconomic level, exploiting cross-country differences in tax regimes and variations in their systemic performances. Enterprise-level contributions are more limited. They have focused mainly on the US, where heterogeneity of fiscal policies across states can be used as a source of identification, or they have been conducted on datasets excluding SMEs (Cummins et al 1995, Egger et al 2013). Other studies have exploited cross-sectional variations in enterprises' characteristics to evaluate the impact of fiscal reforms on indicators of enterprises' performance, such as growth, or trade decisions (Carroll *et al.*, 20008). More generally on the link between access to finance and enterprise growth, Bottazzi *et al.* (2011) have shown that financial constraints prevent fast growing enterprises from exploiting investment opportunities, and accentuate the difficulties of slow growth companies.

Empirical evidence on the effect of taxes on investment suggest that investment is adversely affected by corporate taxation through the user cost of capital. These findings rely on both enterprise-level data covering a sample of 14 European OECD countries and industry-level data covering 21 industries in 16 OECD countries

(Johansson et al. 2008). There are several empirical findings worth mentioning (Johansson et al. 2008):

- Increases in the tax-adjusted user cost are found to reduce investment at the enterprise level and the effect on enterprise-level investment is stronger in more profitable industries. This indicates that the tax component of the user cost contributes significantly to the reduction in investment by disproportionately increasing the user cost for enterprises with a large tax base.
- Differentiating the impact of the tax-adjusted user cost across enterprises of different size (number of employees) and age, it appears that older enterprises' investment, irrespective of enterprise size, responds more strongly to corporate taxation through the user cost than younger enterprises' investment. There are two possible interpretations. One possibility is that young enterprises are generally less profitable than older enterprises and therefore have a smaller tax base. A second possibility is that young enterprises benefit from targeted exemptions or reduced rates.
- The enterprise-level sensitivity of investment to the corporate tax rate finds confirmation at the industry-level. Since the user cost of capital takes into account depreciation allowances that are deductible from enterprises' tax liability at the rate of the corporate tax, the magnitude of the influence of a change in capital depreciation allowances also depends on the level of corporate tax rates.

The empirical findings at both enterprise- and industry-level suggest that there is a negative effect of taxes on TFP however, no such effects are found for enterprises that are both young and small (Johansson et al. 2008).

11.2.3 The impact of special CIT rates on SMEs organic growth in the EU

Taxation measures aimed at increasing growth have mainly targeted corporate income tax rate reductions and CIT base broadening (OECD, 2010). Corporate tax base broadening measures have been successful in financing the corporate tax rate reductions in the past to a large extent, especially through reductions in the generosity of tax depreciation allowances. Continuing this base broadening strategy seems not to be possible without having to lower the tax depreciation rates below the economic depreciation of the assets in many countries which would be inefficient.

Therefore other CIT base broadening measures have been implemented such as (OECD, 2010): 1) gradually shifting part of the tax burden from the corporate to the personal bondholder and shareholder level, 2) reduced CIT rate targeted at SMEs, 3) limiting the interest deductibility which implies that very profitable enterprises will continue to find it attractive to finance a large part of their investment with debt. Other taxation solutions to enhance growth are CIT base narrowing tax reforms such as: 1) R&D tax credits, 2) providing a reduced CIT rate on IP income (royalties or remuneration embedded in the sales of patented products/services).

It has been argued particularly by the OECD (2010, 2014), Johansson et al. (2008), Hoj (2009) that a reduced SME corporate tax rate: a) does not have any effect on the growth of SMEs since most of them do not grow, although it does have an effect on high growth enterprises b) no effect of a reduced CIT on SMEs since they do not make any profit, c) that reduced CIT rates is inefficient because even enterprises that have no intention to grow benefit from it and it encourages tax avoidance. This line of research has encouraged removing the special reduced CIT rate for SMEs and lowering the overall CIT rate instead or shifting taxation to less distortive taxes such as

property, consumption and environmental tax. It has also been argued in the literature that particularly R&D tax credits have an impact on the growth of innovation intensive enterprises.

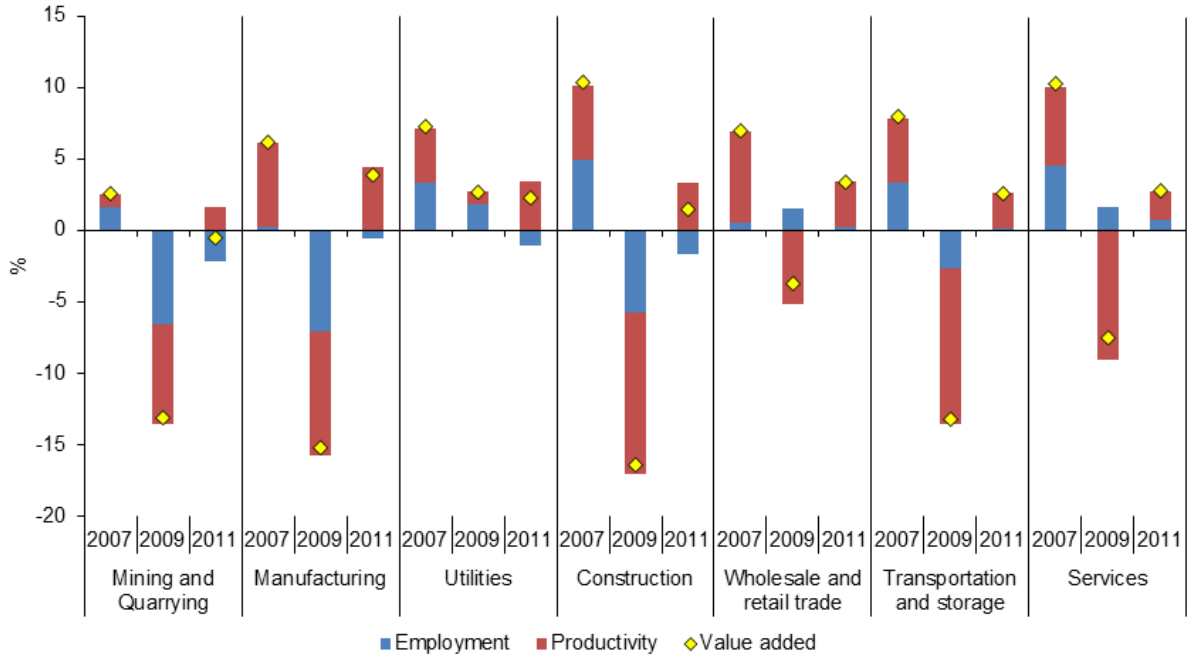
Many countries have implemented tax measures and reforms in order to alleviate the impact of the financial and economic crisis and subsequent sharp downturns in demand and economic activity and to encourage growth such as (OECD, 2010): a) measures to support private sector liquidity, b) temporary measures to stimulate spending, c) cuts in personal income tax, d) cuts in tax on capital/business income, e) other reforms such as cuts in social security contributions, especially for younger and older workers. The latest OECD (2014) interim report on Economic Policy Reforms, Going for Growth highlights that that the high tax on labour negatively affects growth and argues for decreasing both the average and marginal taxation and on shifting taxation towards less distortive sources of revenues, such as property, consumption and environmental tax bases, found to be less damaging for growth and welfare. Tax changes that have been implemented in Nordic countries have mainly focussed on corporate rather than labour taxes such as (OECD, 2014) :

- Sweden has lowered the corporate income tax (CIT) headline rate to 22% (from 26.3%) in 2013. At the same time, increases in the lower threshold of the state income tax are planned.
- Norway has announced a one-percentage point decrease in the current CIT rate of 28%. This is part of a wider corporate tax regime reform that will also broaden the tax base, as a commission to look into the corporate taxation has been established. Meanwhile, tax cuts for self-employed are also planned.
- Denmark will gradually cut the CIT rate to 22% by 2016. A recent comprehensive reform package has already reduced marginal labour tax rates.

The most frequently used measure for growth has been the change in the enterprise's turnover and the change in the number of employees (Pasanen, 2007). However, it has been found that these measures, which are frequently used in the SME context, are strongly intercorrelated, this correlation does not hold among capital-intensive large companies (Pasanen, 2007). Other measures being used are: Pre Tax Profit / Turnover, Return on Net Assets, Return on Capital Employed, Capital Investment / Turnover. However to calculate this measures one would need micro-data on enterprises.

Figure 1 shows the annual growth percentages in employment for SMEs by sector of industry in the European Union for the year 2011. The figure shows that that SMEs in mining and quarrying experienced a negative growth in terms of employment and a modest growth in terms of productivity. SMEs in the manufacturing sector experienced a growth close to 5% in terms of productivity which was not reflected in the level of employment that was slightly negative. SMEs in utilities also experience a modest growth in productivity but a negative growth in employment. SMEs in construction experienced also a negative growth in employment coupled with a positive growth in productivity. The only sector that experience a positive modest growth in employment is the services sector, in the other remaining sectors, wholesale and retail trade and transportation and storage, growth in employment is close to zero and there is a positive effect on productivity.

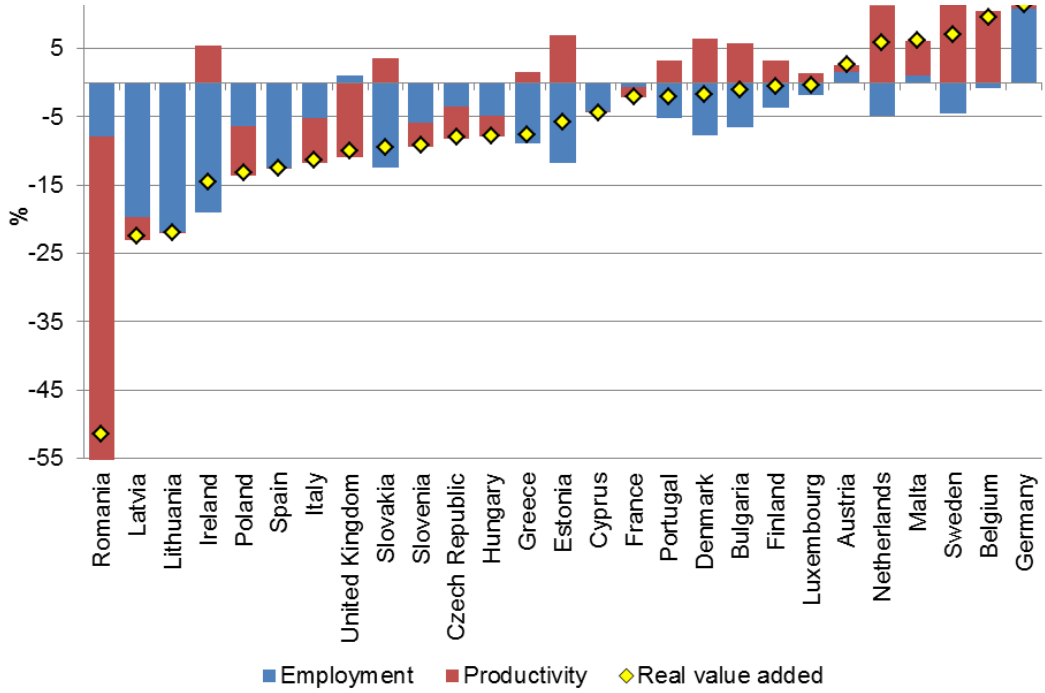
Figure 11.15 Annual growth percentages in employment, gross value added and productivity of SMEs by SECTOR OF INDUSTRY in EU27 2008-2011



Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys in ECORYS 2012

SMEs experience different employment growth, productivity and value added depending on the economic situation of the demand for products and services as well as the national policies of the countries in which they are located. In terms of countries, the percentage of valued added dropped in all the EU countries except in Finland and Luxembourg where it was zero and Austria, The Netherlands, Malta, Sweden, Belgium and Germany. Overall employment in SMEs dropped in all the countries except in the UK, Austria and Malta where it experienced a minor growth and in Germany where it increased by approximately 10%. Productivity of SMEs dropped in all the countries except in Ireland, Estonia, Denmark, Bulgaria, the Netherlands, Malta, Sweden, Belgium and Germany. In the following countries there was a slight productivity increase of SMEs: Finland, Luxembourg , Slovakia, Greece, Portugal and Austria.

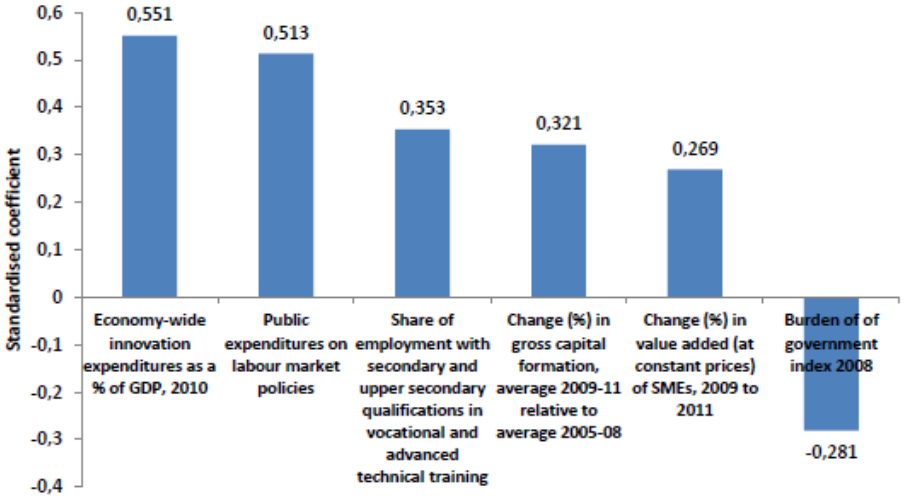
Figure 11.16. Annual growth percentages in employment, gross value added and productivity of SMEs in eu27 2008-2011



Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

In terms of factors affecting the employment growth of SMEs, a recent report for the European Commission calculated that the biggest impact comes from economy-wide innovation expenditures and public expenditures on labour market policies. The change in gross capital formation measures the value of acquisitions of new or existing fixed assets by the business sector, governments and "pure" households (excluding their unincorporated enterprises) *less* disposals of fixed assets. GFCF is a component of the expenditure on gross domestic product (GDP), and thus shows how much of the new value added in the economy is invested rather than consumed. However, GFCF is *not* a measure of *total* investment, because only the value of net additions to fixed assets is measured, and all kinds of *financial* assets are excluded, as well as stocks of inventories and other operating costs. In times of economic uncertainty or recession, typically business investment in fixed assets will be reduced, since it ties up additional capital for a longer interval of time, with a risk that it will not pay itself off (and fixed assets may therefore also be scrapped faster). Conversely, in times of robust economic growth, fixed investment will increase across the board, because the observed market expansion makes it likely that such investment will be profitable in the future. Figure 3 however, shows that a change of 1% in the gross capital formation leads to 32% increase in SMEs employment growth. The implications of the fact that the trend in gross capital accumulation is positively linked with SME employment are twofold. On the one hand, it means that investments in physical capital are complementary with the job creation process and on the other hand, the general level of skills and competences in operation is on average high enough to enhance this relationship (Gagliardi et al 2013). The figure also shows that a change of 1 unit in the government index burden leads to a reduction of 28% in SMEs employment growth.

Figure 11.17 The relative importance of various factors in SMEs Employment growth 2009-2011



Source: Gagliardi et al (2013), A recovery on the horizon? Annual Report on European SMEs 2012/2013

Overall, SMEs seem equally likely to invest compared to large enterprises, however the propensity to invest of SMEs is different for different enterprise sizes (Table 2). Micro enterprises appear to have a **propensity to invest** that is significantly **above the average** of the non-financial business economy (23% versus 18% for large enterprises in terms of value added)[62]. This phenomenon is not yet clearly understood, but one possible explanation is that micro enterprises have a high knowledge intensity accompanied by a high level of investments. Therefore they could have a higher propensity to absorb market uncertainties which can only be effectuated experimenting with new investments (Audretsch et al., 2009).

Table 11.11 – Investment likelihood by enterprise size

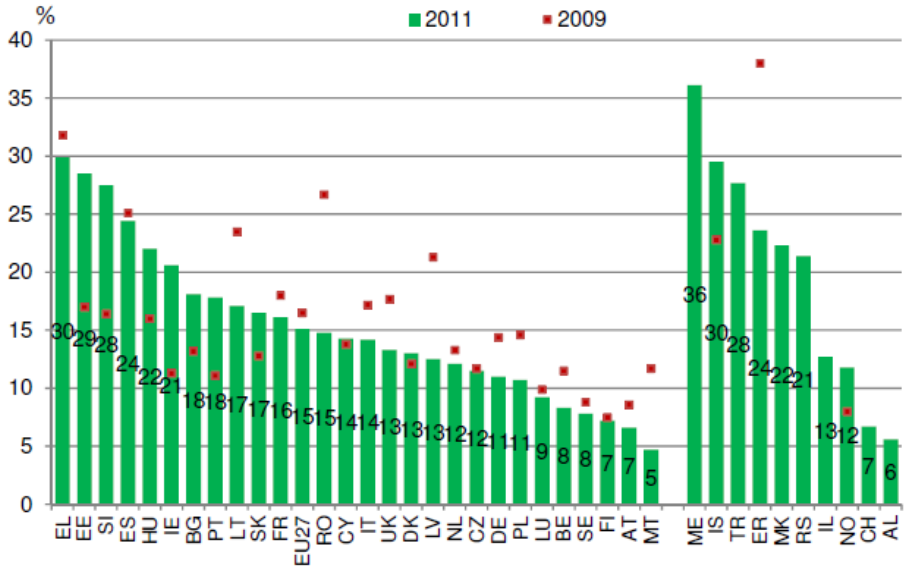
Type of enterprise	Propensity to invest by enterprise size
Micro	23 %
Small	15 %
Medium-sized	17 %
SMEs	19 %
Large	18 %
Total	19 %

Source: Audretsch, Horst, Kwaak and Thurik (2009)

[62] http://www.brusselsnetwork.be/eu-news-m/563-smes-contribution-to-a-dynamic-europe.html

As can be seen from Figure 4 access to finance is the most pressing problem in Greece (mentioned by 30% of respondents), Slovenia and Estonia (mentioned by over a quarter of respondents in both countries). It is the second most important issue in Hungary, Romania, Spain, Portugal, Bulgaria, Lithuania and Ireland.

Figure 11.18 share of companies with access to finance as most pressing problem



Source: EC and ECB, SMEs' Access to Finance Survey 2011 Analytical Report (7 December 2011)

The European Central Bank Access to Finance Survey (2011) highlights that in terms of sources of financing, there appears to be a sizeable downward shift since 2009 in SMEs using internal funds (i.e. retained earnings or sale of assets) to finance their activities. In 2011, 24% of EU SMEs reported using internal funds while in 2009 it was 49%, a decline of 25 percentage points. The greatest falls are found in Greece, Ireland and Sweden.The declining use of internal funds is of note as there are potentially two contrasting explanations for this:

1. over the two years since 2009 SMEs have found it increasingly challenging to generate earnings – reflecting the wider macroeconomic conditions ('push' factor); and

2. SMEs have become better or more innovative at accessing external sources of finance. This is indicated by the fact that, although there has been a continuing tightening of credit standards since 2009, use of external finance by SMEs has actually increased over this period (e.g. debt finance has increased by 14%). SMEs were more likely to make use of external financing than 'large-sized

enterprises' (LSEs) – 56% compared with 50% in the six months preceding the survey63.

[63] http://ec.europa.eu/enterprise/policies/finance/data/enterprise-finance-index/european-surveys/sme-access-to-finance-survey/index_en.htm

11.3 Country profiles

The case studies focus on Belgium, Romania and Spain that have special reduced tax rates for SMEs, all enterprises are in the expansion phase.

Expansion:		
Case study 5: Impact of special CIT rate for SMEs on organic growth decisions	Belgium	Small and medium-sized enterprises with a taxable income not exceeding €322,500 pay lower rates, provided that certain conditions are satisfied. As such, the tax rate can drop to 24.98% (24.25%, plus 3% crisis surtax) at the lower end of the tax scale (i.e. for taxable income up to €25,000).
Hypothesis: Special CIT rate for SMEs could become an obstacle to growth	Romania	There is a special enterprise tax rate for "micro-enterprises", which have the possibility to opt for a 2.5% rate applied to the financial turnover (in 2009 this rate will increase to 3%). A enterprise is considered a "micro-enterprise" if, among other conditions, it only has between one and nine employees, its turnover does not exceed certain limits, and if it is not state owned or owned by institutions and legal entities having more than 250 employees.
	Spain	Spain provides a special enterprise tax rate of 25% for small and medium-sized enterprises (for first taxable income up to €120,204).

11.3.1 Belgium

Hoj (2009) argues that in Belgium the least distortive effects on growth comes from consumption taxes, whereas the most distortive effects on growth come from labour tax. This issue has also been raised by the American Chamber of Commerce which highlights that employer costs in Belgium are significantly higher than the EU average. A number of measures have been taken to stimulate growth and innovation in Belgium for young innovative companies, who are benefiting from a reduced corporate tax rates and a special tax allowance for young innovative SMEs, general wage subsidies and tax allowances for R&D personnel (Hoj, 2009). Hoj (2009) argues that to stimulate SMEs to grow to their optimal production size: a) reduced corporate tax rates should be abolished b) the relatively high standard corporate tax rate should be lowered to bolster the after-tax rate of return on invested capital and c) the system should be made more neutral vis-à-vis funding sources by choosing a notional interest rate that reflects market conditions.

Since 2006, the tax authority introduced the Notional Interest Deduction, where companies/branches can claim a tax deduction for their cost of capital by deducting notional (deemed) interest on their net equity. Despite the NID's important role in attracting companies - both foreign and international - to invest and expand in Belgium, it has been severely curtailed and regularly called into question since its

introduction in 2006 by a lack of a predictable fiscal and regulatory environment (American Chamber of Commerce, 2013[64]).

Belgium represents an intermediate case. Despite imposing one of the highest (basic) corporate tax rates (33.99) in the EU, the overall provisions system contributes towards a more balanced burden. The national tax authority allows for full deduction of interests on loans from unrelated parts, and on related ones under the arm's length principle for business related loans.

Companies in Belgium and the subsidiaries of foreign companies are subject to a fixed tax rate of 33.99 % (3 % crisis surcharge included) regardless of the origin and the destination of the profits. There is no tax consolidation of companies. Under certain conditions, a special scheme applies to SMEs having an assessed income lower than EUR 322 500: a tax rate of 24.98 % is applied on the part from EUR 0 to EUR 25 000, 31.93 % on the part of EUR 25 000 to EUR 90 000 and 35.54 % on the remaining part up to EUR 322 500 (all including the 3 % crisis surcharge). An allowance for corporate equity (ACE), referred to as 'notional interest on corporate capital', was introduced in 2006 to stimulate the self-financing capability of companies (Eurostat, 2013). The tax-free presumptive rate of return on equity applied under the ACE system is based on the rate of 10-year government bonds (OLO 10) with a cap of 3 % as of 2012 (3.5 % for SMEs) (Eurostat, 2013). As from 2013, the new rate will be based on the average OLO 10 rate for the months of July, August and September of the previous year. As opposed to the Italian ACE, the Belgian system is providing an allowance for existing stock (restricted to 7 years as from 2013). The Belgian ACE does not include provisions to prevent tax planning by the use of triangular structures (Eurostat, 2013).

Belgium offers several investment allowances for SMEs. The general investment deduction for SMEs amounts to 11.5% of depreciation taken on assets. The rate has varied between 10.5% and 12.5% since 2009.65 The incentive is restricted to companies with fewer than 20 employees. Unused amounts can be used in subsequent years with a maximum carry-forward of € 933,350. Additionally, an allowance of 21.5% is granted to SMEs for investments in safety measures either in the year of the investment or the following year. Concerning carry-forwards the same rules apply as for the above deductions. A notional interest deduction is available for all Belgian companies. It amounts to 3% of qualifying equity[66]. SMEs are allowed to deduct an additional 0.5%. Since 2012, carry-forwards are no longer possible.

The Belgian deduction of a notional or fictitious interest from companies tax base seeks to eliminate the interest tax shield and promote use of retained earnings as a rewarded source of liquidity for the company. All companies subject to Belgian tax and Belgian branches of non-tax resident companies are allowed to claim a notional interest deduction on tax reflecting the economic cost of using capital. The cost of capital is calculated as the average of published interest rates for 10-year Belgian government bonds (OLOs). No advance ruling (see 'Advanced ruling' hereunder) is required to apply for the deduction. It is equal to the amount of risk capital multiplied by 3.8 for a large company and 4.3 for small and medium sized companies.

[64] http://www.amcham.be/Publications/PrioritiesforaProsperousBelgium/tabid/71/Default.aspx

[65] The exact rates in this period are as follows: 10.5% from 2009 to 2011, 12.5% in 2012 and 11.5% in 2011.

[66] The exact rates for large companies from 2009 to 2013 are as follows: 4.307% in 2009, 4.473% in 2010, 3.8% in 2011, 3.425% in 2012 and 3% in 2013. The respective rates for SME are 0.5% higher.

If there are insufficient tax liabilities in the year of deduction, the taxable amount can be carried forward for seven years. This measure has the following advantages:

- Reduces the taxable base of the company, thus providing attractive tax savings.
- Protects the capital of companies, so they can be financially stronger and more independent.
- Provides flexibility, because under certain circumstances it is possible to carry forward any unused amount of the deduction.
- Complies with EU regulations and offers companies legal certainty.

Further incentives for SMEs include the possibility for income to enter a tax-exempt reserve of at most € 37,500 or 50% of retained earnings. The maximum size of the reserve can be further reduced by the following circumstances:

- capital gains on shares that are eligible for participation exemption;
- the exempt part of capital gains on cars used for business purposes;
- gains on debt claims against managers, shareholders and their spouses or children;
- decreases of paid-up capital.

The income needs to be re-invested within three years and the investment reserve must not be used in combination with the notional interest deduction.

Further incentives are provided by:

- Tax deduction for patent income,
- Investment deduction applicable when the new company acquires new tangible or intangible fixed assets used in Belgium for business purposes. It amounts to an investment deduction of 13.5% (one-time deduction) or 20.5% (staggered deduction for the duration of the depreciation) on taxable profit amounting to a percentage of the acquisition or investment value.
- Exemption of withholding tax on dividends

Most of the enterprises in Belgium followed a growth strategy based on opening up subsidiaries some within the country, others in the Netherlands due to better market conditions and reduced corporate income taxation. One enterprise followed additional to regional expansion also an innovation strategy. Interviews with Belgian SMEs highlighted the use of: Notional Interest Deduction, the capital-gain deduction and dividend-withholding tax exemptions, the possibility to deduct income from patents, a scheme foreign-tax credit that protects SME income from foreign royalties and interests (the last one being less used), dividend deduction, full deductibility of arm's length financing charges relating to acquisitions, dividend withholding tax exemption, absence of taxation over interest incomes.

The effect of these provisions in that tax on growth has been positive although not causal, meaning growth was enhanced by existing provisions but not determined by them but rather by existing market conditions such as demand for products and services. Several enterprises however highlighted disincentives to grow beyond thresholds since they would be taxed heavily and as a result prefer a slower or postponed growth. The reduced CIT rate had a positive effect on the growth of 5 interviewed companies, no effect on the growth of two companies and a negative hindering effect for one company. The notional interest deduction increased liquidity and had a positive effect on growth though some of the companies highlighted that it

slowed growth, made it more stable and smooth but they had disincentives to grow beyond the threshold. Dividends and allowances had a positive effect on growth via increasing liquidity and access to capital. Patent income deduction increased liquidity and had a positive effect on growth enhancing the pace of growth but not determining it.

The interviews highlighted that particularly the NID is perceived as having a positive effect on growth, since enterprises are able to retain more profit and to reinvest: "shareholders can deduct the extra income they derive from gains (…)– which affects my growth strategy because I know they are happy to have this deduction, so that I risk the same if I offer them less." Other respondent highlighted that "Also, being able to deduct dividends paid still helps raise more liquidity more quickly, and be more attractive in the eyes of new investors (they think you are more likely to actually pay dividends if you know you can deduct them almost completely, and usually they also know that this deductibility helps you grow more via more liquidity)".

Regarding the comparison in the tax burden between small companies and large ones, 4 SMEs perceived that there is hardly any difference in taxation, whereas 3 enterprises perceived that SMEs are favourably treated, and one enterprise highlighted that the notional interest deduction is more beneficial to smaller enterprises.

11.3.2 Romania

Romanian corporate income tax follows the classical system: corporate profits are taxed at the company level and distributed profits are taxed again, by way of withholding, at the level of both corporate and individual shareholders, certain exceptions being applicable as regards corporate shareholders. The standard flat-tax rate is 16 % (25 % before 2005) A reduced tax rate of 3% on the gross income applies to microenterprises, as defined by the national legislation. Dividends received from other Romanian resident companies are exempt from corporate taxation. Capital gains are generally treated as ordinary business income and subject to the same rate (Eurostat, 2013, p.135).

Romania provides a special tax regime based on turnover for micro companies. 100% privately owned enterprises with income below € 65,000 that do not derive income in the banking, gambling, consultancy or management sectors are obliged to pay a tax of 3% on turnover. Until 2009, the regime was voluntary. In 2010, it was repealed before being re-introduced as a compulsory provision in 2011. There are no other SME-specific provisions in Romania.

In Romania there are no differences between the corporate income tax rate and the personal income tax rate. However, there are incentives for micro-enterprises. The interviews conducted by VVA in Romania were conducted with a micro-company and a small company. The micro-company highlighted that the reduced corporate income tax had "a stronger impact on other aspects of corporate management, capital raised was for us also more because we were more attractive from the side of costs". The micro enterprise also highlighted that as a result they had the prospect of having more liquidity left for operations but also a disincentive to grow unless market demand allowed them to expand their operations. The other interview conducted with a small company highlighted that they had to pay 16% CIT and that did not influence their choice of legal form or affected them in any other way e.g. investment. The decision to grow above the micro-CIT threshold was influenced by market reasons alone that allowed them to expand. Several suggestions were made to ease liquidity constraints

for growing SMEs such as: a reduction in the CIT rate to 2% as it was before or exempt dividends from tax.

11.3.3 Spain

Spain is one of the countries with the most comprehensive incentives for SMEs in place as it provides accelerated depreciation schemes as well as allowances, tax credits and special tax rates. In order to qualify for the various tax incentives named below, SMEs must fulfill the criteria given by the definition of the European Commission and they must have a turnover of less than € 10 million (€ 8 million until 2010).

Special tax rates are in place for enterprises which meet the following conditions:

- net revenue < € 5 million;
- average number of employees < 25;
- jobs must be maintained or created.

The tax rate is 20% on the first € 300,000 (€ 120,202.41 until 2010) of income and 25% on the income in excess of € 300,000. Enterprises with a turnover below € 10 million that do not meet the above criteria incur a reduced tax rate of 25% only on the first € 300,000 of income (€ 120,202.41 until 2010; the ordinary rate amounts to 30%). In the regions of Alava, Vizcaya and Guipúzcoa, a special SME rate of 24% applies instead of the usual 28% for large companies in the Basque Country.

Accelerated depreciation is the first measure available for SMEs. The scheme allows depreciating twice the ordinary rate for all tangible assets and even 300% of the normal rate if the respective assets were acquired as a reinvestment of a capital gain. In 2013 and 2014, eligible enterprises can even immediately depreciate the full cost of all tangible assets, intangible assets and immovable property, whereas large companies may only depreciate 70%. Until 2012, an additional regime applied for small companies, under which all tangible fixed assets could be freely depreciated if the average number of employees was raised. The maximum amount to be freely depreciated depended on the size of the personnel increase.

SMEs also qualify for a tax credit of 10% on expenses on new tangible assets that follow purposes related to renewable energy. Further tax credits are granted for hiring employees who are younger than 30 years (€ 3,000 per employee hired with an indefinite employment contract) and for hiring employees who received unemployment payments for at least three months (50% of outstanding unemployment payments for one year per employee hired with an indefinite employment contract). The latter two credits, however, are only available for companies with less than 50 employees.

Besides these incentives, the following provisions for the tax treatment of SMEs in Spain exist:

- Very small companies might not be subject to tax audits and are subject to less restrictive documentation requirements on transfer prices.
- SME with turnover < € 10 million may establish a special provision for bad debt not qualifying for the general provision. The maximum provision amounts to 1% of the existing balance of debt at the end of the tax period.
- There is an exemption of 99% of gains from venture capital investments in non-financial SMEs operating in the field of technological innovation by qualifying

venture capital companies and funds. It includes gains from the sale of shares and other participations held for at least one year and there is no exemption after 15 years. An extension to 20 years may be granted, though.

- Incentives for SMEs with regard to the local business tax (IAE) are provided. Most notably, income is exempt from IAE if turnover is below € 1 million.

The crisis had a significant impact on the development of the business economy and it has immersed Spain, the fourth biggest economy in the Eurozone, into a deep and protracted recession between 2008 and 2012. All companies - large enterprises (LEs) and SMEs - experienced negative growth across the board. Many of the traditional problems faced by SMEs – lack of financing, low productivity, etc. – have become more acute, leading to an accentuated deceleration for SMEs as compared to large enterprises. Furthermore, being particularly dependent on the domestic market, SMEs in Spain suffered further when national consumption plunged as a result of the housing boom and the subsequent cuts. The Small Business Act Fact sheets of the European Commission suggest that given the low internal demand in Spain an avenue for growth would be to focus on export for Spanish SMEs67. Particularly hit have been manufacturing and the construction sector in Spain. Corporate bankruptcies are running at three times pre-crisis levels. Spanish bankruptcies consistently rose throughout the crisis period, from 2528 in 2008 to 7799 in 2012, and are likely to continue rising in 2013. These figures are low when compared to the total number of enterprises in Spain; however they do not paint the whole picture. In addition to bankruptcies, which account for insolvent corporations who cannot repay their debts to creditors, voluntary deregistrations of enterprises also occurred frequently. In 2012, more than 334 000 new enterprises were registered in Spain, of which more than 75% solo-entrepreneurs. At the same time, the number of deregistrations was of 391 000, leading to a significant negative net effect of –57 002 enterprises.

During the interviews that VVA conducted with SMEs in Spain companies stated that they benefitted from the following schemes: accelerated depreciation of a couple of fixed assets, namely technological equipment and immovable property, CIT reduction, deductions and allowances. Some of the enterprises chose an internal growth strategy whereas others chose an external one. Enterprises that chose an external growth strategy highlighted that the reduction in CIT was too low for their needs since it only applied to the first 120.000, the differential in CIT reduced rate helped in the decision to acquire other company but it was not the decisive factor, or had no impact on their growth strategy through it increased their liquidity. In one enterprise that pursued external growth, deduction and allowances had no impact in another it had a great impact on accelerating their growth. Whereas for the other two SMEs pursuing internal growth strategies, one of them had financing constraints and difficulty in accessing bank loans although they pursued growth, they experienced a decrease in demand and in turnover, and the other pursued a growth strategy based on R&D. Both the CIT reduction rate and deductions and allowances did not have any effect on the growth of the enterprise engaged in painting/decorating activity. The enterprise pursuing an R&D strategy highlighted that CIT reduction was not applicable in its case but that deductions and allowances played an important role in growth especially for their R&D department.

[67] http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/spain_en.pdf

Regarding the difference in taxation between SMEs and large companies, enterprises perceived that bigger companies may simply have more resources to deal with periods of low demand. Others thought there was no difference in taxation between them and large companies because their turnover exceeded the EUR 8m threshold. However, a number of interviewees suggested that there were other differences outside the corporate income tax system which affected the performance of SMEs and LSEs.

11.4 Conclusions

This case study examined the impact of taxation on the organic growth of SMEs. While growth is influenced by many factors such as the existing demand on the market, fiscal policies also play a role in creating or constricting opportunities for growth. High labour taxes hinder internal growth in Belgium and the instability of the regulations concerning the notional interest deduction on investments has increased the uncertainty of enterprises and affected their growth plans.

Overall specific tax provisions had a positive impact on growth via increased liquidity and access to capital, however several companies highlighted that they grew slower as a result of existing provisions and that they had incentives to stay small. The CIT reduced rate had a positive effect on growth of companies but limited to enhancing the pace rather than determining it. In Romania special tax rates for CIT for micro-enterprises have a negative effect hindering growth of micro-enterprises. In Spain, low internal demand led many SMEs to deregister or file for bankruptcy. Fiscal policies helped accelerate growth particularly for enterprises pursuing an external growth strategy. For enterprises pursuing an internal growth strategy, the CIT reduction did not have any effect or was not applicable, whereas deduction and allowances had no effect in one case and in the other played an important role in growth especially for their R&D department.

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12 CASE STUDY 6 IMPACT OF CIT ON EXTERNAL GROWTH DECISIONS

12.1 Introduction

Cross-border mergers and acquisitions activities (M&As) sharply increased over the last two decades, partly as result of financial liberalization policies, government policies and regional agreements.

Capital reallocation across enterprises occurs either through the sale of property, plant and equipment or through M&As, in which the transfer of financial claims from the acquiring enterprise brings along that of the underlying assets of the targeted enterprise. In the case of cross-border M&As, the main activity of the acquirer and target enterprises are registered in two different countries. Various motives for M&As can be distinguished in general. In the industrial organization literature two basic motives stand out: an efficiency motive and a strategic motive. Efficiency gains arise because takeovers increase economies of scale or scope. Strategic gains arise if M&As change the market structure and thus a company's competitive position and profit level.

Literature classifies the various reasons to merge in the following main groups, e.g. Perry and Porter (1985), Nocke and Yeaple (2007), Long et al. (2007)):

1) high-Tobin's q firms are those with the best technology and seek to expand their capital stock7;

2) efficiency gains arise because takeovers increase economies of scale or scope or other synergies, such as tax considerations or acquisition of funds;

3) strategic gains arise if M&As change the market structure and thus a company's competitive position and profit level by forming monopolies or oligopolies;

4) building empires allow to diversify and hedge against sectoral shocks;

5) managers might be motivated by managerial compensation or pure ego. It is very difficult to empirically disentangle these different strategic elements. We focus on the value-enhancing motives, which broadly encompass the first three main groups. M&As can help satisfy future goods demand, can reduce costs, might change the market structure and the market power, thereby affecting future profits captured by the market valuation of the acquiring firm. We also attempt to look at the building empire motives by looking at mergers within a given sector (horizontal) or across different sectors (vertical).

In this case study we will concentrate on the efficiency gains, exploring the impact of corporate tax on M&As decisions. The focus will be on the following countries:

- Poland: Low corporate tax rate at 19% and high volume and value of M&A deals between 2009 and 2012.
- Spain: Corporate tax rate at 30% (25% for companies with income up to €120,202) and recently is ranked third in western Europe in terms of volume and value of M&A deals.

- United Kingdom: medium/high corporate tax rate at 24% and is the leading country in Europe for M&A both in terms of value and volume.

Case study 6	Objective	Questions to be addressed
Impact of depreciation on SMEs	The aim of the case study is to assess the impact of special depreciation rates on the decision process adopted by enterprises in investing in particular assets.	• Impact of special depreciation rates in the fiscal plan of the enterprise • Impact of special depreciation rates on investment decisions made by the enterprise

12.2 The impact of CIT on external growth decisions

In order to understand the role of CIT on M&As decisions it is first necessary to explore the different cases and motivations behind these entrepreneurial choices. The country tax rate (of the target company) may have a negative, positive, or no effect on the M&A decision.

The influence of taxes on domestic and cross-border merger and acquisition decisions may depend on the nature of the underlying market, and the plans for the new enterprise after the acquisition has taken place. There are two broad reasons why an acquisition or merger may take place:

1. There may be an efficiency motive: the acquisition may permit production to take place at lower cost.

2. There may be a strategic motive: through a merger, the new combined enterprise may have greater market power and hence higher profit.

As we demonstrate in a series of simple frameworks below, these motivations – and the models that underlie them - may yield rather different predictions for the effects of taxation (Arulampalam, Devereux, Liberini, 2010). We will consider only the efficiency motivation in order to focus on the costs and tax features of these operations.

We assume that the company seeks to expand through acquiring another company, either in the same country (the "home" country) or abroad (the "host" or "foreign" country, denoted by an asterisk). We assume that the acquiring company makes either one acquisition, or no acquisition at all. Implicitly, then, either the costs of making more than acquisition are too high, or the benefits in terms of higher income are too low. The central question posed is whether, and how, the tax system can affect the choice of whether to acquire a target in the home country or the host country.

First, consider the value of a potential home country target company to its existing owners. Suppose that the company expects to earn a stream of income with a present value of Y, and to incur costs with a present value of C. In the absence of taxes, the value of the company to existing owners is therefore simply $V\hat{} = Y - C$, where the $\hat{}$ indicates the value before taxes.

Now suppose that corporation tax is levied on taxable profit at rate τ . Relief is given for costs. However, this relief may have a present value which is less than the present value of the stream of costs itself. For example, capital expenditure may not be immediately deductible against tax; as a result the present value of the tax deduction will be less than C . Define the proportion of the present value of costs that represent a deduction as α , so that the present value of the tax liability is $T = \tau (Y - \alpha C)$, and the value of the company after tax is $V = (1-\tau)(Y - \beta C)$ where $\beta = (1-\alpha\tau) / (1-\tau)$ is a measure of the generosity of the definition of the tax base. For a corporate tax then $\alpha = \beta = 1$.

An equivalent expression applies to a possible target company in the foreign country, when all tax variables are denoted with an asterisk. We suppose that potential targets have different costs: either high or low, denoted CH and CL , respectively. This yields four different types of potential targets: at home or abroad, and high or low cost. To spell this out, let us define the value to the existing owner in each case:

home, high cost: $V^*H = (1-\tau)(Y - \beta CH)$

home, low cost: $V^*L = (1-\tau)(Y - \beta CL)$

foreign, high cost: $V^*H = (1-\tau^*)(Y - \beta^* CH)$

foreign, low cost: $V^*Y = (1-\tau^*)(Y - \beta^* CL)$

Now consider the value to the acquiring company. We assume that the acquisition will not take place unless the acquiring company values the target company more highly than the existing shareholders. That is, some surplus must be generated from the acquisition – which must be divided between the acquiring company and the existing owners of the target company. Before identifying the source of this surplus, an important issue to note in identifying the effects of tax is how the surplus is distributed between the two parties.

At the two extremes, one of the parties will capture the whole surplus. The maximum price that the acquirer is willing to pay is his own valuation of the target. In this case, the acquirer does not share in the surplus at all. This may happen, for example, if there are many bidding companies, but only one possible target. In this case, the target shareholders would be able to hold out for the entire surplus (Norbäck, et al 2009). Here, the tax system should have no impact on whether the acquisition goes ahead since the acquirer's valuation is post-tax – a higher tax rate would lower his valuation, and hence lower the price paid. The acquirer would be indifferent between paying higher tax, but a lower acquisition price, and lower tax but a higher acquisition price; in either case, the surplus would remain at zero. This leads to:

CASE 1. If the target enterprise captures the entire surplus generated by the acquisition, then the tax has no effect on the acquisition decision.

Following, we make the simplifying assumption that the acquirer captures the whole of the surplus. There are three ways in which the acquirer could raise the value of the target company, and thereby create a surplus: (a) increase income, Y ; (b) reduce costs, C ; or (c) reduce tax liabilities, by reducing the tax rate τ , or by increasing the effective tax allowance, summarized by α and β .

(a) First, suppose that the acquiring and target companies produce a similar good which is sold on the world market, but the acquiring company may be larger and have a recognized brand name, which allows it to charge a higher price for its output. By acquiring the target company, it can expand its operations, but it can also increase the value of the target by relabeling the product with the acquirer's brand, thereby increasing the income stream, Y. Denote the change in the value of the target's income stream as a result of the acquisition to be ΔY. Then the surplus generated from the acquisition is:

Home $S = (1-\tau)\Delta Y$

foreign: $S^* = (1-\tau^*)\Delta Y$

It is clear from these expressions that the surplus depends only on ΔY and the statutory tax rate. Assuming that the acquirer captures the same proportion of the surplus in each case, we can conclude that:

CASE 2: If the acquirer can increase the value of the income stream in the target, then it will be more likely to acquire a target company in the country with a lower statutory tax rate.

(b) Second, suppose that the acquiring company is low cost, that the target is initially high cost, and that post-acquisition the acquiring company is able to reduce the costs in the target from CH to CL .

In this case, the surplus generated from the acquisition is:

home: $S = (1-\alpha\tau)(CH - CL)$

foreign: $S^* = (1-\alpha^*\tau^*)(CH - CL)$

The impact of tax in this case therefore depends on the value of the tax allowances, measured by $\alpha\tau$ and $\alpha^*\tau^*$. This implies that:

CASE 3: If the acquirer can reduce costs in the target, then it will be more likely to acquire a target company in the country with a high value of tax allowances. A higher value of allowances could be generated by more generous allowances, or by a higher statutory tax rate.

(c) A third possibility is that the acquirer can affect the tax liability itself. A possibility to achieve this is that either the target company or the acquiring company is in a country with a high tax rate, while the other is in a country with a low tax rate. Now suppose that the relationship between the two companies is a vertical relationship: that is, the company in one country produces a good or service which it sells to the

other. To make this more concrete, suppose that the target company supplies a good to its new parent. This good is unique, and hence difficult to value for tax purposes. This gives the new combined company the opportunity to mis-price the transaction to shift income from the high-tax country to the low taxed country. Suppose that the amount of income shifted is X. Then the surplus generated by the newly-acquired opportunity to shift profit is:

foreign: $S^* = |(\tau - \tau^*)X| \geq 0$

This opportunity does not exist in the case of a purely domestic acquisition, since this does not create the opportunity to shift profits between countries. More generally, though, the size of the surplus depends both on the extent to which profit-shifting becomes possible (measured by X), and by the difference in statutory tax rates. Summarising:

CASE 4: If a cross-border acquisition introduces an opportunity for shifting profits between countries, then the surplus is higher (a) the greater the amount of profit that can be shifted and (b) the greater the difference in statutory tax rates between the two countries.

This suggests that acquirers in high tax countries may benefit from purchasing targets in low tax countries, which gives them the opportunity to shift profits out of their home jurisdiction. An acquirer in a low tax country would have a potentially higher surplus than an acquirer in a high tax country in purchasing a target in a high tax country, since it would have the opportunity to shift profits into the home jurisdiction.

SMEs are far less likely to engage in acquisitions for reducing competition than large companies. Entrepreneurial growth, in particular for small and medium companies, has traditionally been addressed as organic growth, which is an internal expansion process through the extension of operations and process and product innovations (Salvato, Lassini, Wiklund, 2007).

12.3 Country profiles

12.3.1 Poland

M&A activity in Poland for the first six months of 2013 was relatively constant. Takeovers were driven by consolidation trends in various sectors of the economy. Many locally-owned companies or private equity funds, which acquired assets in 2012 or earlier, continued to consolidate their market position in their respective sectors. Although there were very few high-value deals compared to previous years, the number of transactions compensated for the decrease in value.

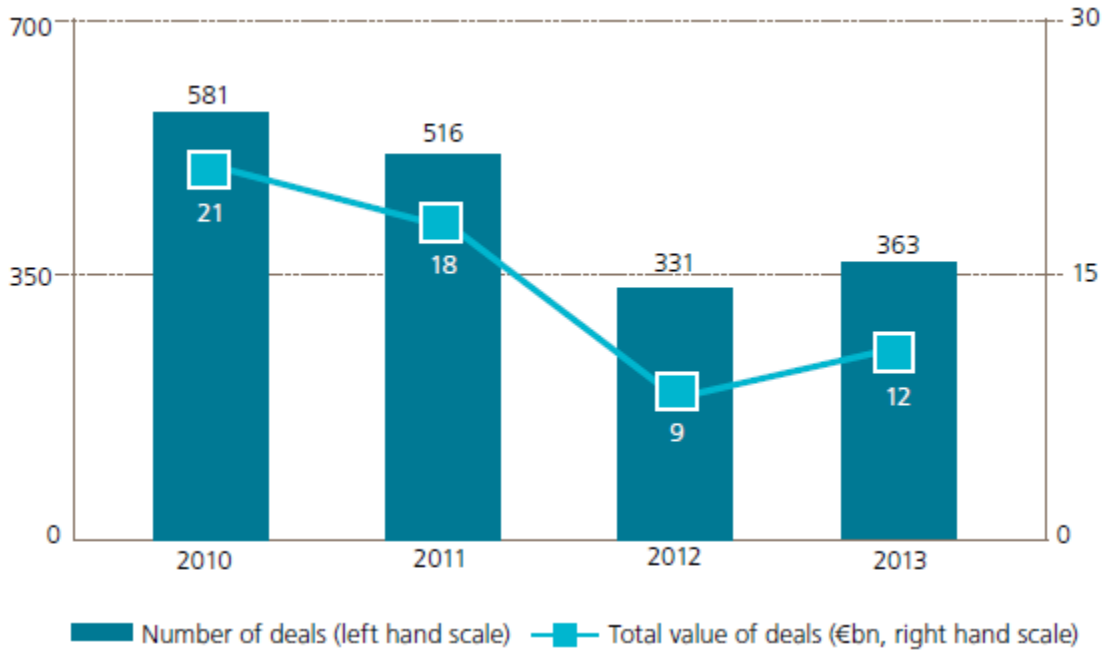
Some sectors, in particular real estate (office and commercial space), experienced a significant increase in transactional activity. The high level of M&A activity in the sector continued throughout the year with its peak in the last quarter of 2013. The most notable transactions took place in the retail and warehousing segment. The prospects for more real estate transactions in 2014 are very promising.

On the other hand, some sectors experienced a significant slowdown. In particular, energy and renewables had a very slow year, mostly due to regulatory and energy

pricing uncertainties. The only two significant renewables transactions in 2013 were Iberdrola's and Dong Energy's sale of their respective Polish wind power assets to two Polish utility companies. Another notable transaction was E.ON's sale of certain Polish co-generation assets to GDF Suez.

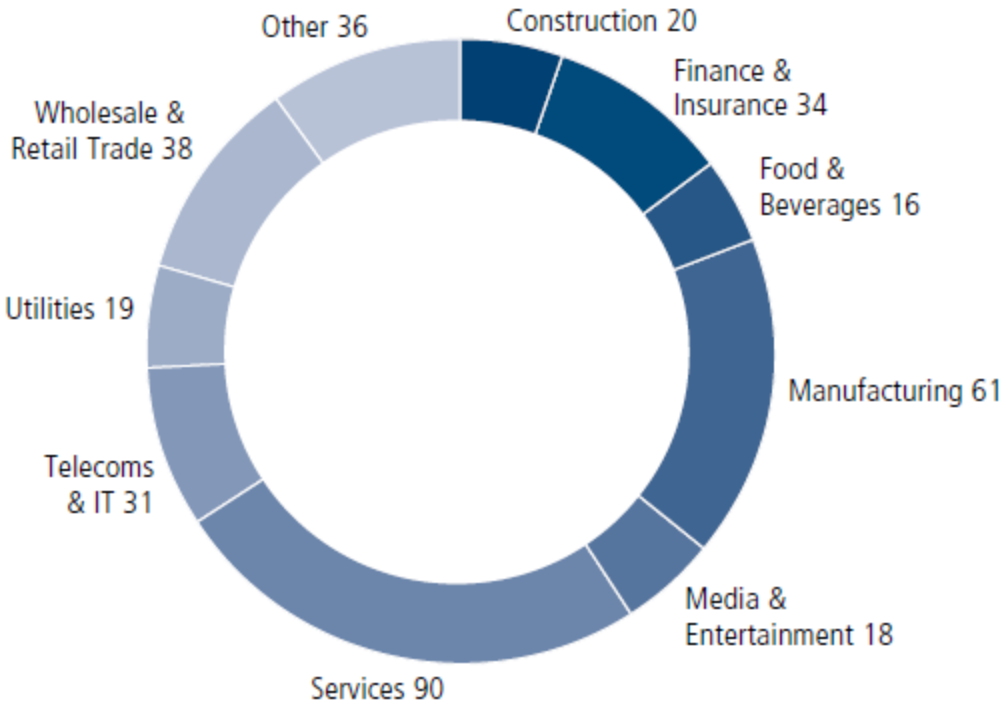
The second half of 2013 experienced a notable increase in M&A activity. The sectors which attracted most attention and the highest number of deals were services, food and beverages, wholesale and retail, financial, insurance, healthcare, pharma and manufacturing. These sectors attracted trade as well as private equity investors.

Figure 12.1: Deals by Value and Volume in Poland (2010-2013)



Source: Emerging Europe: M&A Report 2013/14, EMISpro, 2014

Figure 12.2: Number of Deals by Sector in Poland (2013)



Source: Emerging Europe: M&A Report 2013/14, EMISpro, 2014

Interviews carried out show a picture where small and medium companies in Poland do not make extensive use of M&As, relying instead on different growth strategies based within the country borders, such as the purchase of new land or equipment. However, from the involvement of Polish companies emerges the suggestion that the development of a single set of rules for the EU for M&As operations would facilitate SMEs in the use of such tools.

"I think cross-country mergers and/or acquisitions should have common rules, as in, one only legislation, since it makes no sense that any different pair of merger or acquisition can be treated differently depending on the countries the (two) partners are based in. Secondly, mergers and acquisitions should not be taxed, anywhere in the Union, and thirdly they should probably also be incentivized through tax reliefs and further exemptions, so as to promote internal-market integration."

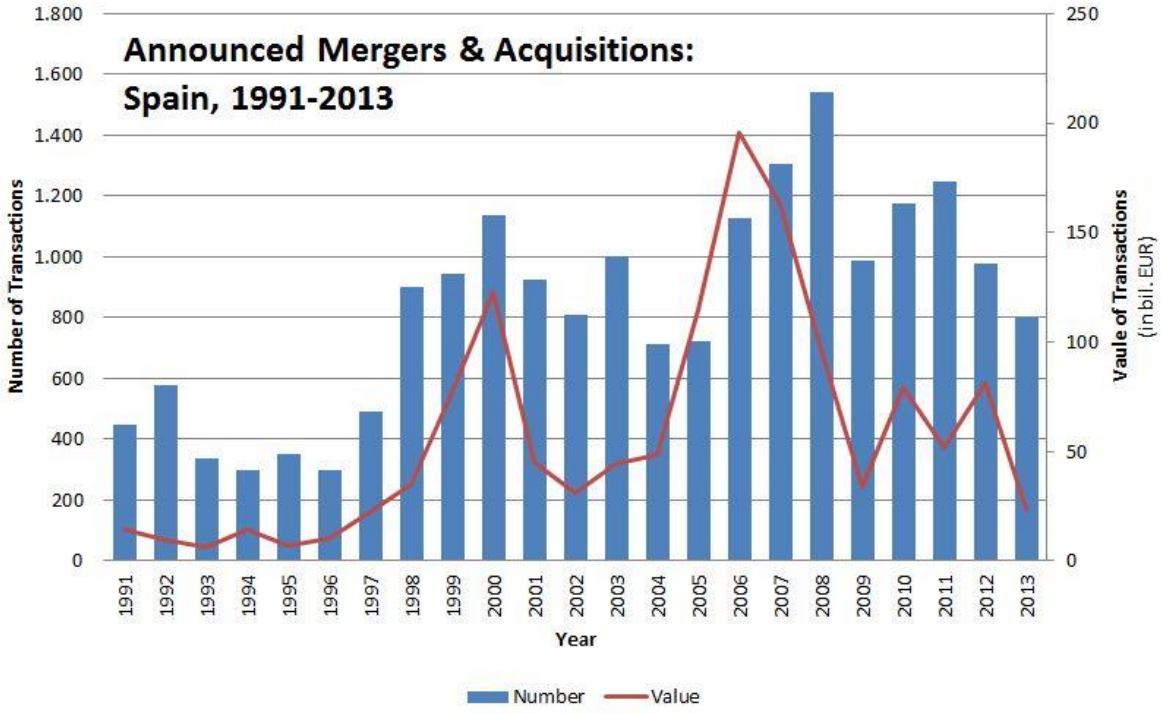
12.3.2 Spain

The interviews show that CIT provisions do not have a direct impact on merger and acquisition decision, in particular in one case where "CIT was not a crucial factor in that we both (the interviewee and the acquired company) were facing the same CIT rate (30%, as we are both based in Castilla), and we face the same rate now." In this particular case the acquirer bought a direct competitor for the same product, a particular light design.

The information gathered shows that strategic considerations are more important than efficiency motivations for companies when evaluating merger and acquisitions opportunities. From a general point of view Spain saw a growth in value and numbers

of M&As operations from 2004 to 2008, when the global financial crisis hit particularly heavily the Country, as shown in Figure 3.

Figure 12.3: Announced M&As in Spain between 1991 and 2013



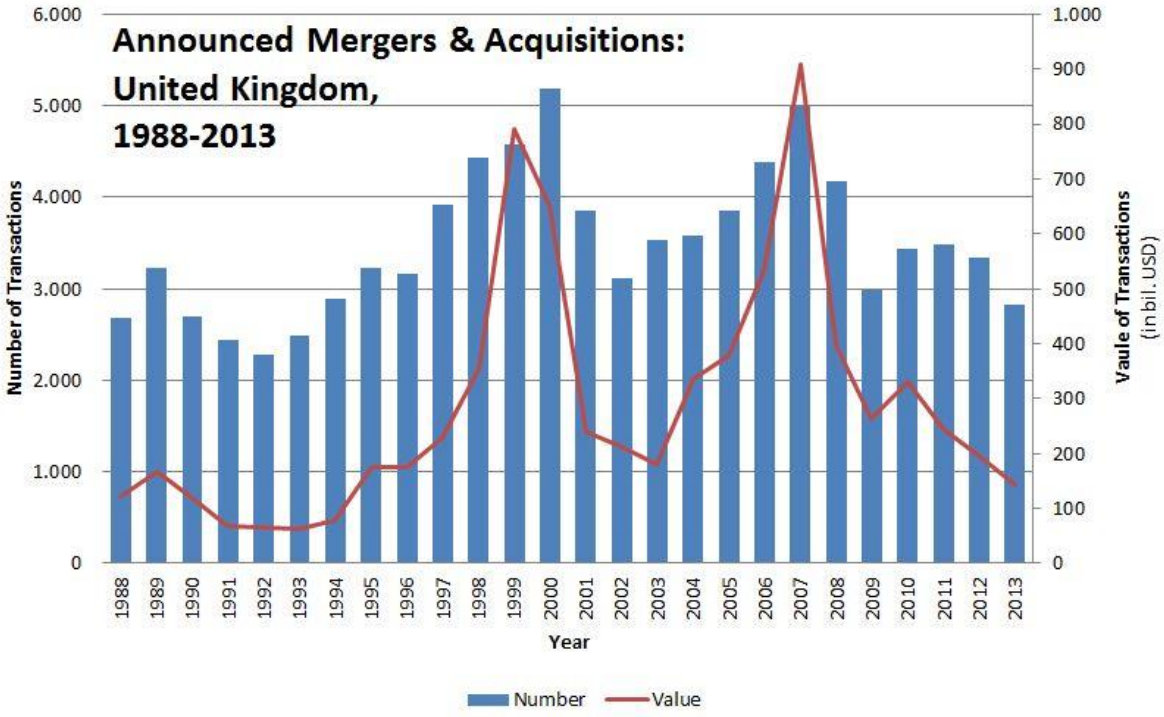
Source: www.imaa-institute.org, Institute of Mergers, Acquisitions and Alliances, 2014

12.3.3 The United Kingdom

The United Kingdom has a well established tradition of financial operations between companies such as merger and acquisitions. Often companies are more open to implement growth strategies both on the domestic and international markets.

Nonetheless interviews show that corporate tax rates don't play any particular role in influencing M&As decisions: "The favourable and the normal CIT rates differ by little, so I see little chance they could make a sizeable difference. Also, I do not see why – and this, I guess, comes from my personal experience – CIT rates should be so important in determining merger/acquisition decisions". The UK confirms to be a financial superpower, as shown in Figure 4 where number and value of M&As operations are reported.

Figure 12.4: Announced M&As in the UK between 1988 and 2013



Source: www.imaa-institute.org, Institute of Mergers, Acquisitions and Alliances, 2014

12.4 Conclusions

It is clear from the analysis there that the tax rate in the host country of the target company may have a positive or negative impact on the probability of the acquirer choosing a target in that country. The effect would generally be negative if the acquirer believed that it could generate higher income than the existing owners, which would be subject to the host country tax rate. But if the acquirer believed that it could reduce costs in the target company, then it would also reduce tax allowances. For a given rate of allowances, a higher tax rate would reduce the value of tax allowances by more, and would therefore have a negative impact on the probability of the acquisition taking place in that country. Further, if the acquirer intended to close down the operations of the target to improve its market share, then the main effect of host country tax would be to reduce the price the acquirer needs to pay for the target; in this case as well, a higher tax rate would make an acquisition more likely.

Evidence from interviews with companies show that small companies tend not to be influenced by CIT rates when considering a M&A operation, focusing instead on strategic factors such as the potential position on a given market.

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13 CASE STUDY 7 IMPACT OF DEDUCTIONS ON TAX PLANNING AND PRACTICES

13.1 Introduction

The goal of tax planning is to arrange a company's financial affairs so as to minimize taxes. Tax planning is defined as the logical analysis of a financial situation or plan from a tax perspective, to align financial goals with tax efficiency planning. The purpose of tax planning is to discover how to accomplish all of the other elements of a financial plan in the most tax-efficient manner possible. Tax planning thus allows the other elements of a financial plan to interact more effectively by minimizing tax liability.

There are three basic ways to reduce your taxes, and basic method might have several variations: One can reduce income, increase deductions, and take advantage of tax credits.

Tax planning encompasses many different aspects, including the timing of both income and purchases and other expenditures, selection of investments and types of retirement plans, as well as filing status and common deductions. However, while tax planning is an important element in any financial plan, it is important to not let the "tax" tail wag the financial "dog." This can ultimately be counterproductive, as virtually all courses of financial action will have some tax consequences, and they should not be avoided solely on this basis.

Case study 7	Objective	Questions to be addressed
Impact of CIT deductions/allowances on SMEs	The aim is to highlight the influence of CIT allowances/deductions on the capital investment decisions adopted by enterprises.	• Relevance of deductions and allowances in the fiscal plan of the enterprise • Impact of deductions and allowances on investment decisions made by the enterprise (not R&D related)

The goal of this case study is to analyse if and how deductions and allowances affect tax planning practices in small and medium companies, focusing in particular on two target countries, Luxembourg and the United Kingdom.

Since 1 January 2008, Luxembourg provides a low competitive tax rate on certain types of Intellectual Property (IP) income earned by Luxembourg taxpayers. The hallmark of the new law is an 80% exemption on royalties and capital gains derived from certain types of IP. For enterprises benefiting from the new regime, this would result in an effective corporate income tax rate of 5.93% on qualifying net IP income.

The law also provides for an 80% deemed income deduction for self-developed patents. The law also applies to qualifying IP that has not yet been patented, but for which the application process has been started.

The UK provides some capital allowances for equipment, gifts of equipment to charity, building renovation and a facilitated allowance scheme for particular expenditures that enable the enterprise to request a 100% claim in the year of purchase. Furthermore, the UK provides a favourable tax scheme for profits earned on patented inventions (10%).

13.2 The impact of CIT deductions/allowances on SMEs

Traditionally, much of the literature on state corporate taxation has focused on how taxes affect the location of economic activity (Wasylenko, 1997). A perpetual concern among policymakers is that higher tax rates or broader tax bases will retard regional economic development. In contrast, some recent research has begun to focus more on tax planning, or how enterprises expand after-tax profits by adjusting to tax policy through financial arrangements within related enterprises. Interest in tax planning among businesses is evidenced by the fact that each of the Big Four accounting firms and many banks maintain specific groups to deal exclusively with aiding enterprises in making arrangements to reduce their tax liability.

Tax planning in some cases can also be seen as a broad set of tax avoidance and evasion schemes that affect only financial arrangements of enterprises. Enterprises may also respond to corporate taxation by altering the input mix or production technology, though no attempt is made here to measure the implications of this third effect. Tax planning exploits differences in state tax policies and often involves sophisticated arrangements wherein enterprises create one or more subsidiaries for the purpose of shifting income from high to lower tax jurisdictions.

In recent years, a number of European countries have introduced specific reliefs for revenues arising from intellectual property. Ireland has had longstanding favourable treatment for such revenues although that may be falling victim to that country's austerity measures taken in the light of the current euro crisis[68].

The Netherlands taxes net income from self-developed patents and software at 5%. Belgium provides an 80% exemption from net income for self-developed patents resulting in an effective tax rate of just below 7%.

Luxembourg has a similar approach under which such income is taxed at approximately 6%. Spain takes a different approach in that it exempts 50% of revenues from tax but allows expenses to be deducted in full resulting in an effective tax rate much below its headline corporation tax rate.

The Patent Box in the United Kingdom is an element of the economic policy of the Government to move the economy away from its over-reliance on financial services to a more balanced position in which manufacturing plays a much greater role. One

[68] www.bdo.ie

element of this strategy involves increasing the competitiveness of the UK from a Corporation Tax point of view, providing favourable tax treatment for profits deriving from inventions and their exploitation (the "Patent Box regime").

Under the Patent Box regime companies will be taxed on profits arising from the exploitation of the patents and other qualifying rights at 10% instead of the normal Corporation Tax rate (currently between 20% and 24% depending on the size of the company and the size of the profits).

Companies need to analyse and assess how they currently hold their intellectual property. Many corporations, in particular large multinational companies, are already holding their patents in tax efficient ways; they will need to determine whether the patent box is likely to yield significant additional benefit. By contrast, small to medium enterprises usually do not implement complex international tax planning and for them this regime could represent significant extra relief from their corporation tax liabilities. For these companies tax planning is a valuable resource to reduce their income tax base.

As a basic point, the patent box is a corporate tax relief. It is only available to those entities that pay corporate tax. Thus sole traders, partnerships and limited liability partnerships who wish to take advantage of this regime need to incorporate and to calculate whether the potential savings will make the operation worthwhile. Rules allow companies, once a patent has been granted, to refer to qualifying profits earned up to six years prior to the date of the grant of the patent.

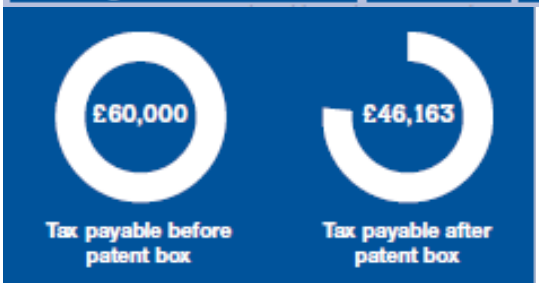
Companies need to ensure that their own products fall within the claims of the patents that they are filing. An issue in this field is represented by the fact that for many industries patents are not a significant part of their IP protection strategies. The IT and software industries are examples that immediately spring to mind, primarily because of the uncertainties over whether their products qualify for patent protection but also with perceived difficulties in enforcement.

The patent box rules allow the operating company to claim relief even though the patent is held by another entity within the group, but a formal record of the rights granted to the operating entity needs to be done. This requires that groups need to review their existing operating and fiscal arrangements since in many instances these are entirely informal and thus may not qualify. It is important that organisations review their IP protection strategies in light of the patent box regime opportunities.

The patent box is an important regime which in many instances enable companies to achieve substantial savings in their corporation tax liability. But the rules regarding which elements of profits qualify, and in which circumstances, are complex and require a good understanding of IP law, particularly patent law and the procedures for obtaining patent protection. Below we present a simulation of a company applying the patent box to its tax base.

Table 13.1: simulation of patent box regime functioning

	Trading without patent box	% for qualifying profit on a ratio of 90:10	Qualifying patent box profit
Sales	1,400,000	90%	1,260,000
Expenses:			
R&D	150,000	90%	135,000
Marketing	50,000	90%	45,000
All other trading costs	900,000	90%	810,000
	1,100,000		990,000
Profit before tax	**300,000**		270,000
Mark up on trading expenses proposed at the rate of 10%			85,500
Profit on qualifying income			184,500
Adjust for notional marketing asset return (std 25%)			75%
Final patent box profit			**138,375**
Basic corporation tax calculation			
Small business rate at 20%	60,000		
Tax on patent box profit at 10%			13,838
Tax on residual profit at 20%			32,325
Comparable corporation tax changes	**60,000**		**46,163**



Source: www.eip.com

13.3 Country profiles

13.3.1 Luxembourg

The Luxembourg Intellectual Property tax regime is applicable to all companies engaged in activities related to the exploitation of IP rights acquired after 31st December 2007, granting an 80% CIT exemption. The definition of IP rights is quite broad, including:

- Copyrights on software;
- Trademarks;
- Patents;
- Domain names;
- Designs and models.

Utility models and supplementary protection certificates are eligible as IP rights under this scheme. A particular feature of this regime is that the owner of the patent does not need to be its developer, creator or initial applicant for applying the 80% exemption, nor does the acquirer need to further develop the acquired IP. Interviews show that companies in Luxembourg use this opportunity extensively as a strategic tool for their growth strategies.

> *Do you believe that deductions and allowance schemes have played a role in determining whether to expand your business? Please explain how.*
>
> The 80% CIT deduction for intellectual-property income was a crucial element in helping us grow: we outsourced production of certain jewels for instance, to others that wanted to do so, but didn't have the (patented!) know-how, while we did: we saved on costs, boosted our profits, and re-invested everything to increase our size.

3.3.2 United Kingdom

The functioning of the UK Patent Box regime is based on the following features:

- Companies which elect to be within the Patent Box will be taxed on profits arising from the exploitation of the patents and other qualifying rights at 10% instead of the normal Corporation Tax rate (currently between 20% and 24% depending on the size of the company and the size of the profits);
- An application into the Patent Box must be made in writing, specifying the accounting period, by the last day on which the company would be entitled to amend its tax return;
- In order to qualify, companies must also have contributed to their patent development. Furthermore in certain cases they must be actively involved in the management of the rights. This is to prevent companies transferring the rights to "passive" entities simply to take advantage of favourable tax treatment;
- The Patent Box also applies to qualifying IP rights which are held under an exclusive licence;

- Calculation of the element of profits which qualify for this favourable treatment involves a seven step process which includes removing from the total profit:
  - the element of profit which could be expected in any event even if there was no patent protection [i.e. the "normal rate of return"]; and
  - the element of profit attributable to other indirect marketing rights such as trademarks and brands;
- The relief is phased in over five years from April 2013 through to 2017;
- The regime includes an anti-avoidance rule to prevent unreasonable tax benefits arising from tax-motivated schemes.

Patents covered by the scheme are those granted by the UK Intellectual Property Office, by the European Patent Office, or by patent offices located in other European states which are considered by HMRC to have similar patentability and examination criteria to the UK and the EPO. However this does not mean that the relief only arises from exploitation of patented products in Europe – the relief applies to exploitation of those products worldwide.

The following rights also come within the scope of the regime:

- Supplementary Protection Certificates;
- UK and European Plant Breeders' rights;
- Medicinal and veterinary products with marketing authorisations and marketing or data protection;
- Plant protection products with data protection benefits.

Patent Box deductions are available not only for those rights owned outright by the tax-paying entity but also for those which have been in-licensed on an exclusive basis. In this case, the licence must be exclusive and for that purpose must be exclusive for the whole of a country or territory. To determine whether a licence is exclusive companies need to assess whether the licence is exclusive for a particular activity. This recognises that different entities may be given "exclusive" licences in respect of different applications; e.g. in the case of a new display screen one entity may be granted exclusivity in the field of mobile telephones while another might be granted the exclusive right to exploit the patent in the field of screens for laptop computers. Both would qualify for treatment in the Patent Box.

In addition to owning the rights in question, or having the right to exploit them under an exclusive licence, companies must fulfil certain other conditions, namely a "development condition" and, in certain circumstances, an "active ownership" condition.

The development condition requires the entity in question to have either:

- created the patented invention or made a significant contribution to its creation;
- carried out significant activity to develop the patented invention or any product incorporating that invention or the way in which that invention may be applied.

But it can also qualify if those activities:

- have been carried out by another member of a group of which it is a member (but see active ownership below);

- by a predecessor in title provided that the purchasing company continues with the development activity for at least 12 months after a change of ownership (although not necessarily on the same invention).

The active ownership condition applies where the entity in question is only able to meet the development condition because of the activities of another member of the group of which it is a part. In that case the entity in question must show that it is involved in planning and decision making activities related to the development and exploitation of substantially all of the qualifying IP rights. The following activities constitute active management:

- deciding whether to maintain protection in certain jurisdictions;
- helping to decide in which products the patented invention is incorporated and which go to market;
- granting of licences (and presumably negotiating them); and
- researching for alternative applications for the innovation (or licensing others to do so).

Information obtained during the interviews show that in the United Kingdom companies tend to structure their business decisions based on a development strategy, without taking into consideration whether a particular allowance scheme or deduction might affect positively or negatively their investments. Decisions are carried out in a strategic perspective rather than on a mere calculation of the amount of taxes to be paid.

Do you believe that deductions and allowance scheme have played a role in determining whether to expand your business? If so, how? I firmly believe these things do not determine expansionary decisions: these are determined by how eager you are to expand to begin with, by how strong/weak competitors are, by how big you should be to introduce yourself to an interesting/profitable (new) market, and by the willingness of potential partners to merge/start cooperating.
Do you believe that deductions and allowance scheme have played a role in determining whether to expand your business? If so, how? Not whether to expand it or not, but they have helped by lowering our costs (through deductions from corporate income).

13.4 Conclusions

Deductions and allowances can play a central role in helping small companies reducing costs, in terms of reduction of the corporate income tax base and subsequent taxes to be paid. Various European countries have established schemes to support, through these tools, companies, in particular those companies having invested in Intellectual Property rights and patents.

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14 CASE STUDY 8 IMPACT OF R&D INCENTIVES ON SMES

14.1 Introduction

Tax incentives have become a popular instrument to support research and development (R&D) activities of businesses. They offer a reduction to companies' tax burden depending on the volume, or increase, of the enterprise's expenditure on R&D. The popularity of this instrument arises from the fact that it is rather simple to implement through the existing system of corporate taxation, implying low additional administrative costs both at the side of authorities and enterprises (Köhler, Rammer and Laredo, 2012). In addition, R&D tax incentives are neutral in terms of the content of R&D activity being supported, and they reach out to all types of enterprises, **including small enterprises and service enterprises**. This instrument provides a reliable base for financial planning and R&D decisions of companies.

There are several options to design R&D tax deductions, such as carry-forward or cash refund possibilities. Depending on the system of corporate taxation, tax incentives may be designed either as an allowance or as a credit. Tax incentives are an indirect means of supporting R&D, in contrast to the direct government funding of business

Economists generally agree that the market will fail to provide sufficient quantities of R&D as it has some characteristics of a public good. A tax-based subsidy seems the market-oriented response as it leaves the choice of how to conduct and pursue R&D programs in the hands of the private sector. There are several drawbacks to this tool, however, compared with government financing and/or conducting the R&D program directly (Klette, 2000). For Hall and Van Reenen (2000) the primary objection is that fiscal incentives are simply ineffective in raising private R&D spending, with very low response rates by companies, which don't seem to use this tool as expected.

Case study 8	Objective	Questions to be addressed
Impact of CIT deductions/allowances on SMEs	The objective is to understand the impact of allowances and deductions on R&D investment decisions adopted by enterprises.	• Relevance of R&D deductions and allowances in the fiscal plan of the enterprise • Impact of R&D deductions and allowances on investment decisions made by the enterprise

14.2 THE IMPACT OF R&D INCENTIVES ON SMES

14.2.1 Theoretical explanations

The principal economic rationale for business R&D tax incentives – as for any government support of private R&D – is the presence of knowledge spillovers (Alcacer, Chung, 2007). The producers of new knowledge cannot completely prevent others from using this knowledge due to the public goods characteristics of knowledge. Hence, they cannot fully appropriate the returns on their R&D investment. R&D tax incentives seek to compensate for knowledge spillovers and should stimulate enterprises to invest more into R&D than they would have done otherwise. A key objective of business R&D tax incentives is thus to increase business R&D expenditure in an economy.

Innovation is well known to be an important driver of economic growth and investments in R&D are among the factors that drive innovation (OECD, 2011). Many governments encourage business investment in R&D, often with the aim of correcting or alleviating two main market failures:

- Difficulties by enterprises to fully appropriate the returns to their investment. Returns on investments in R&D are difficult to appropriate by enterprises as some of the resulting knowledge will leak out or "spill over" to other enterprises, to the benefit of society. This leads enterprises to 'underinvest' in innovation. Policy instruments such as intellectual property rights, grants, and R&D tax incentives can help address this problem.
- Difficulties in finding external finance, in particular for small start-up enterprises. Innovation is a highly uncertain activity with large differences in the information available to inventors compared to investors. This may imply that external capital for innovation will only be available at a high cost.

Tax incentives for R&D are often considered to have some advantages over direct support for R&D, including procurement of R&D or grants. They are a market based tool that aims at reducing the marginal cost to enterprises of R&D activities, leaving enterprises to decide on which R&D projects to fund.

Tax incentives for R&D include expenditure-based tax incentives – most importantly R&D tax credits, R&D tax allowances and payroll withholding tax credit for R&D wages – and income-based tax incentives – most importantly regimes that tax royalty income and other income from knowledge capital at a preferential rate.

Some countries target enterprises that conduct basic research; and many provide more generous incentives for small and medium-sized enterprises (SMEs). Some countries also differentiate according to the age of an enterprise. France, for example, has a scheme for young companies, while others encourage industry-science collaboration. The US recently introduced a more generous credit for R&D in energy (OECD, 2011).

The effectiveness of R&D tax incentives on increasing R&D investment can be evaluated by estimating the private R&D price elasticity, which measures the percentage change in R&D investment resulting from tax relief for every percentage change in its after-tax price (also called the user cost of R&D), or the incrementality ratio, which measures the change in R&D investment per dollar of foregone tax revenue that is spent on R&D fiscal incentives. Evidence from econometric estimates

suggest that the responsiveness of investment in R&D to its price (measured as the R&D price elasticity) is greater in the long run than in the short run (Hall and van Reenen, 2000; Parsons and Phillips, 2007; Lokshin and Mohnen, 2009; Ientile and Mairesse, 2009).

Evidence also suggests a different impact on small relative to large enterprises. Smaller enterprises seem to be more responsive to R&D tax incentives (e.g. Lokshin and Mohnen, 2007; Hægeland and Moen, 2007 and Baghana and Mohnen, 2009). This is consistent with small enterprises being more credit constrained than large enterprises, since they are less likely to have collateral.

Lokshin and Mohnen (2009) study on the Dutch R&D fiscal incentives programme (known as WBSO) shows that investment in R&D can be modelled in the same way as investment in physical capital, and that therefore the user cost of R&D is a primary determinant of an enterprise's decision to invest in research and development. Their findings are that the effectiveness of the fiscal scheme differs by size class (they distinguish two size classes: the small enterprises with less than 200 employees and the large enterprises with at least 200 employees). The analysis shows that in the short period (considering immediate business R&D expenditures and associated costs to the government) such incentive programmes seem to be effective in stimulating new R&D for small enterprises but not for large enterprises. To evaluate whether a level-based R&D incentives program is successful they performed policy experiments in which they simulated the reduction in R&D following the suppression of the fiscal program and changes in specific tax parameters. According to their results a level-based tax incentives scheme has the largest impact in the first period after which the effect of the tax incentives declines. Their results suggest that the positive effect of the program is larger for small enterprises.

Design features of R&D tax incentives include the tax on which the incentive is based, what R&D expenditures qualify for a tax reduction (total volume of increase over a reference base; all categories of R&D expenditure or only intramural/extramural/personnel expenses; exact definition of R&D), the target group of beneficiaries, and whether unused claims can be carried over or refunded in cash. There are four types of R&D tax incentives:

- Accelerated depreciation schemes for investments (machinery, equipment, buildings, intangibles) used for R&D activities. This has been for instance the case of Italy, which was one of the first to start such a scheme.
- Special R&D allowances enable enterprises to deduct more than 100% of their current eligible R&D expenditures from their taxable income. This is the case for the UK where two levels of deduction are offered: 130% for enterprises in general, and 175% for SME.
- Special exemptions of wage and/or social taxes for employees in R&D activities. The Dutch scheme WBSO allows the deduction of R&D labour costs only.
- Tax credits allow enterprises to directly deduct a specific share of their R&D expenses from the corporate tax liabilities. This type of R&D tax incentive is currently the most widespread.

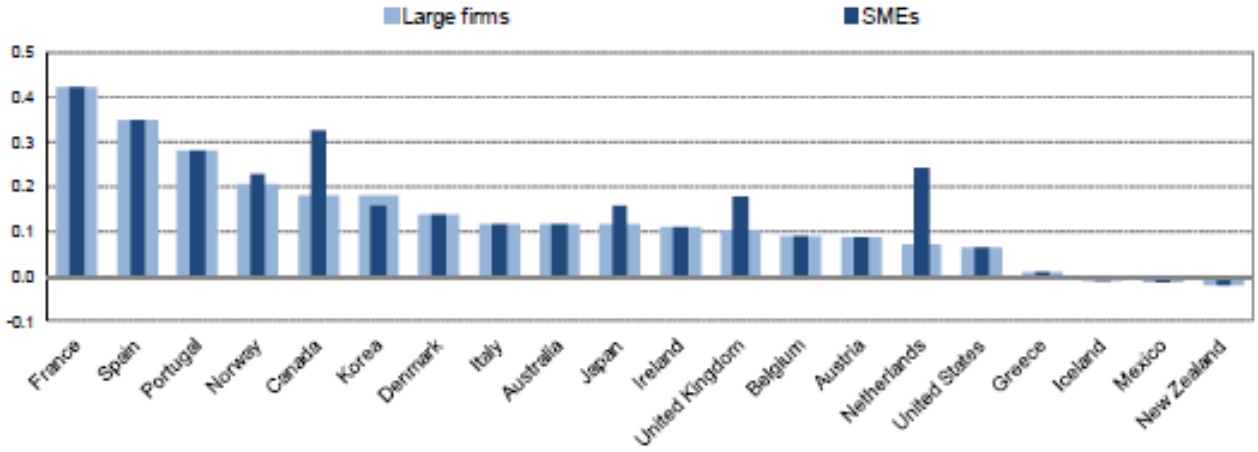
Another type of fiscal support to R&D that is closely related to R&D tax incentives is the so-called Patent Box. A patent box grants a lower corporate tax rate on profits generated from patents that are held in a certain country. Since patents are typically

the result of R&D activities, the lower tax rates represents a preferential treatment of R&D investment over other investment (Klette, 2000).

14.2.2 The impact of tax deductions schemes for R&D on SMEs

The overall costs associated with the R&D tax incentives schemes depend both on the uptake of the scheme by enterprises and on the design of the tax incentives in a country. Significant differences exist in the generosity of R&D tax incentives across countries and within countries between small and large enterprises.

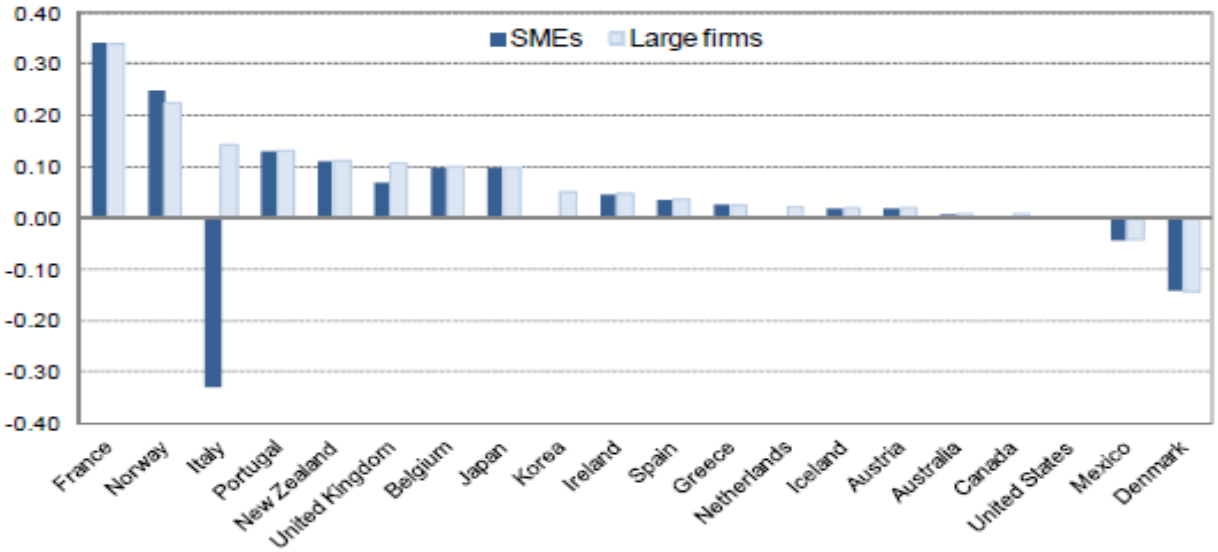
Figure 14.1: Tax treatment of R&D: Tax subsidy rate for USD 1 of R&D, large enterprises and SMEs, 2008



Source: OECD, The International Experience with R&D Tax Incentives, 2011

The general trend among OECD countries has been to adjust their R&D tax incentives to make them more generous and simpler to use. The increasing generosity of the scheme is outlined in Figure 2 with the majority of countries offering a higher tax subsidy in 2008 relative to the one offered in 1999 both for large and small enterprises. Exceptions are Denmark, Mexico and Italy.

Figure 14.2: Tax treatment of R&D: Change in the tax subsidy rate for USD 1 of R&D between 1999 and 2008



Source: OECD, The International Experience with R&D Tax Incentives, 2011

There are two approaches to evaluating the effectiveness of any tax policy designed to correct the insufficient supply of a quasi-public good (Hall, Van Reenen, 2000). The first is focused on whether the level of the good supplied after the implementation of the policy is such that the social return is equal to the social cost. In this situation, that would involve comparing the marginal return to industrial R&D dollars at the societal level to the opportunity cost of using the extra tax dollars in another way, for example, in deficit reduction. If it is very high, one may be willing to give up more tax dollars than the actual research induced by the tax subsidy. On the contrary, if the social return is only slightly higher than the private return, lowering the cost of research might cause the enterprise to do too much. In this case, even though the tax credit induces more industrial R&D than the lost tax revenue, it would not be a good idea, because one could have spent that tax revenue on some other activity which had a higher social return.

Most evaluations of the effectiveness of the R&D tax credit have been conducted using the second method, that is, as benefit–cost analyses. We need to calculate both the amount of R&D induced by the tax credit, and computing the costs requires estimating how much tax revenue is lost due to the presence of the credit. The ratio of these two quantities is the benefit–cost ratio; if it is greater than one, the tax credit is a more cost-effective way to achieve the given level of R&D subsidy; if it is less than one, it would be cheaper to simply fund the R&D directly.Table 1 shows the amount of resources invested through the R&D tax deduction scheme in Italy between 2006 and 2011.

Table 14.1: Tax credit for R&D activities, 2006-2011

	Million €
Approved projects	1442,6
Resources allocated	1729,9
Total supported investments	11305,0

Source: Italian Economic Development Ministry, MISE, 2013

14.3 Country profiles

14.3.1 Austria

The incentives available for research intensive entities include a 10% volume-based tax credit on all qualifying R&D related expenditures, even if the company is in a tax loss or low profit position. This benefit is refundable to the extent the credit exceeds the amount of the tax liabilities. Since January 1, 2012, the cost basis for subcontracted research expenditures is limited at €1M annually, the tax benefit can therefore amount to a maximum of €100K. Grants and subsidies received by the taxpayer that are exempt from Austrian corporate income tax reduce the base for the research credit. For income from royalty payments related to self-developed intellectual properties or capital gains from sale of self-developed intellectual

properties, the tax rate is reduced by half for individual taxpayers (not for corporations).

Eligibility is broad and is not limited to particular industries. Qualified R&D activity, in general, is considered any systematic or intensive study undertaken in the field of science or technology with the objective of using the results of the study for the production of new or fundamentally improved materials, devices, products, or processes.

Qualifying activities must be conducted with the purpose of increasing knowledge and developing new applications. The definition of research includes basic and applied research, as well as experimental development. Qualifying expenditures include capital investment, finance costs, staff costs, overhead, leasing costs, and subcontractor fees.

Data gathered through the interviews shows that small companies in Austria not only have a good knowledge of the opportunities coming from the tax incentives for R&D but often they have increased their investments in research and developments activities. The reason behind that choice was that in absence of the tax deductions they would not have had the necessary resources to invest in new projects. In particular when asked whether the interviewee believes that deductions and allowance schemes have played (or could play) a role in determining whether to invest in R&D activities, they answered that "they definitely have so far: knowing about especially the tax premium, we simply invested a lot in R&D and I believe we would have done much less lacking those premia/deductions".

14.3.2 Germany

In Germany research and development activities are supported through direct funds, grants and loans mainly. Tax deductions and incentives schemes to foster R&D are not in place in this country.

14.3.3 Italy

Italy has put in place the following tax deductions and incentives scheme for R&D performing companies:

- New R&D tax credit: since 2013 Italy offers a tax credit for all qualifying R&D costs.
- Tax relief for investments in "R&D Intensive Start-up companies" (IST): IST are companies with the main goal of developing and producing innovative and technologically advanced products or services. For 2013, 2014 and 2015, corporations investing in an IST can have an immediate deduction equal to 20% of the invested amount (the maximum eligible investment is equal to €1.8M per year). Individuals investing in an IST have a 19% tax credit for 2013, 2014 and 2015 (the annual maximum investments is €500K per year).
- 25% tax credit for telematics platform development: for 2013, 2014 and 2015, a 25% tax credit is available for all costs carried out in Italy to develop telematics platforms dedicated to the distribution, sale and rental of intellectual property. The goal of this credit offering is to foster the legal download, selling, or rental of IP such as movies or music. The tax credit is exempt from Corporate Income

Tax and Regional Tax on Productive Activities and can be utilized to offset both the taxes. The tax credit is not refundable.

- 35% tax credit for hiring researchers: from FY2012 a 35% tax credit is available for total labour cost incurred by companies hiring qualifying researchers. Eligible employees are those with a university degree or a Ph.D. (researchers without a Ph.D. must be employed only in R&D activities). Researchers must be employed by the company for at least 3 years (the limit is 2 years for SMEs) and the credit is subject to a cap of €200K per company annually. The tax credit must be claimed by filing a form and can be used to offset Corporate Income Tax, Regional Tax on Productive Activities, VAT, and withholding tax liabilities.
- Wages of employees involved in R&D activities are fully deductible for IRAP purpose (while, generally, wages are not deductible for IRAP purposes).

14.4 Conclusions

Research and development tax incentives have become a widely adopted policy tool to support business R&D. By granting a tax reduction depending on either the volume or increase in an enterprise's R&D expenditure, governments co-finance private R&D. For a long time, the key objective of R&D tax incentives was to raise business R&D expenditure, and most evaluations analysed the effectiveness of this instrument based on input additionality. In recent years, fiscal incentives have increasingly been used to target other policy objectives as well, including the support of small and young enterprises, strengthening of industry-science linkages and promoting R&D in certain thematic areas.

Most evaluations find significant input additionality for R&D tax incentives in the short run. Positive effects are found for different types of R&D tax incentives, as well as for tax credits, tax allowances and for schemes that address corporate taxes and social security contributions. One may thus conclude that R&D tax incentives are a useful tool to stimulate private R&D and raise the level of business R&D expenditure to a higher level.

In particular comparing the overall amount of investments made through the use of such schemes and investment figures if tax incentives were not in place, **it is possible to say that small and medium companies benefit more than large companies from these instruments. R&D tax deduction schemes have a direct impact on small and medium companies and their investment decisions**. Entrepreneurs tend to modify their business and investment strategies if they can obtain benefits in terms of tax reduction when designing and implementing research and development projects.

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15 CASE STUDY 9 IMPACT OF DEPRECIATION ON SMES

15.1 Introduction

SMEs have often been the primary target group of domestic investment promotion policies (Hendricks, Amit and Whistler, 1997; Chen, Lee and Mintz, 2002; Devereux, Griffith and Klemm, 2004). According to Coyne (1995), SMEs are generally more responsive to domestic tax incentives than large companies.

Taxes may play a more important role in the cost structure of SMEs because they do not have the financial and human capacity to develop sophisticated tax minimisation strategies. Some countries also have special tax provisions available for investments undertaken by SMEs. For instance, SMEs in the Czech Republic can take advantage of a reduced 15% corporate income tax rate for companies granted High and New Technology Enterprise (HNTE) status for periods of renewable three years[69]. Japanese SMEs may take advantage of either an investment tax credit of 7% or an additional depreciation of 30% for the acquisition of qualifying machinery or equipment (Ministry of Finance, 2000). Belgium also allows more generous investment deductions for small businesses than for larger companies. Finland, Spain and the United Kingdom allow more generous depreciation allowances for investments made by SMEs[70]. Similarly, the United States permits additional expensing allowances to qualifying property owned by small businesses under section 179 expensing[71].

Case study 7	Objective	Questions to be addressed
Impact of depreciation on SMEs	The aim of the case study is to assess the impact of special depreciation rates on the decision process adopted by enterprises in investing in particular assets.	• Impact of special depreciation rates in the fiscal plan of the enterprise • Impact of special depreciation rates on investment decisions made by the enterprise

[69] Deloitte, 2014 Global Survey of R&D tax incentives, 2014
[70] OECD, OECD Tax database, Taxation of Corporate and Capital Income, 2014
[71] US Department of the Treasury, Internal Revenue Service, Electing the Section 179 Deduction, 2013

15.2 The impact of depreciation on SMEs

15.2.1 Theoretical explanations

The effects of accelerated depreciation and other investment promotion provisions are crucial to determine the tax base of a company (Sørensen, 2004). Corporate tax policy can apply different depreciation rules that deviate from the so-called true economic depreciation (Samuelson, 1964; Sinn, 1987).

Depreciation is one of the important factors affecting SMEs' investment decisions, as it is deducted from the gross stream of return generated by an asset when calculating tax profits. The higher the allowed depreciation rate, the greater the reduction of the tax base and, thus, the lower corporate income tax in that year. There are various depreciation methods allowed across different countries to support investments (Sinn, 1987; King, 1977; King and Fullerton, 1984; Sandmo, 1974; Jacobs and Spengel,1996; Alvarez, Kanniainen and Södersten, 1999). Apart from straight-line depreciation , accelerated depreciation has been applied in Finland to stimulate private investment. Besides, geometric-degressive depreciation has been popular in EU countries like France, Spain and Sweden. In Austria, investment tax allowance (Investitionsfreibetrag) can be adopted as an indirect investment promotion scheme at present. In assessing their relative generosity, a useful benchmark is that of Samuelson's True Economic Depreciation (TED). This depreciation provision is neutral with respect to investment decisions (Samuelson, 1964; Atkinson and Stiglitz, 1980).

The incentive effects of different tax depreciation rules combined with the corporate tax rate on enterprises' investment decisions can be compared on the basis of the so-called net present value model (Wagner and Dirrigl, 1980; Schaden, 1994). Without taxation, the net present value (NPV) is equal to the present value of future gross return, discounted at an appropriate interest rate which corresponds to an expected minimum acceptable rate of return less the present value of the cost of investment. An investment project is therefore considered to be profitable when the NPV is positive. After the introduction of corporate tax, the present value of an asset generated from an investment amounts to the sum of present value of net return (gross return less taxes) and tax savings from a depreciation provision.

Table 15.1 compares the highest corporate tax rate (for retained earnings), tax depreciation methods and the extent of their generosity, which are presently allowed in the context of tax law in seven selected OECD countries. In the international ranking of the statutory corporate tax rate, Spain ranks first at 35%, followed by Austria (34%) and France (33.33%). The corporate tax rate is the lowest in Germany (25%). In Japan only the straight-line depreciation method can be adopted for equipment. As mentioned above, in countries like France, Spain and Sweden geometric-degressive depreciation is primarily applied as the investment incentive scheme for equipment with rates rate ranging from 20% (Germany) to 35% (France). Furthermore, accelerated depreciation can be combined with straight-line depreciation in Finland, while Austrian tax law provides the possibility of adopting investment tax allowance together with straight-line depreciation.

According to the net present value calculated under the standard assumptions for the case of investing in equipment (i.e. A0 = 100, r = 4%, α = 20%, C = 416.7), the Austrian regime creates the most favourable conditions for investors (ignoring the impact of anticipated inflation). In descending order, Finland, France, Spain and Sweden also provide investment incentives though of lower magnitude than Austria. On the other hand, the Japanese and German corporate tax systems remain more or less tax-neutral, since NPV reaches approximately zero in these countries. In this case

one can presume that the adopted 10-year tax life largely corresponds to the critical asset life.

Table 15.1: International comparison of tax incentives measured in terms of net present value without inflation: investment in equipment with a tax-life of 10 years

Country	Statutory corporate tax rate for retained earnings (%)	Tax depreciation and investment promotion measures	Net present value (= $PV(t)_0$ with various depreciation rules – C)
Japan	30	Straight-line depreciation (10%)	– 0.6
Germany	25	Geometric-degressive depreciation (20%)	0.0
Finland	28	Accelerated depreciation (50%) + straight-line depreciation (10%)	9.8
Austria	34	Investment tax allowance (9%) + straight-line depreciation (10%)	11.9
France	33.33	Geometric-degressive depreciation (35%)	6.5
Sweden	28	Geometric-degressive depreciation (30%)	4.5
Spain	35	Geometric-degressive depreciation (30%)	5.1

Source: Nam, Effects of tax depreciation rules on firms' investment decisions in an Inflationary phase: comparison of net present values in selected OECD countries, 2001

15.2.2 The impact of depreciation on SMEs

As mentioned above, different tax depreciation rules have different effects on investment decisions by SMEs in the Net Present Value Model (Nam, 2001). Tax depreciation measures include:

- straight-line depreciation;
- geometric-degressive depreciation;
- accelerated depreciation;
- free depreciation;
- investment tax allowance.

In the absence of taxation an investment project is on the margin of acceptance at the year of investment when

$$C = PV_0 = \int_0^{\infty} A_0 e^{-(\alpha+r)u}\, du = \frac{A_0}{\alpha+r}.$$

In this case, the NPV is zero.

In the case of straight-line depreciation over Γ years the amount of depreciation expense of the period u is calculated

$$D_u^{sld} = \frac{C}{\Gamma}$$

where u = 1, 2, ... Γ.

The introduction of a corporate tax rate t, with the discount rate becoming r(1–t), does not affect PV0 if TED (True economic depreciation defined as the negative change in value of the asset in the course of time) is deducted when calculating tax profits. However, with straight-line depreciation

$$PV(t)_0^{sld} = (1-t)\int_0^{\infty} A_0 e^{-\{\alpha+r(1-t)\}u}\,du + t\int_0^{\Gamma}(C/\Gamma)e^{-r(1-t)u}\,du$$

$$= \frac{A_0}{\alpha+r} + tC\left\{\frac{1-e^{-r(1-t)\Gamma}}{r(1-t)\,\Gamma} - \frac{\alpha}{\alpha+r(1-t)}\right\}$$

$$= PV_0 + tC\left\{(DA) - \frac{\alpha}{\alpha+r(1-t)}\right\}.$$

DA denotes the value of straight-line depreciation allowances per monetary unit like the D-Mark or dollar (Atkinson and Stiglitz, 1980). Consequently, the application of straight-line depreciation is advantageous when

$$DA > \frac{\alpha}{\alpha+r(1-t)}.$$

When $DA = \frac{\alpha}{\alpha+r(1-t)}$ there exists a Γ^* critical

For shorter tax-lives than Γ* straight-line depreciation gives more generous allowances. The amount of geometric-degressive depreciation expense in the period u is measured

$$D_u^{gdd} = \delta C e^{-\delta u}$$

where δ is the geometric-degressive depreciation rate (0 < δ < 1) and $Ce^{-\delta u}$ shows the net book value of capital good in the period u. With geometric-degressive depreciation the present value of asset at time 0 is

$$PV(t)_0^{gdd} = \int_0^{\infty} A_0(1-t)e^{-\{\alpha+r(1-t)\}u}\,du + tC\int_0^{\infty}\delta e^{-\{\delta+r(1-t)\}u}\,du$$

$$= PV_0 + tC\left\{\frac{\delta}{\delta+r(1-t)} - \frac{\alpha}{\alpha+r(1-t)}\right\}.$$

If δ = α, PV(t)0gdd = PV0 just as in the case with TED. If δ > α, geometric-degressive depreciation has incentive effects, which, in turn, means that PV(t)0gdd > PV0.

Accelerated depreciation is used in practice as an investment promotion scheme only in combination with straight-line depreciation method. Accelerated depreciation expense (as a certain percentage share of investment cost) is tax-deductible in the first year of the tax-life of a capital good. Consequently, total depreciation expense in the first year reaches:

$$D_1^{ad+sld} = \sigma C + \frac{C}{\Gamma}$$

where σ indicates the accelerated depreciation rate (0 < σ < 1). Because an extra amount of expense can be deducted in the first year, the total tax-life of a capital good is reduced correspondingly from Γ to Ω. And

$$\Omega = (1-\sigma)\Gamma\,.$$

With accelerated depreciation the present value of an asset at time 0 is

$$PV(t)_0^{ad} = (1-t)\int_0^{\infty} A_0 e^{-\{\alpha+r(1-t)\}u}\,du + t\int_0^{1}\sigma C e^{-r(1-t)u}\,du$$

$$+ t\int_0^{\Omega}(C/\Gamma)e^{-r(1-t)u}\,du$$

$$= PV_0 + tC\left[\frac{\sigma\{1-e^{-r(1-t)}\}}{r(1-t)} + \frac{1-e^{-r(1-t)\Omega}}{r(1-t)\Gamma} - \frac{\alpha}{\alpha+r(1-t)}\right].$$

PV(t)0ad increases in accordance to the increase in σ. PV(t)0ad reaches its maximum with σ = 100%, namely in the case of applying free depreciation.

Investment tax allowance is also generally used in combination with straight-line depreciation. Unlike accelerated depreciation, the total tax-life of a capital good remains unchanged. As a consequence, this type of tax incentive provides possibilities of depreciating the value, which is significantly higher than the original investment cost of a capital good.

With investment tax allowance the present value of asset at time 0 is

$$PV_0^{ita} = (1-t)\int_0^{\infty} A_0 e^{-\{\alpha+r(1-t)\}u}\,du + t\int_0^{1} (\beta C)e^{-r(1-t)u}\,du + t\int_0^{\Gamma} (C/\Gamma)e^{-r(1-t)u}\,du$$

$$= PV_0 + tC\{\frac{\beta\{1-e^{-r(1-t)}\}}{r(1-t)} + (DA) - \frac{\alpha}{\alpha+r(1-t)}\}$$

where β indicates the rate of investment tax allowance (0 < β < 1).

15.3 country profiles

15.3.1 Finland

Buildings and other constructions are depreciated by using the declining balance method. Depreciation for each building is calculated separately, with the maximum percentage varying from 4% to 20%, depending on the type of construction. Depreciation of machinery and equipment is calculated using the declining balance method with a maximum rate of 30%. Patents and other intangible rights, such as goodwill, are amortised on a straight-line basis for ten years for tax purposes, unless the taxpayer demonstrates that the asset has a shorter useful life.

Assets with a useful life of less than three years may be written off using the free depreciation method, i.e. deduct up to 100% of the costs of assets in a single tax year.

Interviews show that the importance of depreciation schemes resides in the fact that "special rates will improve the profitability and liquidity of the business - all the income of the company will not be taken away in tax".

15.3.2 Italy

Machinery and equipment worth less than € 516 may be depreciated entirely in the year of purchase. All other equipment and machinery is depreciated at a rate no higher than that established by the tax authorities and the depreciation is deductible from the year in which it starts to operate. From the 1st January 2008, accelerated depreciation is no longer allowed. The interviews suggest that enterprises in Italy obtain benefits from the use of depreciation schemes. When asked what role have special depreciation rates played on capital acquisition plans (e.g. machinery etc.), an interviewee responded that it was "very important. We used depreciation for machinery and equipment. Moreover, they can be used for the training of employees (over multiple years) and for advertisement".

Land and buildings

These rules also apply to buildings whose normal depreciation rate is 3%. No depreciation is available for land.

Intangible assets

The cost incurred for the acquisition of patents and the like connected with the utilization of know-how, industrial inventions, etc. can be amortized on a straight-line basis at a rate not higher than 50% for each year. Trademarks and goodwill are amortized over a period of 18 years.

15.3.3 The Netherlands

Depreciation of fixed assets for tax purposes is required by Dutch law. Tax depreciation on real estate is limited so that the tax written down value cannot be reduced below certain limits. In practice this will mean that depreciation of real estate used for investment purposes cannot be depreciated below its value for real estate tax purposes. For real estate used in a business, the limit will be 50% of the value for real estate tax purposes.

Depreciation of purchased goodwill is extended from an average term of five years to a maximum charge of 10% per annum.

The general depreciation period of all other assets (such as cars, computers etc) is limited to a maximum charge of 20% per annum.

Interviews suggest that, despite the importance of depreciation schemes in terms of available resource to re-invest in the business, strategic decisions are not deeply affected by such schemes: "As an entrepreneur, you don't suddenly buy a machine or something, today instead of tomorrow just because you can depreciate it. You buy one if you need it".

15.4 Conclusions

Apart from tax rates, attention has to be paid to depreciation, since it is one of the important factors affecting enterprises' investment decisions, as it is deducted from a gross stream of return generated from the asset when calculating tax profits. The corporate tax regimes adopted in the countries discussed above play a crucial role for stimulating private investment.

The incentive effects of different tax depreciation rules combined with the corporate tax rate on enterprises' investment decisions can be compared on the basis of the net present value model (Devereux, Griffith and Klemm, 2002). Without taxation, the net present value (NPV) is equal to the present value of future gross returns, discounted at an appropriate interest rate less the present value of the cost of investment. An investment project is therefore considered to be profitable when the NPV is positive. After the introduction of tax on corporate income, the present value of the asset generated from an investment amounts to the sum of present value of net return (gross return less taxes) and tax savings led by an incentive depreciation provision.

Studies show that the different depreciation methods applied in different countries have different impacts on companies and SMEs in particular. Small entrepreneurs are encouraged to invest in new assets to improve their growth where mechanisms of favourable depreciation are in place.

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16 CASE STUDY 10 IMPACT OF CIT ADMINISTRATIVE BURDEN AND TAX COMPLIANCE ON SMES

16.1 Introduction

A business is subject to two types of costs deriving from a given tax system – the amount of money actually to be paid to government, and the amount of administrative resources required to determine, document and make tax payments: i.e. compliance costs (including recording transactions, maintaining accounts, computing and filing tax returns, etc).

These compliance costs tend to fall more heavily on SMEs than on larger enterprises. SMEs generally lack internal tax experts, due to their small dimensions and the relevant internal structure. Consequently, they often rely more on outside professionals, accountants and consultants, to deal with tax issues. The high cost of external expertise increases the compliance burden for SMEs (Erard, 1997).

Furthermore, economies of scale suggest that the costs of such compliance are higher on a per sales basis for SMEs than for large enterprises. Businesses also face the additional cost of complying with tax laws at different levels of governments. Again, this cost is probably more acute for small businesses, which may lack additional resources to deal with taxes in different jurisdictions. Significant support to SMEs could result from improved tax co-ordination and simplified tax rules that avoid duplication.

The "Background note prepared by the OECD Centre for Tax Policy and Administration for a Roundtable Discussion at the 1st Meeting of the Working Group on Taxation of the SEE Investment Committee" shows that the compliance burden is high relative to large companies and relative to the tax compliance burden for payroll employees. This suggests that if the statutory tax burden on a given amount of labour and capital income is roughly the same for an employee as for a self-employed individual, then the higher compliance burden for the latter would mean that the tax system is non-neutral, tending to discourage SME creation. A reduction in tax compliance costs and a lower overall tax burden on SMEs would be achieved through simplification provisions, with a more neutral tax treatment of companies of different dimensions.

Annex 1

SME taxation in Europe

– An empirical study of applied corporate income taxation for SMEs compared to large enterprises

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Case study 10	Objective	Questions to be addressed
Impact of CIT compliance and administrative costs on SMEs	The objective is to provide an overview of compliance and administrative burdens for SMEs	• Perceived burden in terms of effort (in FTE hours) needed to comply with the CIT • Perceived complexity of tax compliance • Potential solutions to reduce compliance costs

Across all stages of the life cycle:

Based on the "The World Bank Group's Doing Business tax ranking indicator" that estimates compliance costs (and administrative burden) by looking at hours spent on tax work and the number of tax payments made in a tax year, we have selected four countries that are placed at the extremes of the ranking in order to provide an insight on different practices and provisions that affect compliance costs and administrative costs for SMEs.

	Country	Compliance costs:	Frequency:
	Sweden:	50 hours of tax work	1 CIT payment
	Slovenia:	90 hours of tax work	1 CIT payment
	Luxembourg:	21 hours of tax work	5 CIT payments
	Ireland:	10 hours of tax work	1 CIT payments

Data sources:

Bureau Van Dijk, Zephir Monthly M&A Report, Western Europe, Q1 2013

CMS and DealWatch, Emerging Europe: M&A Report 2012 Benchmarking European Tax and Legal Environments (2008) European Private Equity & Venture Capital Association & KPMG

EVCA – Yearbook 2012 - Activity Data on Fundraising, Investments and Divestments by Private Equity and Venture Capital Firms in Europe

Paying Taxes 2013 – PwC and World Bank

16.2 The impact of CIT administrative burden and compliance costs on SMEs

16.2.1 Theoretical explanations

Tax compliance costs are costs "incurred by third parties, such as businesses, in meeting the requirements laid upon them in complying with a given structure and level of tax" (Sandford, Godwin and Hardwick, 1989).

The taxation of SMEs faces several major challenges, in particular with regard to compliance costs of taxation. Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses. There are a number of international studies that indicate that while absolute compliance costs tend to rise with enterprise size, when expressed as a cost per employee or as a percentage of turnover, costs fall sharply with enterprise size. This may be explained by high fixed costs in learning about applicable regulations and undertaking procedures to ensure compliance (Lattimore, R., Martin, B., Madge, A. and Mills, J., 1998). It is possible to identify three main categories of costs of complying with taxation requirements. Typically, these will include:

- •the costs of labour/time consumed in completion of tax activities. For example, the time taken by a business person to acquire appropriate knowledge to deal with tax obligations, or the time taken in compiling receipts and recording data in order to be able to complete a tax return;
- •the costs of expertise purchased to assist with completion of tax activities (typically, the fees paid to professional tax advisers);
- •incidental expenses incurred in completion of tax activities, including computer software, postage, travel etc.

Studies show the regressivity of tax compliance costs, with higher costs for smaller enterprises, for two main reasons. First, there are large diseconomies of scale involved in complying with tax requirements, and small enterprises have to carry the high fixed costs of compliance regardless of the fact that the particular activity or transaction that gives rise to the compliance costs may only occur once or infrequently. Secondly, there is a learning curve effect that affects negatively small enterprises, considering that they may have to allocate resources to identify the tax implications of a one-off transaction, compared to a larger business that may be able to amortise that learning cost against a large number of similar transactions (Lignier, Evans, 2002 and Evans 2003).

The way companies prepare and submit their tax returns changed in the last decades. There has been a considerable growth in the usage of tax administration software and in the outsourcing of tax processes to external advisers (Eichfelder and Schorn, 2009).

In addition to outsourcing and e-filing taxpayers may also use options inherent in the tax law to simplify their tax return and reduce their compliance cost level. Slemrod (1989) and Pitt and Slemrod (1989) find significant evidence for a cost increase by itemizing deductions (eligible expense that individual taxpayers can report on their income tax returns in order to decrease their taxable income).

Compliance cost studies have been conducted in various countries. For the United Kingdom the study published by Sanford in 1989 revealed that compliance costs of the

corporation income tax in 1986-87 were approximately 2.22 percent of the revenue collected. Businesses' compliance costs for the corporate tax (and for other taxes studied) were found to be strongly regressive: small businesses (up to £100,000 of taxable turnover) had compliance costs equal to 0.79 percent of taxable turnover, while compliance costs for medium-sized (£100,000 to £1 million) and large (over £1 million) businesses were 0.15 and 0.04 percent, respectively, of taxable turnover. The Netherlands case has been studied by Allers in 1994 with similar to those of the U.K. study. The survey found that the costs of complying with the corporate income tax amounted to approximately 4% of the revenue generated by an SME. The study also found that compliance costs per employee and as a proportion of turnover decreased significantly as enterprise size increased.

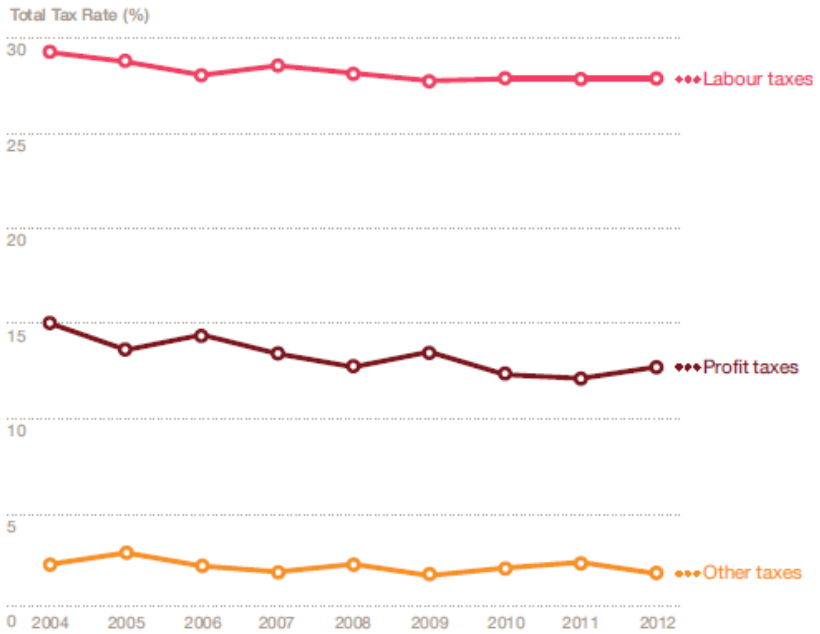
Outside Europe a very famous model is the one developed by Arthur D. Little in 1985 for a study commissioned by the Internal Revenue Service in the United States. The study was focused on getting estimates of six components of tax compliance burden for SMEs – keeping records, getting advice, obtaining materials, sending and working with a preparer, preparing the return, and sending the return. The resulting model generated an estimated compliance burden of 2.7 billion hours for American businesses in 1983. Payne (1993) used the same model to estimate the number of hours allocated by US companies to tax compliance, with an estimate of 3.614 billion in 1985. He then applied an hourly rate of $28.31, the average of the hourly rate employees at large accounting enterprises, obtaining a business compliance cost of $102.31 billion.

The study by Kamleitner, Korunka and Kirchler (2012) suggests that both economic and psychological variables need to be considered to understand tax compliance. Procedural and distributional fairness perceptions, knowledge about taxation, personal and social norms of tax compliance, personal attitudes, tax rates, and perceived audit combined with deterring fines relate positively to compliance. In addition, particularities of national tax law and culture relate to tax compliance.

16.2.2 The impact of CIT on administrative burden in the EU

Figure 1 shows the breakdown of companies total tax rate in the EU&EFTA region, as analysed by PWC for the World Bank Group (2014). Company profit taxes across Europe have decreased in the last 9 years.

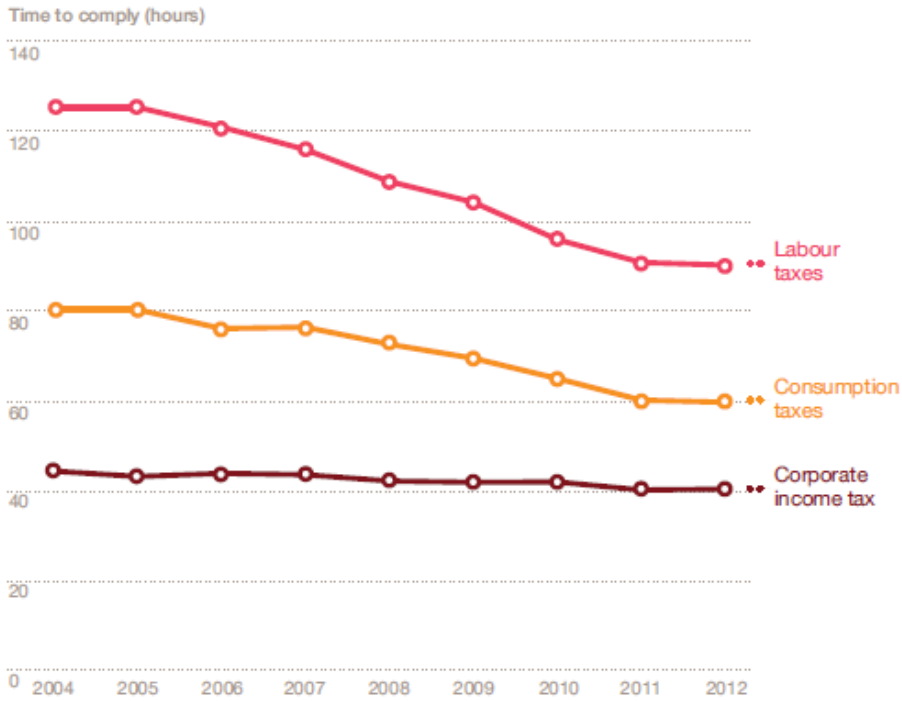
Figure 16.1: Trend in Total Tax Rate in EU & EFTA by type of tax



Source: Paying Taxes 2014, World Bank Doing Business, 2014

Figure 16.2 shows the breakdown in the time to comply with tax procedures for the Corporate Income Tax in the EU and EFTA region (PWC, 2014). Overall, while the time to comply with labour taxes and consumption taxes has significantly decreased over the last 9 years, the time spent on Corporate Income Tax procedures remained almost unchanged. In the EU and EFTA region companies, and in particular SMEs, allocate in average 50 hours to tax compliance procedures only for CIT. This translates in costs in terms of human resources and very often in terms of hiring an external consultant to deal with tax payment procedures.

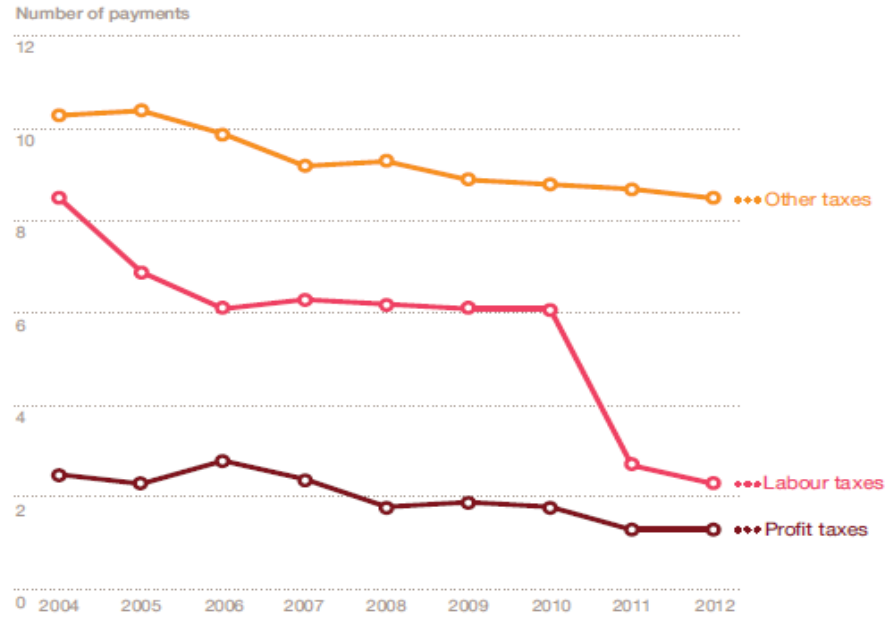
Figure 16.2: trend in time to comply in the EU & EFTA by type of tax



Source: Paying Taxes 2014, World Bank Doing Business, 2014

The number of payments per year is also another factor of major importance and impact on SMEs across Europe, since for each payment the company needs to allocate time and economic resources to deal with complicated procedures and different rules for each European country. Figure 16.3 shows the trend in the last 9 years in the EU and EFTA region in the number of payments per year.

Figure 16.3: trend in number of payments in the EU & EFTA by type of tax



Source: Paying Taxes 2014, World Bank Doing Business, 2014

Table 16.1 shows the breakdown for the 20 countries analysed in this document by number of payments per year, time allocated and type of tax. Luxembourg is the top performer in terms of time allocated to tax compliance, 55 hours per year spent by companies in dealing with tax payments and procedures. On the other extreme Bulgarian companies spend more than 450 hours per year on tax compliance.

Table 16.1: Tax policies in the 20 Countries analysed

Country	Payments (number per year)	Time (hours per year)	Profit tax (%)	Labor tax and contributions (%)	Other taxes (%)	Total tax rate (% profit)
Austria	12	166	15.3	34.7	2.4	52.4
Belgium	11	160	6.4	50.3	0.7	57.5
Bulgaria	13	454	4.9	20.2	2.6	27.7
Croatia	19	196	0	17.9	1.9	19.8
Estonia	7	81	8.1	39.4	2	49.4
Finland	8	93	14.1	24.5	1.2	39.8
France	7	132	8.7	51.7	4.3	64.7
Germany	9	218	23	21.8	4.6	49.4
Greece	8	193	11.2	32	0.7	44
Ireland	9	80	12.3	12.1	1.3	25.7
Italy	15	269	20.3	43.4	2	65.8
Lithuania	11	175	6	35.2	1.9	43.1
Luxembourg	23	55	4.1	16	0.5	20.7
Netherlands	9	123	20.8	18.2	0.3	39.3
Poland	18	286	14.1	26	1.5	41.6
Romania	39	200	10.3	31.5	1.1	42.9
Slovenia	11	260	12.9	18.2	1.4	32.5
Spain	8	167	21.2	36.8	0.6	58.6
Sweden	4	122	16	35.5	0.6	52
United Kingdom	8	110	21.6	10.6	1.7	34

Source: World Development Indicators 2014, THE WORLD BANK, 2014

Complicated tax payment procedures are the main cause of extra costs and burden for SMEs across Europe. The presence of a one-stop-shop system is usually considered as one possible way to ease the procedures and decrease the burden companies face in this field. Also the provision of the use of the internet to pay taxes can be major driver to simplify tax compliance for SMEs.

Table 16.2: Ease of paying taxes

Country	Can procedures be completed online?	Is there a one-stop shop?	Is there no paid-in minimum capital requirement?
Belgium	yes	yes	no
Bulgaria	yes	yes	no
Croatia	yes	no	no
Estonia	yes	yes	no
Finland	yes	yes	no
France	yes	yes	no
Germany	yes	no	no
Greece	no	no	yes
Ireland	yes	no	yes
Italy	yes	yes	no
Lithuania	yes	yes	yes
Luxembourg	yes	yes	no
Netherlands	yes	no	yes
Poland	no	yes	no
Romania	yes	yes	no
Slovenia	yes	yes	no
Spain	no	yes	no
Sweden	no	yes	no
United Kingdom	yes	yes	yes
United States	yes	no	yes

Source: World Development Indicators 2014, THE WORLD BANK, 2014

16.3 Overview of country specific measures

16.3.1 Austria

Public and private limited companies and certain other entities, such as co-operative purchasing societies and mutual insurance companies, are subject to corporate income tax at 25%.Companies incurring a tax loss or earning small profits must pay a minimum tax of EUR 1,750, EUR 3,500 or EUR 5,452 depending on the legal status of the company and the industry. Non-resident companies are not subject to a minimum tax. Minimum tax may be credited against corporate tax payable in the following years. Resident companies are subject to tax on their worldwide income. Non-resident companies are taxed on income attributable to an Austrian permanent establishment, immovable property located in Austria, deposits with Austrian banks, income from silent partnerships in Austria, income from leasing or renting certain property in Austria and income from commercial or industrial consulting or providing labour for domestic use. Companies are deemed to be resident if they are incorporated in Austria (i.e. the registered office is in Austria) or have their place of effective management in Austria. The fiscal year usually runs from 1 January to 31 December, although a

company can choose a different fiscal year under certain circumstances. Corporate income tax is assessed on an annual basis. However, quarterly advance payments have to be made.

16.3.2 Belgium

The normal corporate income tax rate is 33% for both resident companies and branches. If the income of a company or a branch is below €322,500, it is taxed at rates ranging from 24.25% to 34.5%. A tax year refers to the year following the financial year if the financial year ends on 31 December. If the financial year ends before 31 December, then the tax year refers to the year in which the financial year closes. To avoid a surcharge, tax must be paid in advance in quarterly instalments. For a calendar-year taxpayer, the quarterly instalments are due in 2013 on 10 April, 10 July, 10 October and 20 December. For the 2014 tax year, the percentage of the surcharge is 2.25% (which is a historically low percentage).The balance of tax payable is due within two months after receipt of the notice of assessment.

16.3.3 Bulgaria

The tax year is the calendar year. Annual tax returns must be filed by 31 March of the year following the tax year. Companies subject to tax must make monthly advance payments of tax. Monthly advance payments are due on the 15th day of the respective month; quarterly advance payments are due on the 15th day after the end of the respective quarter. Companies must pay the corporate tax due for the tax year, less the advance instalments, by 31 March of the following year.

16.3.4 Croatia

The standard tax year is the calendar year. However, on request and under certain conditions, a company may use a different financial accounting year as its tax year. Companies must file a provisional tax return within three months after the end of the financial year. The final tax return must be filed within six months after the end of the financial year. To ensure compliance with the rules described above, the tax authorities may impose arbitrary assessments if the taxpayer fails to file a tax return.

16.3.5 Estonia

The tax period is a calendar month. Tax returns must be filed and income tax must be paid by the 10th day of the following month.

16.3.6 Finland

Companies must file the corporate income tax return within four months after the end of their accounting period. Corporate income tax is prepaid in 12 monthly instalments during the accounting period. After the tax return is filed and processed by the tax authorities, a final settlement or refund is made. The taxation is finalized within 10 months after the end of the accounting period.

16.3.7 France

In general, companies must file a tax return within three months following the end of their financial year. Corporate income tax is prepaid in four instalments. Companies that have their financial year ending on 31 December must pay the instalments on 15 March, 15 June, 15 September and 15 December. The balance of corporate tax is due by 15 April of the following year.

Companies that generated a turnover exceeding €15 million (excluding value-added tax [VAT]) during the preceding year must file their corporate income tax and VAT returns electronically. If a company does not comply with this requirement, a 0.2% penalty is imposed. Other companies may elect to file such returns electronically.

16.3.8 Germany

The tax year is the calendar year. Annual tax returns must be filed by 31 May of the year following the tax year. However, an extension to 31 December of the year following the tax year is usually granted if a licensed tax consultant prepares the return. Payments made with respect to the estimated corporate income tax liability, usually determined at one-quarter of the liability for the previous year, are due on 10 March, 10 June, 10 September and 10 December. Prepayments of trade tax are due on 15 February, 15 May, 15 August and 15 November. Final payments are due one month after the tax assessment notice issued by the tax authorities is received by the taxpayer.

16.3.9 Greece

The tax year is the calendar year. In general, on filing their annual corporate income tax return, legal entities must make an advance payment against the next year’s income tax liability. Such advance payment equals the amount calculated by applying a rate of 80% (100% for banks) to the income tax due for the year for which the return is filed. The final payment of tax is calculated by subtracting the advance payment made in the preceding year and other prepayments of tax (including taxes withheld at source) and foreign taxes paid on foreign source income from the amount of tax due.

16.3.10 Ireland

Data gathered show that in Ireland the average time spent on preparing the necessary documentation, filling in the forms, consulting experts and reviewing the documents is 10 days per year. The economic costs deriving from the obligation of being compliant with the corporate income tax are, in average, around 5000 € per year. In the vast majority of the cases these economic costs come from the employment of an external tax advisor, needed because small companies do not have the needed internal capacities and expertise to manage all the required procedures.

The Self-Assessment system "Pay & File" applies to companies. The obligations of a company with regard to paying Corporation Tax and filing its return are as follows:

- Compute and pay its preliminary tax liability by specified dates.
- Complete and file on line.
- Pay, on line, any balance of tax due when lodging the return i.e. within nine months of the end of the accounting period, subject to the 21/23 day rule. (The specified return date and payment due date is the 21st day of the applicable month. This date is extended to the 23rd of the applicable month for companies who file their return and pay any associated tax due via Revenue's Online Service (ROS)).

Under the Mandatory Electronic Filing and Payment of Tax Regulations companies are obliged to electronically file their returns and pay their tax using ROS.

16.3.11 Italy

Income tax returns must be filed by the end of the 9th month following the end of the company's fiscal year. Companies must make advance payments of their corporate and local tax liability equal to a specified percentage of the tax paid for the preceding year. Limited to the fiscal year including 31 December 2013, the advance payment for corporate income tax purposes is 101% of the corporate income tax due for the previous fiscal year.

16.3.12 Lithuania

Companies must file profit tax returns with the tax inspectorate by the first day of the sixth month following the end of the tax year. Companies must make quarterly advance payments of profit tax by the last day of the first three quarters and by the 25th day of the last quarter. The law specifies two methods that companies may choose to calculate their advance profit tax. The chosen method must be applied consistently throughout the year, but it can be changed once in the tax year. The following are the specified methods:

- The results of prior financial years. The advance payments for the first nine months are calculated based on the profit tax for the year before the preceding year.
- The forecasted profit tax of the current year. Each of the advance payments equals 25% of the forecasted profit tax for such year. However, the total of the

advance profit tax payments made during the tax year must total at least 80% of annual profit tax.

If companies choose to pay the advance profit tax based on the results of prior financial years, they must file two profit tax advance payment returns. The first return covers the first nine months of the tax year and must be filed by the last day of the first month of the tax year. The second return covers the last 3 months of the tax year and must be filed by the last day of the 10th month of the tax year.

16.3.13 Luxembourg

Data collected through the interviews shows that in Luxembourg it takes a company a total of 8–10 days per year to complete tax compliance-related procedures. In terms of economic burden the annual costs for a small company to fulfil tax compliance procedures amount in average at 20.000 €. A large company, in average, allocates 15 days to tax compliance procedures, at a lower cost of 10.000 – 15.000 €. One interviewee said that "it takes my company as a whole a total of 8–10 days to complete tax compliance-related procedures, while I feel confident to say it does not drain more than around € 20.000 yearly from our liquidity resources".

For companies the biggest problem is the fact that they have to make four advance payments of business taxation every year. A proposed solution is to reform the system, introducing a single non-advanced payment per year, in order to simplify and reduce the amount of procedures. In doing so companies would also have more liquidity available, allowing them to improve their day-to-day business activities.

EU legislation is perceived as having any impact on the costs of tax-compliance procedures. Interviews show that at European level the priority in this sector should be the introduction of a single EU wide system of corporate income taxation, harmonizing the relevant rules and managing the contribution at the EC level, and the overall reduction of corporate income tax levels for small and medium companies. This would allow having the same set of rules for all companies in the EU.

The taxable income is calculated on the basis of the profit as per the commercial balance sheet and adjusted by adding all non tax deductible expenses (e.g. excessive depreciation, directors fees, non-deductible taxes) and by deducting exempt income (e.g. as per a double tax treaty or the participation exemption). Taxable losses may be carried forward indefinitely. A carry back of losses is not allowed. Corporations that have their registered office or their central administration in Luxembourg are subject to a minimum advance payment on corporate income tax (hereafter "MCIT"). The MCIT is an advance tax payment on the corporate income tax due. If no corporate income tax is due during a given year, the MCIT can be offset against the corporate income tax due in future years. It is however not refundable.

16.3.14 Netherlands

An annual tax return must be filed with the tax authorities within 5 months after the end of the tax year, unless the company applies for an extension (normally, an additional 10 months based on an agreement between the tax advisers and the tax

authorities). Companies must make partial advance payments of corporate income tax during the year, which are known as preliminary assessments. The preliminary assessments are based on the expected final assessment

16.3.15 Poland

The Polish tax year must last 12 consecutive months, and it is usually the calendar year. In general, companies must pay monthly advances based on preliminary income statements. Monthly declarations do not need to be filed. In certain circumstances, a company may benefit from a simplified advance tax payment procedure.

Companies must file an annual income tax return within three months after the end of the company's tax year. They must pay any balance of tax due at that time.

16.3.16 Romania

Under the corporate income tax law, payers of corporate income tax (for example, companies, branches and permanent establishments) must file tax returns and pay corporate income tax quarterly (computed based on actual numbers) by the 25th day of the first month following the first, second and third quarters.

The annual corporate income tax return must be filed and any balance of annual corporate income tax must be paid by 25 March of the following year. However, certain taxpayers must submit the annual corporate income tax return and pay the related tax by 25 February of the following year, such as non-profit organizations or taxpayers deriving most of their revenues from cereals and technical plants

16.3.17 Slovenia

Interviews show that in Slovenia companies spend an average of 5 days per year managing the administrative procedures needed to comply with the corporate income tax. The overall costs of these activities are variable and go from 2.000 € to 10.000 € per year.

Companies suggest a simplified system with a single annual payment instead of the current one, where different payments in advance are made during the year. Simplification could be also be reached through a more wide use of IT systems and the provision of the possibility to manage these procedures via the internet, reducing bureaucracy. An interviewee suggested that "reducing the number of different taxes so that everything is easier and quicker to understand, then also unite all payment in one instalment, and avoid any kind of advance payment" would greatly simplify the system.

While EU legislation is not perceived as having any impact on compliance costs for SMEs, the harmonization at European level of tax compliance procedures is seen as favourable, as well as the introduction of a common framework for deductions and the differentiation of taxation levels for large companies and SMEs.

The tax year is the calendar year or any other 12 months period. If the tax period differs from the calendar year the taxpayer may not change the tax period for three years. Consolidated returns are not permitted in Slovenia, so each company must file its own return. Slovenia operates a self-assessment regime. Tax payments must be made in advance on a monthly or quarterly basis. The tax return must be submitted to the tax authorities three months after the end of the relevant tax period.

16.3.18 Spain

The tax year is the same as the accounting period, which may be other than a calendar year. The tax year may not exceed 12 months. The tax return must be filed within 25 days after six months following the end of the tax year. In April, October and December of each calendar year, companies and permanent establishments of nonresident entities or individuals must make payments on account of corporate income tax or nonresidents income tax, respectively, equal to either of the following:

- Eighteen percent of the tax liability for the preceding tax year.
- An amount calculated by applying 5/7 of the corporate income tax rate to the profits for the year as of the end of the month preceding the date of the payment and then subtracting from the result tax withheld from payments to the company and advance payments of tax previously made. This alternative is compulsory for companies with turnover of more than €6,010,121.04 in the immediately preceding tax year

16.3.19 Sweden

The Swedish Income Tax Act does not contain a comprehensive list of entities subject to Company Income Tax. Instead, the point of departure is that all Swedish legal entities are subject to Company Income Tax, except otherwise indicated. Accounting rules for smaller enterprises are to large extent simplified compared to accounting rules for larger enterprises . The division between smaller and larger enterprises is, in comparison with the division between private and public companies, at least of some importance regarding the Company Income Taxation. In Swedish business taxation, there is still a great dependence between accounting and taxation. The difference in accounting rules may lead to different taxation, for example regarding the treatment of periodical income.

16.3.20 The United Kingdom

Tax returns, accounts and computations must be filed within 12 months after the end of the accounting period.

Large companies must make quarterly instalment payments of their corporation tax. The first instalment is due six months and thirteen days after the first day of the accounting period, and the last instalment is due three months and fourteen days after the end of the accounting period. These payments are based on the estimated tax liability for the current year. Fewer payments may be required for shorter accounting periods.

All other companies must pay estimates of their corporation tax liability within nine months after the end of their accounting period.

16.4 Conclusions

The corporate income tax system imposes costs on businesses beyond the revenue that is collected. In particular, businesses expend significant resources in keeping tax records, researching the tax laws, filing returns, responding to audits, and launching appeals. Ultimately, these costs translate into a lower return on companies' investments, reduced employment compensation, and/or higher prices for the products they produce.

As demonstrated in the country-by-country analysis in the vast majority of the selected cases tax compliance rules are the same for large companies and SMEs. However, studies show that SMEs are more heavily impacted by tax compliance obligations than large companies are. The vast majority of small and medium-sized businesses rely on outside professional assistance to comply with their corporate income tax. Smaller businesses are likely to lack the technical knowledge to properly complete an income tax return, may not be familiar with recent tax changes and would in all probability find it cost-inefficient to attempt to develop this expertise internally. Although the availability of outside tax assistance reduces the overall compliance burden (at least in terms of time allocated) for these enterprises, the cost of this assistance and the time needed to complete all the procedures are the commonly reported sources of compliance problems by small and medium companies

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17 CASE STUDIES INTERVIEWS

Austria

What are the main industries in which you operate?

Interior design

What is the size of your enterprise in terms of number of employees?

212 employees

What is the annual turnover of your enterprise?

9 million euros

What financing mix has your company chosen during the start-up phase?

We brought our firm close to the standards of our peers and main competitors in the sector (interior design)

Are you aware of any favourable tax schemes to support companies like yours?

Yes: I know for instance that there is an up-to-50% tax relief for option schemes, which is good for companies like mine – the tax relief cannot be granted over shares that are greater than 36,000 euros

Do you think that the level of capital raised by your company has been affected by the presence of such schemes?

While the level of capital was significantly not affected, the type and distribution of capital were: especially the up-to-50% tax relief for option shares has contributed to segmenting shareholders into a more numerous pool of smaller ones.

Have these affected your preferences between debt and equity?

Yes, this has made me (and other managers in our company) lean a bit more favourably towards equity.

Are you aware of tax incentives for venture capitalists and business angels who want to invest in an enterprise like yours?

I know that Austria has no such thing.

If yes, have such incentives impacted the financial sustainability of your enterprise in a significant way?

We have so far not been affected.

Do you believe that deductions and allowance schemes play a role in determining the financial structure of your company? If so, how?

Tax allowances and deductions are primarily important in that they influence the way we structure some specific awards on internal productivity. However, the rest of the overall corporate financial structure is not significantly affected.

When started up your company, did you consider locating in any other member state as a result of this?

Yes, future locations outside Austria were considered from the very moment of starting our business; we actually planned expansion towards the biggest markets in the European community, mostly Germany, Italy, France, and Benelux.

Do you believe that differences in CIT across the EU affect the competitiveness of your enterprise? If so, how?

I believe differences in CIT would affect our competitiveness only limitedly: our production is located overwhelmingly in Austria, and CIT policies in the other countries where we have a subsidiary are pretty similar to the ones of Austria.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

From my personal feeling, SMEs and LSEs are treated in a fairly similar way in Austria, at least in the interior-design sector.

What type of taxation policies would best ease the liquidity constraints the enterprises like yours face?

Certainly, a Euro-managed policy made of financial support tailored to small enterprises would have helped us grow faster and sooner, especially if thought for enterprises that are specifically eager to expand in other economies of the European community, or have had a European vocation in their mission from their very start.

Do you feel that the sector in which your company operates is subject to any particular favourable or unfavourable tax schemes?

Not at all.

If so, have these ever affected your investment decisions?

No (follows from 15).

Do you believe that your sector would benefit from any particular tax incentives or deductions?

I believe the interior-design sector would benefit from special fiscal treatment if this is linked to some specific start-up level, otherwise I think that our sector is not necessarily different from other sectors.

Please provide an estimate of the time and monetary costs of tax compliance.

Tax compliance cost us around 140,000 euros in 2012. We use 4 in-company accountants.

Do you think that the benefits of the policies you envisaged in Question 14 would outweigh the administration costs of managing them?

Definitely, especially in a case of very small business scale due to start-up status.

If yes, what policies do you suggest to lower the costs of administering tax payments?

I especially wish there was a European effort to reduce, and make more homogeneous throughout the European community, tax-regulation overload; special pressure to do so on Southern and Eastern European countries, plus France, would be very appreciable I think.

In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?

making CIT taxation as homogeneous as possible, ii) setting up Euro-wide and Euro-managed funds and initiatives aimed at providing tax benefits for start-up companies with European vocation, and iii) lowering CIT taxation.

Austria

What are the main industries in which you operate?

Light, light design

What is the size of your enterprise in terms of number of employees?

243 employees

What is the annual turnover of your enterprise?

12 and a half million euros

What financing mix has your company chosen during the start-up phase?

I based my financing-mix choice on available evaluations of partnering companies' standards and positioned the firm close to them.

Are you aware of any favourable tax schemes to support companies like yours?

In Austria, the first 1,460 euros of shares awarded on employees for their very good performance is tax free. Moreover, up to 50% of the tax owed is also deductible for option schemes involving no more than 35,000 euros worth of shares.

Do you think that the level of capital raised by your company has been affected by the presence of such schemes?

Yes, more in the initial phase though. Especially the first-1,460 euros tax exemption was good for raising productivity in my firm in its initial start.

Have these affected your preferences between debt and equity?

These schemes have not affected my debt-equity preferences significantly.

Are you aware of tax incentives for venture capitalists and business angels who want to invest in an enterprise like yours?

Not that I know.

If yes, have such incentives impacted the financial sustainability of your enterprise in a significant way?

No (follows from 8).

Do you believe that deductions and allowance schemes play a role in determining the financial structure of your company? If so, how?

Yes I do. For instance, tax provisions for venture capital would let me grow a lot, possibly enabling the company to undergo massive location investments in emerging markets.

When started up your company, did you consider locating in any other member state as a result of this?

I did not consider locating outside Austria immediately, but customs union was crucial in determining all my future choices of locating outside.

Do you believe that differences in CIT across the EU affect the competitiveness of your enterprise? If so, how?

Differences in CIT have indeed affected the competitiveness of my enterprise, as too big differences in rates, deductions, and the administrative burden of tax compliance usually forces me to price differentiate.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Pretty much similar.

What type of taxation policies would best ease the liquidity constraints the enterprises like yours face?

I think, easy start-up capital obtained through tax incentives – at least for the time being.

Do you feel that the sector in which your company operates is subject to any particular favourable or unfavourable tax schemes?

No I don't feel there is any particular difference.

If so, have these ever affected your investment decisions?

No (follows from 15).

Do you believe that your sector would benefit from any particular tax incentives or deductions?

As I said, venture-capital deductions would help the sector considerably – particularly as light design does not have many big firms.

Please provide an estimate of the time and monetary costs of tax compliance.

Around 90,000 euros in a year, roughly. I use external accountants and I don't really know how exactly how much time is needed, though I would say around 20 days, roughly.

Do you think that the benefits of the policies you envisaged in Question 14 would outweigh the administration costs of managing them?

I am not sure they would. I think that to outweigh the administrative costs, other deductions should be added.

If yes, what policies do you suggest to lower the costs of administering tax payments?

I think States should provide free, or subsidized, tax-administration consulting services to all small and medium enterprises: this would surely help them grow!

In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?

ensure start-up enterprises benefit from forms of substantial tax relief in all EU member States, ii) make sure CIT taxation does not increase in the near future, and iii) try not to have thousands of different tax across different EU countries, so as to facilitate companies operating outside national boundaries.

Austria

What are the main industries in which you operate?

Lighting, light design

What is the size of your enterprise in terms of number of employees?

198 employees

What is the annual turnover of your enterprise?

11 million euros

What financing mix has your company chosen during the start-up phase?

We used an Adjusted Present Value approach, choosing a debt ratio that could maximize the value of our firm.

Are you aware of any favourable tax schemes to support companies like yours?

I only recall that in Austria, if you exercise an option on shares valued less than 35,000 euros, you can get quite substantive tax relief.

Do you think that the level of capital raised by your company has been affected by the presence of such schemes?

Very limitedly: at such a small scale, exercising options is nothing that common.

Have these affected your preferences between debt and equity?

Not significantly.

Are you aware of tax incentives for venture capitalists and business angels who want to invest in an enterprise like yours?

I know tax incentives for venture capitalists exist elsewhere, whereas they are not provided by the Austrian tax system.

If yes, have such incentives impacted the financial sustainability of your enterprise in a significant way?

No (follows from 8)

Do you believe that deductions and allowance schemes play a role in determining the financial structure of your company? If so, how?

In general, I think tax incentives and deductions can influence the financial decisions of your company only if substantially big and applicable to a wide range of cases. Otherwise, they are of limited concern, if they do not enter normal tax administration (say, because they are not applicable to your case, or they are so small that you are not even interested, or not even bothered to apply).

When started up your company, did you consider locating in any other member state as a result of this?

When the company was started, locating outside Austria was not a concern, but just because of how our mission was defined; we then developed an EU dimension rather easily, I have to admit, thanks to the European common regulatory architecture.

Do you believe that differences in CIT across the EU affect the competitiveness of your enterprise? If so, how?

I think CIT differences can influence competitiveness heavily, to a point where you might well choose not to invest in locating in a country anymore, causing your company to lose shares in a geographical market, or even in the market for a particular good if a specific country has a wider market for it. My company has, in fact, lost in competitiveness due to CIT differences by having to leave the market in two countries (the interviewed does not wish to disclose information on which the two countries were).

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

I feel there is some differentiation of fiscal treatment between small and large companies in our sector. In particular, I feel that larger companies can benefit from their economies of scale much better, to an extent that they can pay the same share of taxes as we do, in much greater ease. I think this is due to a lack of legal provisions empowering smaller firms to grow faster.

What type of taxation policies would best ease the liquidity constraints the enterprises like yours face?

I think enterprises like mine would best be helped face liquidity difficulties by means of a more spread access to capital. As I do feel that bigger businesses are more likely to get funding from financial institutions because they promise more profit, I wish policy-makers could take this into account in easing a more equitable access to finance.

Do you feel that the sector in which your company operates is subject to any particular favourable or unfavourable tax schemes?

No, I don't this my sector has any particular feature of this type.

If so, have these ever affected your investment decisions?

No (follows from 15)

Do you believe that your sector would benefit from any particular tax incentives or deductions?

Yes, my sector would definitely benefit from tax deductions aimed at, say, reducing unrecyclable waste.

Please provide an estimate of the time and monetary costs of tax compliance.

It takes me around 37-38 days to file tax documents, while average annual tax compliance costs amounted to 74,231 euros in the five-year span 2007-2012.

Do you think that the benefits of the policies you envisaged in Question 14 would outweigh the administration costs of managing them?

I personally sense that better access to finance would outweigh – possibly not by a huge amount – tax compliance costs.

If yes, what policies do you suggest to lower the costs of administering tax payments?

I definitely suggest reducing the administrative mess we always have to face – even better if this is managed from the European level.

In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?

i) reduce the administrative red tape related to tax compliance; ii) widen and facilitate access to finance especially for smaller or younger/newer enterprises, and iii) make tax incentives and deductions big enough to have a significant beneficial effect.

<u>Austria</u>

What are the main industries in which you operate?

Wooden furnishing

What is the size of your enterprise in terms of number of employees?

37 employees

What is the annual turnover of your enterprise?

3 million euros

What financing mix has your company chosen during the start-up phase?

Whatever minimized our cost of financing. We recurred to debt more substantially.

Are you aware of any favourable tax schemes to support companies like yours?

I know of no specific tax provision supporting companies like mine.

Do you think that the level of capital raised by your company has been affected by the presence of such schemes?

I think that if any such scheme existed, my enterprise would raise much more capital.

Have these affected your preferences between debt and equity?

The presence of such schemes would not affected my preferences in terms of debt-equity ratio.

Are you aware of tax incentives for venture capitalists and business angels who want to invest in an enterprise like yours?

There is no specifically-designed tax scheme supporting start-up enterprises in Austria.

If yes, have such incentives impacted the financial sustainability of your enterprise in a significant way?

No (follows from 8).

Do you believe that deductions and allowance schemes play a role in determining the financial structure of your company? If so, how?

The presence of fiscal deductions and allowances affect our financial structure, depending on how they are designed, by altering recurrence to debt relative to the recurrence on equity, the maturity structure of the chosen debt instruments, and the scope for recurrence on debt (due to changed turnovers).

When started up your company, did you consider locating in any other member state as a result of this?

I did consider locating in other member States when founding my company, but administrative and regulatory obstacles, alongside a pretty strict financial condition,

imposed me to postpone the choice. Country-specific fiscal regulation was also a crucial issue.

Do you believe that differences in CIT across the EU affect the competitiveness of your enterprise? If so, how?

Differences in CIT across the EU definitely do not affect the competitiveness of my firm because it is just too small.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

I feel larger companies have a similar tax treatment. However, given the fact that they benefit from i) friendlier banks and ii) cost benefits arising from their scale, their being treated the same way as small enterprises like mine is a bit of an undue disparity, from my perspective.

What type of taxation policies would best ease the liquidity constraints the enterprises like yours face?

Definitely a substantive allotting of funds being channelled directly to specific projects; better if these projects enhance innovation and firm productivity, or they are design to make the firm grow larger.

Do you feel that the sector in which your company operates is subject to any particular favourable or unfavourable tax schemes?

No I don't.

If so, have these ever affected your investment decisions?

No (follows from 15).

Do you believe that your sector would benefit from any particular tax incentives or deductions?

I think it would make no difference vis à vis the other sectors.

Please provide an estimate of the time and monetary costs of tax compliance.

Last time, it took me 16 days to complete all my tax-administration duties, much in line with what I had observed in previous years. As for costs, I recurred to an external accountant; in the last accounting year, this cost me around 15,000 euros.

Do you think that the benefits of the policies you envisaged in Question 14 would outweigh the administration costs of managing them?

Not necessarily. They might well create a growth of administrative costs – will possibly still being worth the attempt, if seen from the standpoint of boosted profits.

If yes, what policies do you suggest to lower the costs of administering tax payments?

Just simpler regulation. Other than that, richer tax-relief policies would, if anything, make tax compliance cost account for a relatively lesser share of overall firm costs.

In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?

i) take care of start-ups, really; ii) regardless of firm age, still put a higher weight on smaller firms unable to leverage on economies of scale and/or scope profitably; iii) reduce cross-country information asymmetries on tax-administration costs (directly affecting locating decisions).

France

What are the main industries in which you operate?

Scientific research

What is the size of your enterprise in terms of number of employees?

21 employees

What is the annual turnover of your enterprise?

3,5 million euros

What financing mix has your company chosen during the start-up phase?

Our debt-to-equity ratio was one of about 90% debt, with start-up phase lasting for 3–4 years.

Are you aware of any favourable tax schemes to support companies like yours?

All of our investments could be credited against the tax assessment, restricting our taxable income by roughly 40–45% in the last two years, plus we have always been deducting all our staff-training expenditures since our very starting year. This is also all I know!

Do you think that the level of capital raised by your company has been affected by the presence of such schemes?

To a little extent, and I am not even sure – certainly we had more liquidity thanks to those schemes, and especially the cheapness of staff-training were probably a good reason for investing in our company, but how would I verify that?

Have these affected your preferences between debt and equity?

No, it had always been the same and it never really changed.

Are you aware of tax incentives for venture capitalists and business angels who want to invest in an enterprise like yours?

I think there just aren't in France.

If yes, have such incentives impacted the financial sustainability of your enterprise in a significant way? If you had to take on scale, would eligibility for preferential CIT rates be a criterion for setting your growth targets?

No (follows from 8).

Do you believe that deductions and allowance schemes play a role in determining the financial structure of your company? If so, how?

They played a role in determining the structure of the firm primarily because in-company training was deducted and we could hire a bit more than otherwise planned: this affected our financial structure in that less money was out to be borrowed, basically – something like a liquidity catalyst. Then, a similar effect also had the de-taxation of our investments, as well.

When started up your company, did you consider locating in any other member state as a result of this?

Nope, not at all honestly.

Do you believe that your sector would benefit from any particular tax incentives or deductions?

They absolutely don't because we are not involved in exchanges whatsoever with other EU countries – not that we don't like the idea, we just aren't involved.

Do you believe that differences in CIT across the EU affect the competitiveness of your enterprise? If so, how?

At least from my personal perspective, I have not experience anything like a discrimination, yet, so no, no tax-treatment differences for scientific research so far.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

At least from my personal perspective, I have not experience anything like a discrimination, yet, so no, no tax-treatment differences for scientific research so far.

What type of taxation policies would best ease the liquidity constraints that enterprises like yours face?

I think outright grants should be given by the government to firms like mine which are involved in scientific research proportionately to the financial size of the project they are about to invest in: you never know how nor where you end up in research, and this is the kind of thing the government should help you with, so that liquidity does not impair any of your discoveries (oh, if you make any!).

Do you feel that the sector in which your company operates is subject to any particular favourable or unfavourable tax schemes?

Yes, from what I actually know the deductibility of investment applies to all corporate players involved in scientific, or technological, research.

If so, have these ever affected your investment decisions?

Yes and directly, since the scheme in question is exactly geared towards de-taxing investments. I think, in a way, that less money should be prompted from the State to patent-holding companies, or anyway grants and allowances should be provided irrespectively of discoveries made, because research should never be too much influenced – it already is by the market, after all!

Please provide an estimate of the time and monetary costs of tax compliance.

We use external accountants for something like € 52 or 53,000, this is what I remember from last year. For the time, about a month or something

Do you think that the benefits of the policies you envisaged in Question 14 would outweigh the administration costs of managing them?

I think there would be a (possibly slight?) rise of administrative costs, but no, not to the extent that managing them would even outweigh them.

If yes, what policies do you suggest to lower the costs of administering tax payments?

No

In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?

Why not all European countries (maybe through the Commission) provide research grants to firms like mine? These could come in the form of dedicated reductions, or better annulments, of CIT obligations 2) well, reduce CIT in general: it’s always too high! 3) adopt a Euro-wide rate, but hey, I sense this would be very difficult to even propose.

France

What are the main industries in which you operate?

Publishing

What is the size of your enterprise in terms of number of employees?

176 employees

What is the annual turnover of your enterprise?

7,810,000 million euros

What financing mix has your company chosen during the start-up phase?

We relied almost entirely on debt plus a little capital investment, around 20% roughly of the total initial investment.

Are you aware of any favourable tax schemes to support companies like yours?

Yes absolutely! Since we are a publishing little firm, this enables our taxable income (I mean the one you compute for corporate-income tax purposes) by around 90% in the last ten years, to cite a statistic.

Do you think that the level of capital raised by your company has been affected by the presence of such schemes?

Well, it surely helped: I am sure that if we had not had the opportunity to basically almost annul our taxable income, we would have raised much less capital because, you know, as an investor you do like the idea of putting money in a subject that is almost untaxed – assuming all other numbers like growth, margin etc. are promising!

Have these affected your preferences between debt and equity?

I think so. As in, had I actually had to pay all that tax instead, I would probably felt less free to borrow that much during our first 5–6 years, with the result of probably growing a little slower during that time at least.

Are you aware of tax incentives for venture capitalists and business angels who want to invest in an enterprise like yours?

Not really aware of anything like this – at least in France – sorry I am not very helpful.

If yes, have such incentives impacted the financial sustainability of your enterprise in a significant way?

No (follows from 8).

Do you believe that deductions and allowance schemes play a role in determining the financial structure of your company? If so, how?

I do not think it is the only factor, for sure, because many entrepreneurs or managers have different tastes, or relate themselves to financial risk in a different way, but as we are a big example of, allowance schemes, especially if of remarkable size, do influence your financing decisions. As our example shows, big allowances and deductions can alter your debt-equity preference, in the sense that, for us, we felt more "safe" to rely more on debt at the very beginning of our business experience.

When started up your company, did you consider locating in any other member state as a result of this?

No, we do not know of other countries having such a big tax allowance for publishing firms, so staying in France has always been a priority for us.

Do you believe that differences in CIT across the EU affect the competitiveness of your enterprise? If so, how?

I would like to answer you, but we only operate in France, so I really do not know CIT differences from personal experience! Anyhow no, CIT differences across the EU do not affect us at all.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Yes, to a 100% degree. It really does not matter how big you are.

What type of taxation policies would best ease the liquidity constraints that enterprises like yours face?

Most definitely interest-reducing policies. As we were more pushed towards reliance on credit by the tax allowance for the publishing sector, I am pretty sure others in the industry would find themselves in a better liquidity condition after an interest reduction.

Do you feel that the sector in which your company operates is subject to any particular favourable or unfavourable tax schemes?

Yes of course, obviously as I said publishing firms pay almost nothing of corporate-income tax, though this is the only favourable tax scheme dedicated to the sector.

If so, have these ever affected your investment decisions?

Not much, but yes; I think it was because of them that we could secure a higher level of liquidity in our first 5–6 years, which, among other things, enabled us to invest a total of (ca.) 1.2 million euros in three other companies, in shares.

Do you believe that your sector would benefit from any particular tax incentives or deductions?

Oh well, I am certainly thankful enough for the big tax allowance we are already benefiting from. I would still hope for a further deduction of costs due to advertising campaigns, though, if there is anything I feel is not yet provided by the State.

Please provide an estimate of the time and monetary costs of tax compliance.

Time: in principle I don't know, but let's say a month and a half for things to be all set.

Money: € 70,000, more or less. External accountant.

Do you think that the benefits of the policies you envisaged in Question 14 would outweigh the administration costs of managing them?

If the State pays, yes. Not if is simply the Central Bank who's actually reducing the interest rate.

If yes, what policies do you suggest to lower the costs of administering tax payments?

Well, I must admit I simply would like more the Central Bank to reduce the interest rate, but if really the other option has to be chosen, I just hope the dedicated deductions/allowances are designed well and clearly enough to avoid us a big problem – often interpretation of French laws can drive you mad!

In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?

More CIT deductions and allowances like in France. Like in France, also in Europe a strong CIT allowance for publishers, and then a policy that reduces CIT rates in a more or less – as much as possible! – coordinated way all over Europe, this would be a good idea for this crisis!

France

What are the main industries in which you operate?

Energy

What is the size of your enterprise in terms of number of employees?

243 employees

What is the annual turnover of your enterprise?

14 million euros

What financing mix has your company chosen during the start-up phase?

About half debt half equity, if that is what you are asking for.

Are you aware of any favourable tax schemes to support companies like yours?

Yes, and from experience, because pay no corporate tax because we are a firm active in the energy conservation sector. Not that we are exempted, but have almost always paid nothing. Oh, and we also deduct expenses when we decide to train new staff in the firm, though this has happened kind of limitedly because we prefer hiring skilled candidates.

Do you think that the level of capital raised by your company has been affected by the presence of such schemes?

Naturally. If we hadn't had that scheme, we might have re-thought our very start-up decision, so yes, all the capital we raised since the very beginning was greatly helped attract thanks to the no-tax condition of firms in the sector.

Have these affected your preferences between debt and equity?

Yes, at least I have the feeling we would have use *a bit* more debt especially in the initial phase.

Are you aware of tax incentives for venture capitalists and business angels who want to invest in an enterprise like yours?

Yes: in France, taxpayers can decide to support especially small companies, and they get a pretty remarkable tax credit in exchange – don't remember how much exactly, but it really does make sense to think about the option at least, from what I know.

If yes, have such incentives impacted the financial sustainability of your enterprise in a significant way?

Oh, no, not in a significant way at all. We benefit from a couple of such "donation", if you can call them that way, in our first year of activity, but that did not add up to more than, about, € 30,000 just to give you the idea.

Do you believe that deductions and allowance schemes play a role in determining the financial structure of your company? If so, how?

I would say the presence of the tax deduction for energy-conservation companies let us spread out our initial debt-investment very long, with low-value instalments and a sustained, sizeable benefit for operating liquidity.

When started up your company, did you consider locating in any other member state as a result of this?

Absolutely not!

Do you believe that differences in CIT across the EU affect the competitiveness of your enterprise? If so, how?

I am not really affected.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

If you exclude the possibility that taxpayers may opt for giving you some start-up support as I have just explained, which, as you can probably feel, is not that big of a help or of a likelihood, then no, our tax treatment is the same.

What type of taxation policies would best ease the liquidity constraints that enterprises like yours face?

I would say, just increase, if possible, the number of special tax deductions as the one we are using – we are happy we have it, but we do feel that some other sectors of the economy probably don't have it, so it is not always so beneficial, even for us, to have such an asymmetry. I think this would raise liquidity for all, including for us, in a more equitable way.

Do you feel that the sector in which your company operates is subject to any particular favourable or unfavourable tax schemes?

Obviously, we pay no corporate tax *because* we operate in the energy-conservation sector, so my answer cannot but be yes.

If so, have these ever affected your investment decisions?

Not really, not really. As in, we did alter our investment decisions a bit because of the deductibility of staff-training expenses, but to be honest this is not really limited to our sector, I think it is for everybody in France actually.

Do you believe that your sector would benefit from any particular tax incentives or deductions?

No, it already has enough in my opinion. Weird to say, right?

Please provide an estimate of the time and monetary costs of tax compliance.

Almost € 100,000 every year, for a month or a week more.

Do you think that the benefits of the policies you envisaged in Question 14 would outweigh the administration costs of managing them?

I would not dare to deny that administrative costs would increase significantly, but I am confident all firms would be more or less successful in managing them in the end.

If yes, what policies do you suggest to lower the costs of administering tax payments?

No (follows from 19).

In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?

Reduce CIT for the sectors that have to pay for it; introduce French-like CIT deductions also in other countries; make European firms pay CIT all in the same moment of the year, so that tax-accounting is a more predictable activity!

FRANCE

What are the main industries in which you operate?

Event industry, entertainment industry, branding

What is the size of your enterprise in terms of number of employees?

2

What is the annual turnover of your enterprise?

We started three weeks ago, we project 65000 for the first year.

What financing mix has your company chosen during the start-up phase?

Equity, we invested 25 000

Are you aware of any favourable tax schemes to support companies like yours?

Self employed deduction, starters deduction, small entrepeneur deduction. (literally translated)

Do you think that the level of capital raised by your company has been affected by the presence of such schemes?

The first three year it probably will work to my advantage. I am not sure why, but that's what my accountant tells me.

Have these affected your preferences between debt and equity?

No. To be honest, most of these things are worked out by my accountant. I assume that he will make sure I make more money.

Are you aware of tax incentives for venture capitalists and business angels who want to invest in an enterprise like yours?

Yes, I know that there are companies who like to invest in young enterprises with good ideas, in exchange for a certain percentage. And I don't think I would like something like that.

If yes, have such incentives impacted the financial sustainability of your enterprise in a significant way?

No, not at this point

Do you believe that deductions and allowance schemes play a role in determining the financial structure of your company? If so, how?

Yes, because they influence the actual profit you make.

When started up your company, did you consider locating in any other member state as a result of this?

No I haven't thought about that.

Do you believe that differences in CIT across the EU affect the competitiveness of your enterprise? If so, how?

No, I am not aware of such a process.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

I am not aware of any differences.

What type of taxation policies would best ease the liquidity constraints the enterprises like yours face?

This is not what I am working on a lot, I have an accountant who takes care of such matters.

Do you feel that the sector in which your company operates is subject to any particular favourable or unfavourable tax schemes?

I think they are pretty favourable, because I am a supplier. If you actually organise an event there is different tax policies to be taken into account. But because I am only providing my product, I am in a better position.

If so, have these ever affected your investment decisions?

No.

Do you believe that your sector would benefit from any particular tax incentives or deductions?

No, I would not know.

Please provide an estimate of the time and monetary costs of tax compliance.

600 euro a year.

Do you think that the benefits of the policies you envisaged in Question 14 would outweigh the administration costs of managing them?

No response

If yes, what policies do you suggest to lower the costs of administering tax payments?

No response

In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?

As an entrepreneur, you are working on making your product work, getting work and making profit. This is not the type of thing I want to be thinking about, that's why I hire an accountant. I just want to develop my enterprise.

Belgium

What are the main industries in which you operate?

R&D

What is the size of your enterprise in terms of number of employees?

2

What is the annual turnover of your enterprise?

No turnover, they are currently developing a new product

Are you aware of any favourable tax schemes to support companies like yours?

Innovation scheme, WBSO, scheme for intellectual property.

Does your company have any experience in using special start-up provisions in corporate income tax?

No

When you started up your company, did you consider locating in another member state due to better corporate income tax rates?

No. The interviewee is based in the Netherlands and is unaware of the taxation regimes available elsewhere

Do you believe that differences in CIT across the EU affect the competitiveness of your enterprise? If yes, in what way?

Does not know

Do you feel that, within your sector, preferential tax rates give you a competitive edge compared to larger enterprises?

No, but certain schemes favour larger companies in that they have staff that deals specifically with that.

If you had to take on scale, would eligibility for preferential CIT rates be a criterion for setting your growth targets?

No

What aspect of corporate taxation should be prioritises at the national level? What policies would you recommend?

Less time for compliance. A good practice is the innovation box, which he set up in a few hours in partnership with the University.

Do you feel that the sector in which your company operates is subject to any particularly favourable or unfavourable tax schemes?

No

Is yes, has this ever affected your investment decisions?

No

Do you believe that your sector would benefit from any particular tax incentives or deductions?

Yes. The government needs to take action. Positive case, the US, where the birth of Google and similar enterprises was favoured by government schemes

Do you think that the benefits of tax policy reforms you envisaged (question 10) would outweigh the administration costs of managing them?

N/A

If yes, what policies do you suggest to lower the costs of administering tax payments?

He said that as an entrepreneur the administrative costs are key. Tax schemes must be simple, since SMEs do not have capacity for administering and monitoring the many aspects of taxation

In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?

Administrative simplicity

Do you have any policy recommendations to make on corporate income tax-related practices?

No answer provided

BULGARIA

What are the main industries in which you operate?

Construction sector; Window and doors manufacturing

What is the size of your enterprise in terms of number of employees?

Currently 4 people; It decreased from 12 in 2008

What is the annual turnover of your enterprise?

Around 100,000 euro

Are you aware of any favourable tax schemes to support companies like yours?

No. Policies seem to concentrate on attracting/offering favourable treatment to big firms and multinationals;

Does your company have any experience in using special start-up provisions in corporate income tax?

At the time of establishment in 1997 there were no special start-up provisions and I am not aware of any existing at the moment.

When you started up your company, did you consider locating in another member state due to better corporate income tax rates?

At the time of establishment, I didn't think of relocating as this would have been too complicated given that Bulgaria was outside the EU. At the current time, such considerations are much more likely. Yet, the lack of appropriate information that could allow an informed decision to be made is an obstacle for that. Not enough is known about CIT in other EU members. Reliable sources are missing;

Do you believe that differences in corporate income tax (CIT) across the EU affect the competitiveness of your enterprise? If yes, in what way?

Yes, to some extent. Not sure, whether this is a decisive factor though. In Bulgaria, the administrative burden around CIT creates unnecessary costs and also leads to waste of time. This should certainly have an impact on efficiency and competitiveness of enterprises. Nevertheless, could not name specific advantages in other countries as available information seems too technical and firms would need to consult (paid) experts in order to be able to judge.

Do you feel that, within your sector, preferential tax rates give you a competitive edge compared to larger enterprises?

No! At the moment small and large firms are treated equally which is not fair. Targeted policies according to size could give firms like mine an edge. You shouldn't tax multibillion firm with thousands of workers the same rate that you tax small ones.

If you had to take on scale, would eligibility for preferential CIT rates be a criterion for setting your growth targets?

I don't think this would have been a decisive factor.

What aspect of corporate taxation should be prioritises at the national level? What policies would you recommend?

Progressive CIT; Special treatment for small firms; Fewer administrative requirements with regard to CIT – e.g. compulsory need of accountant even for the smallest firms as well as special cash/credit payments registers;

Do you feel that the sector in which your company operates is subject to any particularly favourable or unfavourable tax schemes?

No, neither nor

Is yes, has this ever affected your investment decisions?

N/A

Do you believe that your sector would benefit from any particular tax incentives or deductions?

Tax incentives for export.

Do you think that the benefits of tax policy reforms you envisaged (question 10) would outweigh the administration costs of managing them?

Yes, benefits of policy reforms would certainly outweigh any potential administrative cost increases, even though I don't think they would be substantial anyway.

If yes, what policies do you suggest to lower the costs of administering tax payments?

N/A

In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?

1. Progressive taxation for firms;
2. Favourable policies for micro-enterprises; (at least for some initial term)
3. Favourable policies for firms employing new people; (at least for some initial/temporary term)

Do you have any policy recommendations to make on corporate income tax-related practices?

No

LITHUANIA

What are the main industries in which you operate?

Translation and interpreting services.

What is the size of your enterprise in terms of number of employees?

7 in-house employees and over 60 permanent freelancers.

What is the annual turnover of your enterprise?

LTL 1 000 000 (~EUR 289 620).

Are you aware of any favourable tax schemes to support companies like yours?

No, we aren't, but would like to find out some.

Does your company have any experience in using special start-up provisions in corporate income tax?

No, we don't.

When you started up your company, did you consider locating in another member state due to better corporate income tax rates?

No, we didn't.

Do you believe that differences in corporate income tax (CIT) across the EU affect the competitiveness of your enterprise? If yes, in what way?

Indeed. If we had to pay an increased income tax than others, we would have less money for other investment, such as ads, software and etc. As a matter of fact, it would lead to decreased competitiveness.

Do you feel that, within your sector, preferential tax rates give you a competitive edge compared to larger enterprises?

In Lithuania, translation services do not get any preferential tax rates. The only point is that smaller companies pay a smaller amount of income tax. However, it does not change the situation significantly, since the overall amount of income of SME's is also smaller.

Looking from the tax point of view, the situation of our sector is deteriorating for over 10 years. At the very beginning the translators used to work using business licences, for which they paid a fixed yearly amount of taxes. After such time, we switched to copyright agreements, i.e. charged by 18 percent. Later on, these taxes were increased up to 50 percent. The next step was moving to self-employment manner. The taxes thereof are similar to the ones which are due when a person is employed. However, regardless of the fact that the tax rate was contantly increasing, the prices of translation remained the same. It was mostly determined by a huge competitiveness. Besides, the economic crisis led to the decline of turover. As a matter of fact, the situation of this sector is not promising.

If you had to take on scale, would eligibility for preferential CIT rates be a criterion for setting your growth targets?

N/A

What aspect of corporate taxation should be prioritises at the national level? What policies would you recommend?

N/A

Do you feel that the sector in which your company operates is subject to any particularly favourable or unfavourable tax schemes?

N/A

Is yes, has this ever affected your investment decisions?

N/A

Do you believe that your sector would benefit from any particular tax incentives or deductions?

Yes, we think that tax deductions would be greatly beneficial to our sector. For example, it would good for translators who use individual activity certificates. If the paid less taxes, it would definitely help to diminish out expenses as well.

Do you think that the benefits of tax policy reforms you envisaged (question 10) would outweigh the administration costs of managing them?

N/A

If yes, what policies do you suggest to lower the costs of administering tax payments?

N/A

In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?

N/A

Do you have any policy recommendations to make on corporate income tax-related practices?

N/A

Estonia

What are the main industries in which you operate?

IT

What is the size of your enterprise in terms of number of employees?

30 employees

What is the annual turnover of your enterprise?

1,760,000 euros

What have been the main determinants of your decision concerning the legal form of your enterprise?

We did not have enough money to start a public limited company as you need 25,000 euros, plus other expenses such as appointing a permanent auditor were not at all affordable. We started a limited partnership (we are two people) because my other partner does not have significant assets to put as security; he is in fact the limited partner.

Are you aware of any favourable tax schemes to support companies like yours?

Well, for instance, I know you can deduct expenses incurred to pay fringe benefits to your employees, from business trips to buying them corporate vehicles and paying occupational health.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

I am sure it was not.

Have these affected your preferences between establishing a company and a partnership?

They did not.

What role has CIT had on your decision to choose the present legal entity?

We would have liked it, but unfortunately it has not (yet): corporate income is taxed at distribution (as dividends) and not at its production as profits, plus if dividends are distributed abroad they are exempted from CIT. However, we are not (yet!) a public limited company so these benefits do not apply to us.

Do you believe that deductions and allowance schemes have played a role in determining the legal structure of your company? If so, how?

No, the legal structure of our company really was only determined by other factors.

When you started up your company, did you consider locating in any other member State to take advantage of corporate income tax benefits associated with specific business sectors?

We know there are better countries in Europe (come on!), but we never actually had the financial chance to locate significantly away from the Baltic countries, while Finland was not so attractive to us in the end.

Do you believe that country-specific differences in the range of legal entities that the CIT is imposed on affect the competitiveness of your enterprise? If yes, in what way?

Yes I do: you can get corporate income-tax exemptions in Estonia if you are a corporation, that is, not a medium enterprise such as us! So the loss in competitiveness is simply that we have to pay more in tax and spend less on projects and investments. I am sure neighbours of Estonia are in a better condition in this!

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Well as I just said, corporations are treated with an eye of favour when it comes to taxing corporate income. Then again, I am not sure this is anything specific to the IT sector, if anything.

What modification in the legal set up of your country would best ease the liquidity constraints of enterprise like yours?

I simply do not see why small and medium enterprises should not be eligible for corporate income-tax exemptions – I just don't get it!

Do you feel that the sector in which your company operates is subject to any particular complex procedure for registering a company? If yes, has this ever affected your decision to establish a company?

No, and no: I do not think our sector has anything so special in terms of difficulty of company registration, and no, issues like this have never affected my (our) very initial decision.

Do you believe that your sector would benefit from any particular policy affecting the range/type of legal forms available for entrepreneurs?

Possibly not the range, but I think the type of available legal forms could do something here. IT companies need to engage in pretty massive initial investments in machinery, and also in highly-skilled human capital (with requires careful recruitment and selection): agile partnerships like ours should be "augmented" with special provisions, for instance, exempting also partnerships from corporate income tax in the initial, start-up phase.

Could you provide an estimate of the time and monetary costs of tax compliance?

It takes us around 36 hours at most, at no particular monetary cost.

Do you think that the benefits of the favourable policy you envisage in Question 13 would increase administration costs by affecting legal complexity?

I don't think so.

In your opinion, what should the top three priorities be for policies addressing company registration procedures at the European level?

it should involve no more than 3 bureaucratic steps, for everyone in Europe. 2) company types should be more similar across Europe. 3) strengthening the role of e-government for bureaucratic procedures.

Do you have any policy recommendations to make on corporate income tax-related practices?

I do not like repeating myself, but I cannot avoid to say that corporate income tax exemptions should *never* be skewed in favour of bigger companies!

Estonia

What are the main industries in which you operate?

IT

What is the size of your enterprise in terms of number of employees?

21 employees

What is the annual turnover of your enterprise?

1,293,000 euros

What have been the main determinants of your decision concerning the legal form of your enterprise?

We are a general partnership of three. We chose a partnership because it faces less initial costs, less long-run fixed costs, and has no capital requirement.

Are you aware of any favourable tax schemes to support companies like yours?

Not much honestly.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

No (follows from 5).

Have these affected your preferences between establishing a company and a partnership?

No (follows from 5).

What role has CIT had on your decision to choose the present legal entity?

CIT has not impacted our decision, although we are fully aware that public limited companies enjoy rather generous tax exemptions. This was one of the cons of our choice, but we judged the complex of the pros to be good enough.

Do you believe that deductions and allowance schemes have played a role in determining the legal structure of your company? If so, how?

No, they did not.

When you started up your company, did you consider locating in any other member State to take advantage of corporate income tax benefits associated with specific business sectors?

I must admit we though about locating in some other Western European country, namely Britain, but ended up here because the prospects of public investments in IT technological infrastructure were actually surprisingly good, and their trend kept on improving afterwards. This basically offset much of the hassle about the absence of CIT exemptions for partnerships in Estonia.

Do you believe that country-specific differences in the range of legal entities that the CIT is imposed on affect the competitiveness of your enterprise? If yes, in what way?

A little bit. We probably face a bit of a competitive disadvantage vis-à-vis neighbouring competitors in terms of operational liquidity, but then again, as I said, massive and so far rather profitable investments in technology have so far proved helpful enough to offset this minor disadvantage.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Clearly the main problem here is the advantage enjoyed by large Estonian companies – although one should admit this is also a good incentive to grow faster, so that one day you can also join the "promised land" of dividend tax exemptions!

What modification in the legal set up of your country would best ease the liquidity constraints of enterprise like yours?

I actually think – maybe to your surprise – that the legal set up of my country should not really be modified.

Do you feel that the sector in which your company operates is subject to any particular complex procedure for registering a company? If yes, has this ever affected your decision to establish a company?

No, there is no difference vis-à-vis other sectors, and therefore this has also never understandably affected our decision to start the company.

Do you believe that your sector would benefit from any particular policy affecting the range/type of legal forms available for entrepreneurs?

I think it would not be harmed, but also that no particular benefit would arise if either the range, or the type, or both were to be altered any time soon.

Could you provide an estimate of the time and monetary costs of tax compliance?

A couple of days at most. No cost.

Do you think that the benefits of the favourable policy you envisage in Question 13 would increase administration costs by affecting legal complexity?

No (follows from 13).

In your opinion, what should the top three priorities be for policies addressing company registration procedures at the European level?

1) Digital bureaucracy is the way. Period. 2) Perhaps lower capital requirements; that would probably attract more young entrepreneurs. 3) Oh, and a pan-European portal for digital government!

Do you have any policy recommendations to make on corporate income tax-related practices?

Nothing more than what I just recommended.

Estonia

What are the main industries in which you operate?

IT

What is the size of your enterprise in terms of number of employees?

48 employees

What is the annual turnover of your enterprise?

Ca. 3 million euros

What have been the main determinants of your decision concerning the legal form of your enterprise?

The possibly only big determinant of my decision was that of achieving the status of corporation in order to enjoy an array of finer tax benefits. I incurred debt in order to register as public limited company and pay for the initial-capital requirement.

Are you aware of any favourable tax schemes to support companies like yours?

Yes: you have your dividends exempted from corporate income tax if you have a subsidiary abroad (we have a small one in Finland), and a similar consideration is made with regards to your profits, which are taxed at the time of distribution and not of production.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

No, not the initial choice.

Have these affected your preferences between establishing a company and a partnership?

They *fully* affected my preference for a company with respect to a partnership.

What role has CIT had on your decision to choose the present legal entity?

As I have already explained, the prospect of sparing on CIT was a main determinant to choose the status of public limited company.

Do you believe that deductions and allowance schemes have played a role in determining the legal structure of your company? If so, how?

(follows from 8).

When you started up your company, did you consider locating in any other member State to take advantage of corporate income tax benefits associated with specific business sectors?

I did, but ended up only opening a small subsidiary in Finland later because I was confident about tax-administration prospects in Estonia (and I was fairly right).

Do you believe that country-specific differences in the range of legal entities that the CIT is imposed on affect the competitiveness of your enterprise? If yes, in what way?

I have to tell you that besides Finland, for which I am obviously personally interested, I do not know much information for other European countries, nor is it information of any quality. However, I do sense that I am in a better competitive condition relative to i) Estonian partnerships and ii) other European corporations in terms of tax treatment basically.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

No obviously not, smaller companies, and also medium ones, are not in a really good standing unless they are registered, like us, as a public company.

What modification in the legal set up of your country would best ease the liquidity constraints of enterprise like yours?

Legally nothing, it's ok like that!

Do you feel that the sector in which your company operates is subject to any particular complex procedure for registering a company? If yes, has this ever affected your decision to establish a company?

No particularly difficult procedure and no effect on my decision.

Do you believe that your sector would benefit from any particular policy affecting the range/type of legal forms available for entrepreneurs?

No, really, I don't think it's about the range or type of legal forms (nor I think there is anything particular to say about my sector). It's more like companies like mine should be put in an easier position when it comes to financing the initial capital-requirement: if that was easier to do, everyone would do like me and choose the public limited company!

Could you provide an estimate of the time and monetary costs of tax compliance?

Around 3 full days, more or less. No particular monetary cost though.

Do you think that the benefits of the favourable policy you envisage in Question 13 would increase administration costs by affecting legal complexity?

No (follows from 13).

In your opinion, what should the top three priorities be for policies addressing company registration procedures at the European level?

Digital government, digital government, digital government!

Do you have any policy recommendations to make on corporate income tax-related practices?

N/A

ROMANIA

What are the main industries in which you operate?

N/A

What is the size of your enterprise in terms of number of employees?

10

What is the annual turnover of your enterprise?

200000 euros (mse)

What have been the main determinants of your decision concerning the legal form of your enterprise?

CIT based on taxable base revenues-costs, personal based on professional income, capital gains, benefits from the property, income from pension

Are you aware of any favourable tax schemes to support companies like yours?

16% on taxable profits, carry out consultancy activities. Cannot apply 3% preferential tax rate. Depends on turnover 16000 euros and activity (gambling, management exempt), want to be taxed in the same way.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

No answer

Have these affected your preferences between establishing a company and a partnership?

It depends on taxable income margin. If higher than 80% more favourable to be micro enterprise(personal). Otherwise better cit. not easy to shift, there is a threshold, activity (e.g. consultancy)

What role has CIT had on your decision to choose the present legal entity?

No possibility but not possible. Clients in industrial services all apply as a micro, if lower margin less incentive

Do you believe that deductions and allowance schemes have played a role in determining the legal structure of your company? If so, how?

No answer

When you started up your company, did you consider locating in any other member State to take advantage of corporate income tax benefits associated with specific business sectors?

No, there are clients that relocated in Romania. CIT more important than VAT, it's an indirect tax, vat affects cash flow, CIT the company

Do you believe that country-specific differences in the range of legal entities that the CIT is imposed on affect the competitiveness of your enterprise? If yes, in what way?

No answer

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

cash flow analysis every month, important. Evaluate

What modification in the legal set up of your country would best ease the liquidity constraints of enterprise like yours?

special provision will be in next year regarding micro enterprises re taxable income. Cash in bank was included, from this year this provision will be stopped. Relevant to impose financial revenue that does not contribute to growth to company, not wealth but it comes from the ex rate

Do you feel that the sector in which your company operates is subject to any particular complex procedure for registering a company? If yes, has this ever affected your decision to establish a company?

the above measure us good

Do you believe that your sector would benefit from any particular policy affecting the range/type of legal forms available for entrepreneurs?

limited partnership, the responsibility Is limited. Positive growth, better development plans, limit for the share capital (50 euro), more shareholders can establish companies and have business

Could you provide an estimate of the time and monetary costs of tax compliance?

not easy if company is CIT payer, it means costs. From next year, from CIT statement must be verified from tax consultant.

Do you think that the benefits of the favourable policy you envisage in Question 13 would increase administration costs by affecting legal complexity?

N/A

In your opinion, what should the top three priorities be for policies addressing company registration procedures at the European level?

N/A

Do you have any policy recommendations to make on corporate income tax-related practices?

each company must improve tax compliance, must be simplified, now submit the electronic tax statements but they must be professional and honest. Many non deductible expenses, these can be manipulated by the tax authorities when they come to the tax audit (general).

BELGIUM

What are the main industries in which you operate?

Biotechnology

What is the size of your enterprise in terms of number of employees?

46

What is the annual turnover of your enterprise?

The exact figure of turnover is confidential. However, we can share information regarding round investments. The last round of investment raised €26.8 millions

Are you aware of any government taxation policies to support companies like yours?

Yes. There are special schemes explored by our organization, in the frame of research activities in collaboration with Université Catholique de Louvain.

Is your enterprise currently benefitting from any favourable tax schemes?

Yes, in the sense that our main activity is R&D, which has a certain fiscal consideration, especially in our field that is identified as priority

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

Not particularly. There were particular opportunities in our market that we wanted to size, always in strong cooperation with the Université Catholique de Louvain

In the past, have such schemes affected your preferences between increasing the equity base or requesting a bank loan?

The preferred mechanism has been so far the public calling for investment in specific research projects. There is not a strong drive to financial leverage using the private banking so far.

What role has the CIT had on your financing decisions?

It is important, but not crucial. There is another challenge that plays a bigger role in financial decisions

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

In part, since for being an R&D company, the standard regulations are not completely applicable

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

No. Our market is strongly connected locally to consider relocation

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

I do not think that country difference in CIT play a more important role than connectivity, research oriented policies, or in general macro-economic situations.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

The treatment for different sizes of companies is comparable, as it tries to be in balance for particular turnover. The larger organizations will have some economy of scale advantages, even if the tax treatment aim to be fair with SMEs

What financing related policy do you think can successfully ease the liquidity constraints of enterprises like yours?

A more realistic and flexible regulation for venture investment capital

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

Yes. Research activities for high impact solutions require large amounts of funding, which makes calling of investment a logical financial structure

Do you believe that your sector would benefit from any tailor made policy on the financing side?

Yes. Making easy the contact and the procedures aimed to specific need in the research sector would improve the general performance of innovative companies

Could you provide an estimate of the time and monetary costs of tax compliance?

It is done by an outsourced company, costing around €7.000 per year

Do you think that the benefits of the favourable policies you envisaged would increase administration costs by affecting legal complexity?

No, at the contrary, it would make process much easier, that perhaps it would not be needed to outsource that task

Germany

What are the main industries in which you operate?

Software development, testing services

What is the size of your enterprise in terms of number of employees?

72 employees

What is the annual turnover of your enterprise?

5,300,000 euros

Are you aware of any tax policies to support companies like yours?

I do not know of other supportive tax policies beyond the ones I benefited from.

Is your company currently benefiting from any favourable tax schemes?

Yes, I have been benefiting from the deductibility of straight-line depreciation expenses for assets.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

While we did benefit from that favourable tax scheme, the fact that I knew of its presence before starting the business did not influence my decision to start the business at all.

In the past, have such schemes affected your preferences between increasing the equity base and requesting a bank loan?

Limitedly: two years after I started in 1998 I was already able to realize that straight-line asset-depreciation deductibility had enabled me to avoid further exposition to bank finance, letting two more shareholders join while giving them a much more attractive offer. These two shareholders now hold, together, 27.6% of the shares of my company, while around four-fifths of the initial capital with which I started my business was bank-provided.

What role has the CIT had on your financing decisions?

CIT impacted our financing decisions when we finally resolved to start a subsidiary in the United Kingdom: it was one of the factors that were crucial in the successful decision, alongside the promising character of the UK market and higher labour flexibility.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

As I said, we could only benefit from the deductibility of straight-line depreciation expenses for assets: while this did help us grow faster, none of our financial decisions was affected by the presence of such scheme.

Have you ever considered relocating your company to any other member state to benefit from foreign government support in expanding the business?

We did consider relocating completely to the United Kingdom, though we ended up only starting a subsidiary there. We also considered relocation to the Netherlands, as we are currently located close to the border anyway, but this decision was never taken.

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

Yes: we ourselves have a subsidiary in the United Kingdom which is benefiting from a much lower CIT. From the start of the subsidiary in 2005, the rate at which we could re-invest earned profits was, thanks to lower CIT, almost twice as much as the one of our German headquarters.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Yes, I do feel that large and small companies in my sector are, at least in my Land (Northrine Westphalia), treated in the very same way. Indeed, I would definitely have appreciated some limited, but effective, preferential treatment in favour of start-up enterprises such as my case at the beginning.

What financing related policy do you think can successfully improve the liquidity of enterprises like yours?

I wish interests on start-up finance were at least partially deductible in Germany, so that initial Growth could proceed more smoothly. A dedicated CIT rate would probably do even better – and our company would definitely have appreciated that.

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

I simply feel that smaller enterprises, and especially start-ups, would tend to rely more on debt; however, I do not feel this consideration is specific to the sector in which I operate.

Could you provide an estimate of the time and monetary costs of tax compliance?

With external accountants, I feel I can estimate the monetary costs of tax compliance to be around € 50,000 a year. I do not have a direct knowledge of the time it takes for our external consultant to manage our tax compliance, but the day in which we set

our arrangements with consultants and the one in which all procedures are completed span within the first month of the year following the fiscal year under consideration.

Do you think that the benefits of the favourable policies you envisaged would increase administration costs by affecting legal complexity?

Not relevantly: if at all, start-up finance interest deductibility would just be one more procedure for our accountants to file, but it would not increase complexity as I believe its simple definition would make everything clear. I believe this favourable policy would not increase administration costs.

In your opinion, what should the top three priorities be for policies seeking equity based growth at the European level?

Tax relief for start-ups and small enterprises in order to make the pooling of potential direct investors more attractive; more (homogeneous) flexibility in the labour market so that companies have lesser incentives to relocate to more favourable economies, decreasing their likelihood to later resort to finance; reduce CIT homogeneously.

Germany

What are the main industries in which you operate?

Lighting design

What is the size of your enterprise in terms of number of employees?

22 employees

What is the annual turnover of your enterprise?

1.76 million euros

Are you aware of any tax policies to support companies like yours?

I know that in Germany you can deduct all interests if you have to start your company through a loan.

Is your company currently benefiting from any favourable tax schemes?

I have, in fact, benefited from interest deductibility as I indeed made use of a loan to finance the starting of my business in 2001. I am still benefiting from this tax scheme as I am still repaying that loan.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

Certainly: I would not have started my business if I had known debt was to be repaid above principal.

In the past, have such schemes affected your preferences between increasing the equity base and requesting a bank loan?

Interest deductibility did affect my equity-loan preferences because so far I have not felt the need to look for a partnering shareholder, nor have I ever thought about this when founding my firm.

What role has the CIT had on your financing decisions?

Corporate Income Taxation did influence my decisions throughout the time I spent managing my firm, but not its financial structure; I also think a lower CIT rate would not have changed my decision.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

No (follows from 8).

Have you ever considered relocating your company to any other member state to benefit from foreign government support in expanding the business?

I never took it seriously, but this idea did cross my mind. As my firm is located in Saarbrücken, I thought especially about moving to Luxembourg in order to benefit from lower taxation (in general, i.e. including corporate income taxation).

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

Well, I wished I had, but in the end I did not pursue the idea of relocating to Luxembourg, so I cannot say I have experience in this.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

I am sure tax treatment is different for larger companies because it *has* to be progressive, irrespectively of the sector. This implies smaller enterprises to be at an advantage in terms of taxation.

What financing related policy do you think can successfully improve the liquidity of enterprises like yours?

I would think of government-administered productivity premia for specific firms performing very well, translated into a right to lower interest rates from banks (especially for big projects that need financing, beyond initial loans).

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

I do not know if this is something typical of my sector only, but I hardly hear of people wanting to invest in a small company they do not know, if it is not big yet – unless they know the owner very well and he had something like a previous, prestigious job at a well-known firm, or anything similar to this. Hence I think my sector is predisposed towards a preference for finance over equity.

Could you provide an estimate of the time and monetary costs of tax compliance?

As for the time costs, it usually takes a bit less than a month for my corporate accountant to carry out tax compliance. Tax compliance costs me around 20k euros every year.

Do you think that the benefits of the favourable policies you envisaged (question 13) would increase administration costs by affecting legal complexity?

Yes, I think my proposal would really increase administration costs!

In your opinion, what should the top three priorities be for policies seeking equity based growth at the European level?

No. 1: granting the right to lower interest rates for very productive firms, or potentially very profitable projects. This is not irrelevant to equity-based growth! It would make firms more attractive for external investors that want to join it, because its cost structure is more competitive. Or at least that is what I think. Then, why not simply encouraging firms to resort more to equity by providing monetary incentives to firm owners every time they prove they have grown, and significantly, after an increase in the equity base? At a third stage, I would make expenses related to equity increases fully deductible.

Germany

What are the main industries in which you operate?

Interior design, furnishing, and lighting

What is the size of your enterprise in terms of number of employees?

109 employees

What is the annual turnover of your enterprise?

5 million euros

Are you aware of any tax policies to support companies like yours?

There is more than one supportive tax policy in Germany. Such policies can enable your firm to deduct interest and amortization payments, you can consolidate profits and losses into only one unit of fiscal relevance, and also carry back losses due to CIT by one year.

Is your company currently benefiting from any favourable tax schemes?

Yes. While the company only used to benefit from interest deductibility (now not the case anymore because the initial loan was fully repaid), we use a lot the possibility to amortize assets while deducting taxes on such investments, as well as benefit from the concept of "fiscal unit" because we have 2 subsidiaries in Germany. We also are benefiting from the chance to carry back CIT-caused losses extensively – something we have been doing for at least the past two decades.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

This does not apply to my case since all the tax benefits I told you about had not been established when I founded the company. However, if my answer can be of any help, especially interest deductibility would have made things even easier, probably anticipating my start of business by a couple of years.

In the past, have such schemes affected your preferences between increasing the equity base and requesting a bank loan?

Absolutely. My preferences, which would normally lean in favour of increasing equity – especially as the firm grew larger –, more than once changed into preferring more easily accessible finance. This was especially the case when I had to undergo massive investments in terms of shop spaces or open a new subsidiary in Germany.

What role has the CIT had on your financing decisions?

I looked at CIT (among other factors) when I decided to open a subsidiary in the UK. It was lower, and not negligibly, and this led me to locate there. As per its role on financing decisions, UK's much-lower CIT made me look with a more relaxed attitude at financing options as opposed to equity-based arrangements – in a way, I did not feel the rush to look for local partners, or increase the equity base in Germany to sustain the investment of opening a new subsidiary in Europe.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

Interest deductibility clearly smoothed payments over a longer time span – proving effective in terms of profits because the rate was way more affordable. Amortization deductibility also made the opening of new German subsidiaries much cheaper, and

hence attractive in terms of profit opportunities. The fiscal unit concept helped a lot in the last two decades (i.e. when the 2 new German subsidiaries were started), making economies of scale substantively easier to reach and attracting investors – this had a wide impact on our equity base. Carry-back CIT-caused losses has, instead, directly affected our financial structure only to a limited extent. If not absolutely crucial, all the four schemes I have been benefiting from were very important.

Have you ever considered relocating your company to any other member state to benefit from foreign government support in expanding the business?

This is answered mostly by my experience for Question 8. However, I have also considered, and plans are still being made for the possibility, opening new subsidiaries in Luxembourg and the Netherlands to benefit from supportive taxation. Beyond new subsidiaries, though, complete relocation of the headquarters has never been taken into account – reasons being especially the extent to which my company is established in the German market.

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

All I can say is that the highly attractive, low-CIT environment provided by the UK is more attractive for growth-seeking enterprises than Germany, though not massively. To put it short, it was a great asset to have a new, fast-growing subsidiary in Britain, but not the crucial reason why we are competitive – as in, Germany was never an obstacle.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Aside caps on tax reliefs or forms of progressiveness in taxation, I feel all companies in my sector are treated pretty much the same way.

What financing related policy do you think can successfully improve the liquidity of enterprises like yours?

Probably a more massive deductibility of project-oriented machinery, or human-capital investment – those kind of investment that look at the long term, but do require some important liquidity now.

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

Not necessarily. I mean, I see no reason why my sector should make any big difference when compared to others.

Could you provide an estimate of the time and monetary costs of tax compliance?

As for the time costs, it usually takes a bit less than a month for my corporate accountant to carry out tax compliance. Tax compliance costs me around 20k euros every year.

Do you think that the benefits of the favourable policies you envisaged (question 13) would increase administration costs by affecting legal complexity?

Not really – all would depend on the clarity of their legal definition.

In your opinion, what should the top three priorities be for policies seeking equity based growth at the European level?

At first, I would make CIT more homogeneous across countries, as much as possible at least: sometimes it really is costly to either relocate or open a subsidiary in a fiscally-competitive EU country! As second priority I would also make tax deductions more homogeneous; in particular, I feel Germany did the right thing when it introduced interest and amortization deductibility, which really do help firms grow once started. Thirdly, though that was not an issue for me back then, I feel that nowadays the young need more financial help in starting a new firm – if growth is not a problem, you still need to start your business easily enough! I think setting these three as policy priorities would help enhance equity-based growth by simply making firms' financial structure more attractive to investors.

Germany

What are the main industries in which you operate?

Lighting

What is the size of your enterprise in terms of number of employees?

154 employees

What is the annual turnover of your enterprise?

6,730,000 euros

Are you aware of any tax policies to support companies like yours?

Yes, for instance you can deduct interest payments from your financing loans, or consider operating losses that arose as a cause of the prevailing level of Corporate Income Tax as an item of the previous accounting year. Profits and losses can also be consolidated into the same account of the parent company.

Is your company currently benefiting from any favourable tax schemes?

We are still benefiting from the deductibility of interest payments because we decided to stretch their schedule over a very long period of time (business started in 1978), and we are also using the option to carry operating losses due to CIT back to the preceding fiscal year, though the presence of substantial such losses is not the case every single year. We have been benefiting from profit and loss consolidation into the same account as the one of the parent company since we opened our first German subsidiary in 1986.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

The decision of establishing my enterprise was not affected by the presence of such schemes, though we did benefit from them.

In the past, have such schemes affected your preferences between increasing the equity base and requesting a bank loan?

Yes: the decision to stretch my initial-capital loan over so many years, instead of just seeking for and widening of the equity base was entirely due to the presence of the interest-deductibility scheme. The same cannot be said about the carry-back CIT losses mechanism, nor about the possibility to account together profits and losses of all subsidiaries into the "fiscal unit" of the parent.

What role has the CIT had on your financing decisions?

Beyond the issue of CIT losses being backward accounted thanks to preferential legal provisions, CIT never affected the financial structure of the company ever since it started business in 1978.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

In no way beyond what answered in Question 7.

Have you ever considered relocating your company to any other member state to benefit from foreign government support in expanding the business?

Not relocation, only duplication or just opening of a foreign subsidiary, as we actually did.

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

I did notice a positive impact on growth of comparatively lower CIT rates in seven small foreign subsidiaries of my company: specifically in Poland, Ireland, United Kingdom, Hungary, Portugal, Romania, and Bulgaria.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Tax treatments are the same across sectors, at least in Germany.

What financing related policy do you think can successfully improve the liquidity of enterprises like yours?

Thinking more of how my firm looked like at the beginning, I think a simple, one-shot liquidity grant for start-ups meeting sensible minimum eligibility criteria would have been the best approach.

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

No I do not.

Could you provide an estimate of the time and monetary costs of tax compliance?

My company spends around € 70,000 a year for tax accounting, while from what I know, it takes tax accounting around a month to complete all due procedures.

Do you think that the benefits of the favourable policies you envisaged (question 13) would increase administration costs by affecting legal complexity?

No! A simple liquidity grant is meant exactly for enhancing legal clarity and ease!

In your opinion, what should the top three priorities be for policies seeking equity based growth at the European level?

1: give *all* European start-ups adequate initial government-sponsored liquidity, with funds being administered on a member-State basis, in order for them to be in a better position to attract direct investors.

2: reduce cross-country CIT differences so as to make sure companies expand to neighbouring markets only to exploit new selling opportunities, instead of things like taxation – this, I am sure, will reduce the need for external finance.

3: put forward a set of incentives for corporate resort to equity, such as higher interest rates (possibly at the ECB level).

Germany

What are the main industries in which you operate?

Cements

What is the size of your enterprise in terms of number of employees?

20 employees

What is the annual turnover of your enterprise?

1,823,000 euros

Are you aware of any tax policies to support companies like yours?

I only know about the possibility, from what I know granted to all sizes of German firms, to deduct from taxation interests on loans meant to finance business activity by listing them as items of operating expenditure.

Is your company currently benefiting from any favourable tax schemes?

I have been deducting all my interest payments ever since I founded my firm in 1996.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

Yes it exactly was. The presence of a deductibility scheme for interest instalments, of which I knew well before opening up my business, was the first and main – successful – determinant of my choice.

In the past, have such schemes affected your preferences between increasing the equity base and requesting a bank loan?

It would have, had I had any choice in terms of equity-participation opportunities; but I did not have any, so my equity-loan preferences were in fact unaffected.

What role has the CIT had on your financing decisions?

CIT provisions did not affect my financing decisions.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

Not in a prevailing way, though the presence of the interest-deductibility scheme was crucial in having me decide in favour of a conveniently shorter stretch of loan repayments.

Have you ever considered relocating your company to any other member state to benefit from foreign government support in expanding the business?

Yes I have! I particularly considered Austria's and Czech Republic's lower CIT rates (my firm is located in Passau) more than once, before ending up not taking any action.

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

As I never took action towards concrete relocation – nor ever considered opening a subsidiary given the relatively small current size of my business – I do not have experience of the impact of cross country CIT differences on growth strategies.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

I feel that larger companies end up benefiting from better accountants, as well as from wider economies of scale. I actually think it is not right to apply the same tax rates to both large and small enterprises!

What financing related policy do you think can successfully improve the liquidity of enterprises like yours?

Actually, the biggest liquidity constraint I tend to face is the delayed (though slightly) payment time by some customers; I think smaller firms should be treated with special care in regard to this potential issue as their short-term liquidity is comparatively more vulnerable. One concrete example would be an eased package of government-sponsored loans bearing either no interest, or a very low interest rate.

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

Not really.

Could you provide an estimate of the time and monetary costs of tax compliance?

It does not take me more than (roughly) 15 days to fill in tax compliance files. Cost: around € 7,000-8,000.

Do you think that the benefits of the favourable policies you envisaged would increase administration costs by affecting legal complexity?

I sense determining loan eligibility based on firm size could increase legal complexity a little bit.

In your opinion, what should the top three priorities be for policies seeking equity based growth at the European level?

1: differentiate CIT taxation progressively over firm size: smaller firms have lower initial costs to sustain, hence partner shareholders are more likely to join. 2: make CIT taxation homogeneous within the internal market; I think this would enhance equity-based growth because firms have a lower incentive to resort to bank finance when they are not constrained by a close-to-the-border unfavourable tax condition. 3: either reduce administrative red tape, or provide tax incentives to finance smaller firms'

resort to better-qualified external accountants, reducing the cost-profile of smaller firms and thus attracting investors.

Germany

What are the main industries in which you operate?

Cements

What is the size of your enterprise in terms of number of employees?

98 employees

What is the annual turnover of your enterprise?

4 million euros

Are you aware of any tax policies to support companies like yours?

I am aware of the existence of the possibility to deduct interest payments as operating expenses and to benefit from a lump-sum allowance on capital earnings, good for attracting equity investors.

Is your company currently benefiting from any favourable tax schemes?

My company is currently benefiting from interest deductibility and from the scheme of lump-sum allowances on capital earnings (in the sense that new shareholders benefit from it – which makes us more attractive).

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

Many other (smaller) decisions were definitely affected, but the decision to start my business was not.

In the past, have such schemes affected your preferences between increasing the equity base and requesting a bank loan?

Only the lump-sum allowance scheme for capital earnings; it led me (successfully) to preferring equity-base increases every time I was in doubt on how to raise corporate liquidity.

What role has the CIT had on your financing decisions?

CIT influenced my financing decisions mostly after I started opening subsidiaries outside Germany (I have a smaller one in Czech Republic which I opened in 2006, a bigger one in Poland that I opened in 2010): the two countries' lower CIT rates put me

in a better position to seek financing, as indeed I ended up borrowing less, and at a cheaper interest rate.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

By smoothing out the term structure of my investments in Germany, investments ranging from a side-contribution to founding capital (back in 1981, the year I founded my company), to starting two other subsidiaries in Germany, buying machinery and buildings etc.

Have you ever considered relocating your company to any other member state to benefit from foreign government support in expanding the business?

Positive experiences in Czech Republic and Poland did not lead me to considering relocation, as my company's central market remains Germany.

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

The two CIT differences I experienced (Czech Republic and Poland) let the new subsidiaries grow faster compared to my German subsidiaries.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

The feeling is that large and small companies are treated in a fairly similar way for tax purposes. Actually, irrespective of the sector, in Germany all investors that put money into a firm are taxed flat irrespectively of the amount they invested, or the size of their realized capital gain.

What financing related policy do you think can successfully improve the liquidity of enterprises like yours?

Liquidity issues most often faced by medium-sized companies like mine are short-term needs, usually to finance projects, innovation, or new locations. As usually banks profit, from my perspective, a bit too much from our no-alternative position, State subsidies helping lower interest rates, say for innovative projects, would be a good things to me.

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

Yes: I feel that businesses in the cements sector tend to rely heavily on funds provided by banks or other creditors (mostly banks), although I would not be able to say whether there is a particular, structural reason for this.

Could you provide an estimate of the time and monetary costs of tax compliance?

Annual tax-compliance expenses account for about € 80,000-85,000, with operating times rarely exceeding a month.

Do you think that the benefits of the favourable policies you envisaged (question 13) would increase administration costs by affecting legal complexity?

Not necessarily: even State subsidies can be structured in a way that does not affect legal complexity significantly. This depends mostly on whether laws are too complicated, and if local administrators do not add complication to law enforcement.

In your opinion, what should the top three priorities be for policies seeking equity based growth at the European level?

As a first priority, I would greatly appreciate if there was a Euro-wide effort to reduce corporate income tax rates everywhere in the continent, as CIT is usually a reason not to invest in a specific market or country, or to think twice before making that decision. Secondly, I wish the German system of tax deductions on capital gains, a policy that successfully promoted equity-based growth of German companies, could be applied at the European level, too. Thirdly, administrative constraints to opening "foreign" subsidiaries in other EU countries should be strongly reduced, if not completely eliminated.

Germany

What are the main industries in which you operate?

Lighting and interior design

What is the size of your enterprise in terms of number of employees?

170 employees

What is the annual turnover of your enterprise?

6.2 million euros

Are you aware of any tax policies to support companies like yours?

You can account for operating profits/losses all together for your network of companies for tax purposes, you can deduct loan interest as operating expenses, you can offer new shareholders one shot, year-based exemptions from tax levied on their investment gains. I know that recently the Federal Government even introduced a lump-sum allowance for employees' incomes, which in principle could be a good excuse for firms to lower offered wages, but we have never done that.

Is your company currently benefiting from any favourable tax schemes?

A lot from capital-gain allowances, a lot also (still) from interest-payment deductibility and from the fiscal unit concept, good for newly-founded subsidiaries.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

Let us say that more generally the presence of many tax allowances/deductions in the German business environment have helped a lot – probably I would not even have started my business, had I been in a different country. However, there was no specific single scheme that proved crucial in orienting my final decision.

In the past, have such schemes affected your preferences between increasing the equity base and requesting a bank loan?

Yes and massively: thanks to the capital-gain allowances, I always (at least) first tried expanding the equity base before even considering bank-based financing.

What role has the CIT had on your financing decisions?

No impact for the company's German headquarters and subsidiaries, while CIT considerations impacted financing decisions in Luxembourg and the Netherlands, i.e. their comparatively competitive rates have contained the company's financial exposure.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

Beyond a greater ease in attracting equity investment and thus avoiding bank credit as much as possible (as I have already mentioned), the fiscal-unit scheme helped spare on bank loans when faced with the costs of opening new subsidiaries in the country, as in, we simply had less money left out to finance through direct credit (through banks mostly, as it is normal).

Have you ever considered relocating your company to any other member state to benefit from foreign government support in expanding the business?

I did, initially (i.e. in the late Seventies), but plan were not concrete: I did not really have a specific country in mind, and quickly ended up resolving to stay in Germany.

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

Yes and positive, opening in Luxembourg and the Netherlands proved a great asset to exploit favourable CIT differences.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

For tax purposes, yes.

What financing related policy do you think can successfully improve the liquidity of enterprises like yours?

I feel private capital gains should be taxed less, in order to let investors face much lower costs of becoming shareholders of your company. This is so much better than resorting to bank finance!

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

No, I do not feel that there is any particular financial pattern characteristic to my sector or anything.

Could you provide an estimate of the time and monetary costs of tax compliance?

I would say, a bit below a hundred thousand euros a year, as a general tendency, while from what I know (not too much from direct experience) it takes from half to an entire month to take care of tax compliance.

Do you think that the benefits of the favourable policies you envisaged (question 13) would increase administration costs by affecting legal complexity?

I do not see how a simple reduction of the same tax would worsen legal complexity!

In your opinion, what should the top three priorities be for policies seeking equity based growth at the European level?

As I mentioned before, top priority should really be a (possibly, homogeneous) reduction of taxes on capital gains, so that equity-financed growth is enhanced directly. Then I think another priority would be for Germany to "export" to Europe the capital-gain allowances scheme, and as a third priority, I would put a general reduction of taxation on corporate income

<u>Germany</u>

What are the main industries in which you operate?

Real estate

What is the size of your enterprise in terms of number of employees?

102 employees

What is the annual turnover of your enterprise?

3,6 million euros

Are you aware of any tax policies to support companies like yours?

I know you can deduct interest payments, asset-amortization expenses, consolidate profits/losses in one unique account for all parent and subsidiaries, and many types of insurance payments.

Is your company currently benefiting from any favourable tax schemes?

We have benefited from VAT exemption since we started off in 1988 due to the industry in which we operate (real estate for long-term lets), alongside the fiscal unit method of consolidation for German parent companies having subsidiaries in Germany (all our subsidiaries are in Germany and we have 3), and the deductibility of interest payments.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

No it was not.

In the past, have such schemes affected your preferences between increasing the equity base and requesting a bank loan?

Although these schemes did have a say on the financial structure we chose for the firm, my (and the company's) preferences relative to equity were never significantly affected.

What role has the CIT had on your financing decisions?

CIT as a tax did not have an impact on our financing decisions.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

Yes: VAT exemption were a massive factor leading us closer to bank finance, as less has been needed to finance our operations.

Have you ever considered relocating your company to any other member state to benefit from foreign government support in expanding the business?

No I never did, nor would I do now!

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

No I do not have any experience with cross-country CIT differences, as all our subsidiaries are in Germany.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

I do not feel that there are different tax treatments between small and large companies in the real-estate sector.

What financing related policy do you think can successfully improve the liquidity of enterprises like yours?

May I begin by saying that enterprises like mine face very limited liquidity problems, if at all. Now, I still do believe that a more accommodating policy by the European Central Bank would do even better even to highly liquid companies like mine!

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

Well, not that I know, but I do sense that our strong VAT exemption for long-term real-estate puts us closer to bank-provided finance, since lower need for credit finance usually ends up in lower rates, or lower instalments, or anyway a more affordable offer of credit from a bank.

Could you provide an estimate of the time and monetary costs of tax compliance?

17-18 days and just above € 90,000 yearly.

Do you think that the benefits of the favourable policies you envisaged (question 13) would increase administration costs by affecting legal complexity?

Clearly not, as it would be the same thing the Central Bank always does.

In your opinion, what should the top three priorities be for policies seeking equity based growth at the European level?

Judging from our experience, I would probably limit tax exemptions a lot, as these, at least for us, have proved to be major factors justifying preference for bank credit over equity expansions. As a second priority, I would simply provide for outright tax benefits/allowances/deductions for companies deciding to resort to equity finance instead of to a loan. As a third priority, I would enable young entrepreneurs and new/recent firms to involve other willing shareholders/investors more easily by, say, deducting all expenses related to equity-base increases, or exempting capital gains of investors completely from taxation.

Germany

What are the main industries in which you operate?

Furnishing design solutions

What is the size of your enterprise in terms of number of employees?

19 employees

What is the annual turnover of your enterprise?

0.45 million euros

Are you aware of any tax policies to support companies like yours?

I know you can deduct interest payments, asset-amortization expenses, consolidate profits/losses in one unique account for all parent and subsidiaries, and many types of insurance payments.

Is your company currently benefiting from any favourable tax schemes?

I have by now fully amortized all assets, and always managed to deduct amortization expenses. Other than that, I have used the new possibility (I think it started very recently, like 2010 or 2011) to let new employees deduct part of their income – after knowing that, they were more willing to accept a slightly lower compensation or, more often, shorter employment contracts.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

Yes, especially by the opportunity to deduct amortization expenses!

In the past, have such schemes affected your preferences between increasing the equity base and requesting a bank loan?

Not really: both because my preferences have never changed so far (I would normally always prefer an increase in the equity base), and because I never even managed to expand the equity base.

What role has the CIT had on your financing decisions?

Germany's tax on corporate incomes influenced my financing decisions by lowering the scope for requesting further loans and grow faster! This of course, I must admit, also happened because I so far have not been successful at expanding the equity base of my firm.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

Well, yes, if there had not been deductions and allowances I would have borrowed even less – letting alone altering my decision to start the business at all.

Have you ever considered relocating your company to any other member state to benefit from foreign government support in expanding the business?

This issue has always been completely outside my reach, that is why I never even thought about it.

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

My entire experience is country-specific!

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Absolutely not. I am sure smaller companies are at a disadvantage: while possibly seeming at the same level of a large company for tax purposes, larger subjects profit from tax allowances and deductions way better because they still have a lot of liquidity anyway, with which they can combine profits arising from preferential tax treatment and re-invest the money more quickly, and more productively!

What financing related policy do you think can successfully improve the liquidity of enterprises like yours?

Ever since I started my firm, I have had small but at times even persistent liquidity shortages; I would suggest a simple lowering of CIT rates applied to start-ups and relatively (still!) small firms in order for them to borrow more, at least at the beginning of their path.

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

Well, not that I know, but I do sense that our strong VAT exemption for long-term real-estate puts us closer to bank-provided finance, since lower need for credit finance usually ends up in lower rates, or lower instalments, or anyway a more affordable offer of credit from a bank.

Could you provide an estimate of the time and monetary costs of tax compliance?

A bit more than a month, almost 40 days, though it is nothing like a full-time job! As for the cost, that is zero, because I do it all by myself!

Do you think that the benefits of the favourable policies you envisaged (question 13) would increase administration costs by affecting legal complexity?

I am sure it would, because people can always try to fiddle around definitions of firm size, or interpretation problems could arise, but it would still be worth the effort.

In your opinion, what should the top three priorities be for policies seeking equity based growth at the European level?

Priority no. 1: more money to start-ups! With more money you can do everything, including being (finally..) successful at attracting new investors or partners.

Priority no. 2: increase the incentive to prefer equity.

Priority no. 3: reduce incentives to resort to bank-provided finance, all over Europe. Naturally, I would realize these two last priorities by simple tax deductions and/or allowances in one direction or the other.

Germany

What are the main industries in which you operate?

Lighting design

What is the size of your enterprise in terms of number of employees?

70 employees

What is the annual turnover of your enterprise?

2,860,000 euros

Are you aware of any tax policies to support companies like yours?

There is the possibility, like I did, to list as operating expense all the expenses and interests that arose due to the loan you used to start your business, as well as to deduct from taxation the amortization expenses of assets you have invested money in, the way I did with my firm. You can also reduce the amount of tax that can be levied from your capital gains if you are an investor into the company, by fixed amount, and operating losses due to taxation can be carried back to the accounting year preceding the one you are working in.

Is your company currently benefiting from any favourable tax schemes?

Mostly interest deductibility and asset-amortization deductibility. More limitedly, the company also benefited from allowances for capital gains for new investors (especially in 2008, 2010, and 2011 when new shareholders joined – we are not a publicly-listed company).

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

I would not say that I started my business *because* such were the existing tax allowance/deduction schemes, but they surely helped me get convinced that founding that business activity was the right thing to do.

In the past, have such schemes affected your preferences between increasing the equity base and requesting a bank loan?

My preferences would have been the same anyway.

What role has the CIT had on your financing decisions?

CIT played a major role in my financing decisions because I ended up choosing to finance the opening of a new shop in Russia instead of in Germany: beyond the fact that Russia is a big new market with huge potential for the near future, its CIT rate was remarkably lower, which made the difference for my final choice.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

I do not believe that deductions and allowance schemes played any role in determining the financial structure of my company, at any period or point in time.

Have you ever considered relocating your company to any other member state to benefit from foreign government support in expanding the business?

No, I never went beyond thinking about just opening new subsidiaries abroad.

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

Yes, Russia's much-lower CIT let our 2007-founded Russian subsidiary grow at a rate almost double than the one of the German parent, if we consider the first three years of both and take total annual turnover as unit of measure. In terms of strategies, we actually did expect this difference even before we could in fact observe it, so we planned a series of investments – especially in property – that later proved functional for the Russian subsidiary to grow faster.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

I do not have much of this feeling, honestly.

What financing related policy do you think can successfully improve the liquidity of enterprises like yours?

My idea is that firms that managed to maintain a good level of liquidity by themselves – i.e. not spend beyond their means – should be "rewarded" by dedicated lower interest rates on borrowing. This would prevent overborrowing, and make successful firms more liquid and able to operate.

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

From my experience in Germany, being designer lighting considered a luxury good/service, required initial investments tend to be high, so I feel that enterprises in the sector are rather predisposed towards preferring equity over bank finance. If instead by financial structure it is meant the term structure of corporate-borrowing interest rates, then I think belonging to my sector makes no noticeable difference.

Could you provide an estimate of the time and monetary costs of tax compliance?

Within a month, and for a total annual cost of roughly € 40,000 on average.

Do you think that the benefits of the favourable policies you envisaged (question 13) would increase administration costs by affecting legal complexity?

I think administration costs would increase a little bit.

In your opinion, what should the top three priorities be for policies seeking equity based growth at the European level?

make borrowing (not much, but significantly) more costly – debt is never good, after all!

lift taxes on capital

lift taxes on capital gains, too

Germany

What are the main industries in which you operate?

Luxury

What is the size of your enterprise in terms of number of employees?

203 employees

What is the annual turnover of your enterprise?

Roughly 9 million euros

Are you aware of any tax policies to support companies like yours?

Yes, there are quite a few in Europe. In Germany, I know about the deductibility of amortization expenses, of interests, and of capital and capital gains; there is also the possibility to carry back to the previous year tax-due losses, while operating margins can be consolidated at parent level all at one for tax purposes.

Is your company currently benefiting from any favourable tax schemes?

I can list you the schemes we are using at the moment: 1) the fiscal unit concept that enables companies to consolidate operating margins and be taxed all at once at the parent level; 2) interest payments deductibility from tax; 3) capital gains deductions.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

I would not say that I started my business *because* such were the existing tax allowance/deduction schemes, but they surely helped me get convinced that founding that business activity was the right thing to do.

In the past, have such schemes affected your preferences between increasing the equity base and requesting a bank loan?

My preferences would have been the same anyway.

What role has the CIT had on your financing decisions?

My decisions were more influenced by corporate income taxation for relocation or new-location purposes; financial structures remained largely unaffected throughout our years of activity.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

Yes, the presence of fairly generous tax-support schemes was most probably the reason why I sought banking credit at all – had it been otherwise, I am pretty sure I would not even have bothered doing anything else than trying to expand the equity base.

Have you ever considered relocating your company to any other member state to benefit from foreign government support in expanding the business?

Yes, more than once. I considered relocating to Poland in 2008 after I saw that the Polish economy was becoming pretty dynamic even back at the time (we are located in Brandenburg), but even before that, I did also consider moving to Great Britain or the Russian Federation for purposes of market expansion. We ended up only opening subsidiaries in the two countries, though.

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

My personal experience clearly tells that a lower CIT rate (as has been the case for Great Britain and the Russian Federation) has a sizeable impact on growth outcomes, as the newly-founded subsidiaries grew much faster in terms of turnover, operating margins and profit, too. The Russian subsidiary did particularly well.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

I feel that smaller companies are place at a slight tax advantage: certain allowances such as the one on capital gains usually have upper caps that arrive with bigger size, while smaller companies are on the only-benefit side – though I guess this is the case for other sectors of the economy, too.

What financing related policy do you think can successfully improve the liquidity of enterprises like yours?

My opinion is that innovative projects that have also proved noticeably profitable once applied should be incentivized through ad-hoc interest deductions, or ad-hoc forms of interest-rate support (i.e. legal provisions ensuring they have the developer enjoy a significantly lower interest-rate on financing loans for, say, a limited amount of following years).

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

They are certainly predisposed towards equity due to the large endowments due, while amortization schedules, from my feeling, are very skewed, i.e. assets are amortized rather quickly due to the usually-fast take-off of profits typical of the luxury sector.

Could you provide an estimate of the time and monetary costs of tax compliance?

Tax compliance costs annually around 80-90 thousands of euros, time I do not know precisely as I do not take direct care of this – I feel confident to say one or two months at most.

Do you think that the benefits of the favourable policies you envisaged (question 13) would increase administration costs by affecting legal complexity?

I think administration costs would increase a little bit.

In your opinion, what should the top three priorities be for policies seeking equity based growth at the European level?

As primary priority, young firms should be empowered with enough start-up liquidity (I mean from governments) to overcome initial obstacles, especially in times of crisis or economic long-term depression: they should be put in the condition to depend as little as possible on banks! Secondly, smaller firms should be given a clearer, and Euro-spread, tax advantage, like for instance being able to deduct all liquidity-increasing initiatives – including also equity, not just loans and interests. Thirdly, I think capital gains should be completed de-taxed.

Ireland

What are the main industries in which you operate?

Light design

What is the size of your enterprise in terms of number of employees?

109 employees

What is the annual turnover of your enterprise?

Around 5 million euros

Are you aware of any tax policies to support companies like yours?

No, I do not know of anything special my government gives to companies like mine.

Is your enterprise currently benefiting from any favourable tax scheme?

No it is not!

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

No (follows from 5).

In the past, have such schemes affected your preferences between increasing the equity base and asking for a bank loan?

As I said, I did not benefit from any particular scheme, but I still do not think that the presence of anything would have changed my preferences between equity and a bank loan.

What role has CIT had on your financing decisions?

Well, no influence at all I think. Although I guess my financing decision could have been a little different, for instance, in presence of a higher CIT rate (as in, more equity than bank debt)!

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

No (follows from above).

Have you ever considered relocating your company to any other member State to benefit from foreign government support to expand the business?

Actually no, if anything I do know well that Ireland has pretty competitive business taxation so I am happy here.

Do you have experience suggesting that country-specific differences in CIT have an impact on the growth strategies pursued by enterprises?

No I do not.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

In general, I would say the attitude towards slightly-differing is not discriminatory, although for instance taxes on corporate income do increase with turnover.

What financing-related policy do you think can successfully improve the liquidity of enterprises like yours?

Either a tax provision that reduces the costs of bank debt (through interests, through reduced administrative costs, or as a deduction of interest payments), or something that makes you more attractive when it comes to convincing (foreign) investors to step in and let you avoid bank finance.

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

Not really. I think it is the same in all sectors, more or less.

Could you provide an estimate of the time and monetary cost of tax compliance?

Yes sure. Ok so it takes me around 7 or 8 days in a year, at no particular cost.

Do you think that the benefits of the favourable policies you envisage in Question 13 would increase administration costs by affecting legal complexity?

Yeah probably a little bit, but I am sure it would be worth it!

In your opinion, what should the top three priorities be for policies seeking equity-based growth at the European level?

Well, definitely making equity more attractive, it could be by setting up a European fund for European companies that gives money to those which have shown better performance (profitability, cost competitiveness…) in the last year for instance. Then… instead of just giving money out, Europe could just simply lift taxation on new shares issued; and thirdly I would actually think of making finance interests higher so as to de-incentivize recourse to banking and make equity more popular – maybe this would help spread a culture of the use of equity!

Ireland

What are the main industries in which you operate?

Light design

What is the size of your enterprise in terms of number of employees?

54 employees

What is the annual turnover of your enterprise?

2.4 million euros

Are you aware of any tax policies to support companies like yours?

The most commonly known is the so-called Business Expansion Scheme; then it is also pretty common to deduct your interests from the computation of corporate tax owed, while you can also get special grants/allowances if you pursue research and development plans.

Is your enterprise currently benefiting from any favourable tax scheme?

The two we are currently benefiting from are the deductibility of interest payments and the Business Expansion Scheme.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

I would say so. Certainly not the no. 1 reason since you obviously do have a strong motivation when you decide to launch a new business, but knowing about interest deductibility in advance was a great relief – especially if considered besides the possibility of a good help later when you want to expand the business.

In the past, have such schemes affected your preferences between increasing the equity base and asking for a bank loan?

I would say so. Probably, without interest deductibility I would have been a bit more skewed towards equity, though likely to be not that much of a tendency.

What role has CIT had on your financing decisions?

None.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

As I said before, I sense it would have "trusted" banks less to provide me with funds, since it would have been more of a cost. Other than that, I think I cannot say much actually.

Have you ever considered relocating your company to any other member State to benefit from foreign government support to expand the business?

No, not really.

Do you have experience suggesting that country-specific differences in CIT have an impact on the growth strategies pursued by enterprises?

Exactly, no, not at all.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

I think there is no difference at all to be honest.

What financing-related policy do you think can successfully improve the liquidity of enterprises like yours?

Liquidity… I would say premia on productivity: grants of the kind of those given to firms pursuing R&D plans, but linked to how much profit you produce. That would be a very strong incentive to firms in Ireland to be productive, and would also help securing a better liquidity condition in the long run.

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

It does not sound like anything important to me. I therefore expect other companies in the sector to also not feel this question so much.

Could you provide an estimate of the time and monetary cost of tax compliance?

Takes me around 4 full business days!

Do you think that the benefits of the favourable policies you envisage in Question 13 would increase administration costs by affecting legal complexity?

I do not think so!

In your opinion, what should the top three priorities be for policies seeking equity-based growth at the European level?

I think Europe should take better care of providing small companies, and especially start-ups, with simply a higher liquidity endowment – can be tied to reaching specific performance target, but not even necessarily –, with that secured, you *do* attract investors even at that early stage of corporate development. Secondly, there should be *no* commission at all for shares issued; thirdly, there should be no difference within Europe – we are sick and tired of going outside Ireland (but still in the EU) and finding a pure mess of different regulations!

Italy

What are the main industries in which you operate?

Interior design

What is the size of your enterprise in terms of number of employees?

7

What is the annual turnover of your enterprise?

1,5 million €

Are you aware of any favourable tax schemes to support companies like yours?

No unfortunately

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

N/A

What role, if any, have special depreciation rates played on capital acquisition plans (e.g. machinery etc.)?

We don't use machinery so it is difficult to say.

Have you ever considered relocating your company to any other member state to benefit from special depreciation rates elsewhere?

No

Do you have any experience suggesting that cross country differences in depreciation rates have an impact on the growth strategies pursued by enterprises?

I know there are different systems, but I don't know if it has an impact on companies.

Do you feel that, within your sector, large and small companies are subject to similar depreciation rates? If there are any differences, how does this affect small enterprises' competitiveness versus large enterprises'?

I don't know honestly

Have you ever decided not to pursue growth plans in order to remain eligible for special depreciation rates?

No

Do you believe that your sector would benefit from any (other) special depreciation rates? What should this and related policies address?

I don't think so, no

Could you provide an estimate of the time and monetary costs of tax compliance?

We ask our accountant to take care of this matter, difficult to say how much it costs only for the CIT

Ireland

What are the main industries in which you operate?

Editing

What is the size of your enterprise in terms of number of employees?

18 employees

What is the annual turnover of your enterprise?

Ca. 4 million euros

Are you aware of any tax policies to support companies like yours?

Yes, there is the Business Expansion Scheme of tax relief.

Is your enterprise currently benefiting from any favourable tax scheme?

Yes, I have been benefiting from the Business Expansion Scheme since its start in 2011 – I guess not for long, still, as it is primarily geared towards start-ups.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

Absolutely! We started in 2011 right after we knew the Business Expansion Scheme had been set up by the Irish government and approved by the European Commission!

In the past, have such schemes affected your preferences between increasing the equity base and asking for a bank loan?

Yes, I can say that the scheme itself helped us reduced our bank exposition by a good 50%, or even more.

What role has CIT had on your financing decisions?

Corporate taxation has been always important for us, but no impact on financing decisions, sorry.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

Nothing beyond what I just said about the reduction in bank exposition made possible by the Business Expansion Plan.

Have you ever considered relocating your company to any other member State to benefit from foreign government support to expand the business?

Nope.

Do you have experience suggesting that country-specific differences in CIT have an impact on the growth strategies pursued by enterprises?

Nope, either.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Not exactly the same tax treatment. The bigger you grow, the less you can benefit from the above-mentioned scheme (if at all any more), plus you pay slightly higher CIT.

What financing-related policy do you think can successfully improve the liquidity of enterprises like yours?

All I can think about is an out-stretching of the Scheme, especially in times of crisis and credit crunch.

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

I think that since the provisions and help-schemes I just mentioned are not linked to your belonging to a specific sector or industry, then there is nothing like a sector- or industry-specific typical financial structure.

Could you provide an estimate of the time and monetary cost of tax compliance?

No more than 10 days a year. I employ a tax consultant when I need him, and pay him a total lump sum of about 5,000 euros, although this can vary slightly as a function of year-specific needs.

Do you think that the benefits of the favourable policies you envisage in Question 13 would increase administration costs by affecting legal complexity?

No, definitely not.

In your opinion, what should the top three priorities be for policies seeking equity-based growth at the European level?

I cannot really think of three priorities here – still, I am convinced European leaders should on one side de-tax investments in smaller-but-growing firms, on the other make all these provisions as homogeneous as possible throughout the European territory (or throughout the Eurozone, since we all know Britain can be a problem sometimes).

Ireland

What are the main industries in which you operate?

Engineering research

What is the size of your enterprise in terms of number of employees?

16 employees

What is the annual turnover of your enterprise?

Slightly above a million euros

Are you aware of any tax policies to support companies like yours?

All I do is actually getting research and development grants from the government! Other than that, I know you can deduct loan interests from your operating expenses.

Is your enterprise currently benefiting from any favourable tax scheme?

I am benefiting from exactly those I have just mentioned.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

Yes obviously, we started off exactly because we would be getting a lot of research grants.

In the past, have such schemes affected your preferences between increasing the equity base and asking for a bank loan?

In general yes, I have tended to resort more to bank loans.

What role has CIT had on your financing decisions?

On my financing decisions? Well, no, no effect on that.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

No as I said.

Have you ever considered relocating your company to any other member State to benefit from foreign government support to expand the business?

No I have not.

Do you have experience suggesting that country-specific differences in CIT have an impact on the growth strategies pursued by enterprises?

Nope.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Not at all! Larger companies get a insanely bigger amount of grants, and still benefit from interest deductions as if they were start-ups!

What financing-related policy do you think can successfully improve the liquidity of enterprises like yours?

Define start-ups better: set a low threshold so that you do not benefit from favourable schemes forever, but at the same time increase funds for those newly-defined start-ups. I think the best way to ensure their liquidity improves would be to provide them with funds until they reach a million euros yearly turnover.

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

Tiny bit, yeah. As in, they probably tend to resort more to banks since investors do not always fully understand the potential of your research – they mostly get it later, when they see how successful you are, and have been.

Could you provide an estimate of the time and monetary cost of tax compliance?

5 full days, no extra money involved.

Do you think that the benefits of the favourable policies you envisage in Question 13 would increase administration costs by affecting legal complexity?

Not significantly, I guess.

In your opinion, what should the top three priorities be for policies seeking equity-based growth at the European level?

I think research grants should actually be funded by the European Union, probably by the European Commission itself: I have thought multiple times about involving other firms we know are doing the same thing in Europe, but the diversity of legal and tax initiative for the research and development sector in engineering made it usually not possible. Then Europe should help us fully inform investors from our early stages, so that we can involve them early and spare on banking costs. I also think Europe should help private-sector research by de-taxing its profits, but who knows if other people follow me in this!

Ireland

What are the main industries in which you operate?

Editing

What is the size of your enterprise in terms of number of employees?

27 employees

What is the annual turnover of your enterprise?

2.8 million euros

Are you aware of any tax policies to support companies like yours?

You get special exemptions if you engage in R&D, deduct interest payments, and get money if you expand quickly in your start-up early phase.

Is your enterprise currently benefiting from any favourable tax scheme?

All of the above!

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

Not by all of them but yes, I especially liked the one for start-ups.

In the past, have such schemes affected your preferences between increasing the equity base and asking for a bank loan?

Honestly, I think if those benefits had not existed, my preference would have stayed the same.

What role has CIT had on your financing decisions?

CIT had absolutely no influence on my financing decisions.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

No (follows from 8).

Have you ever considered relocating your company to any other member State to benefit from foreign government support to expand the business?

I do sense there might be better countries especially in the close Europe if you wanted to relocate, but I am moderately satisfied with what Ireland is doing for companies like mine.

Do you have experience suggesting that country-specific differences in CIT have an impact on the growth strategies pursued by enterprises?

No I do not.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

I think tax treatments *end up* been more or less equitable: I think bigger companies enjoy a lot more of economies of scale than firms like mine, so that it is right that they pay, for instance, potentially much higher corporate income tax. So yeah, let us just say we end up being treated similarly.

What financing-related policy do you think can successfully improve the liquidity of enterprises like yours?

I will give you the simplest: lower CIT taxation, lower labour-hiring costs/tax.

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

A little bit: I have the feeling I am not alone in seeking more bank-provided finance because it is rather difficult to find new shareholders once the business is started – most do not understand what you are doing, what you are publishing, what you make certain literary choices etc.

Could you provide an estimate of the time and monetary cost of tax compliance?

12 days? And no, there is no such thing as a big cost to incur.

Do you think that the benefits of the favourable policies you envisage in Question 13 would increase administration costs by affecting legal complexity?

No, no. How can linear tax rebates increase legal complexity?

In your opinion, what should the top three priorities be for policies seeking equity-based growth at the European level?

A better system of information for new shareholders to come up; 2) decrease tax conditional on growth that is exclusively equity-based; 3) make it easier for firms to set up human-capital exchanges across Europe: so far we have seen much more theory than practice!

Ireland

What are the main industries in which you operate?

Interior furnishing

What is the size of your enterprise in terms of number of employees?

60 employees

What is the annual turnover of your enterprise?

3,160,000 euros

Are you aware of any tax policies to support companies like yours?

The most popular is the Business Expansion Scheme (or the BES), the deduction of interests, and then there is also a good chance of being able to deduct insurance expenses when you can show they were necessary for securing trade deals.

Is your enterprise currently benefiting from any favourable tax scheme?

We have benefited especially from the last I mentioned, while the BES was on at the beginning only, and we have not much cared about interests as we use mainly equity (cheaper, less bank hassle).

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

I cannot say they influenced by initial decision, I was young and motivated and honestly no other thing pushed me towards starting the business, but yes I can still say that had I been in another country, I might possible have waited a bit more before starting.

In the past, have such schemes affected your preferences between increasing the equity base and asking for a bank loan?

They have not – primarily because I tend to massively prefer equity anyway!

What role has CIT had on your financing decisions?

Knowing that the rate would increase as turnover increases made me opt for a debt schedule that concentrates interests in a shorter period of time – although, as I told you, loans do not account for much of my firm's financing.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

What I just said basically.

Have you ever considered relocating your company to any other member State to benefit from foreign government support to expand the business?

No I have not.

Do you have experience suggesting that country-specific differences in CIT have an impact on the growth strategies pursued by enterprises?

Neither.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

It is not a thing about my sector, but larger companies are indeed at a big of a disadvantage in tax terms (primarily in CIT-rate terms), but yeah when you are bigger you have so many better contacts that acquiring new investments from shareholders just makes it much quicker to finance expansion plans.

What financing-related policy do you think can successfully improve the liquidity of enterprises like yours?

Probably reducing interest rates for everybody – if that was *seriously* the case, I might even rethink my well-rooted preference for equity over bank finance.

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

I do not have that feeling.

Could you provide an estimate of the time and monetary cost of tax compliance?

24 hours at most. It does not cost me anything.

Do you think that the benefits of the favourable policies you envisage in Question 13 would increase administration costs by affecting legal complexity?

Mostly not.

In your opinion, what should the top three priorities be for policies seeking equity-based growth at the European level?

I think if Europe really wants European firms to be less dependent from banks (and maybe also, by doing this, pushing banks to give credit at easier conditions!), it should simply help firms with direct money – I think the best way is by rewarding productivity, human capital improvements, and R&D. That is all.

Netherlands

What are the main industries in which you operate?

Gift sector, webshop

What is the size of your enterprise in terms of number of employees?

2

What is the annual turnover of your enterprise?

We don't make any profit, but last year we sold for about 400-600 euros worth of products

Are you aware of any government taxation policies to support companies like yours?

One hundred percent equity. We invested our own money, 2000 euros

Is your enterprise currently benefitting from any favourable tax schemes?

Yes absolutely, we don't have to pay any taxes as long as we stay under 20.000 euros a year. We also get all of the VAT we have paid back, so we don't have to give up any money.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

Yes, otherwise I would have lost half of the money. At least 20 percent. It is nice that I don't have to pay anything.

In the past, have such schemes affected your preferences between increasing the equity base or requesting a bank loan?

Yes, because I can last longer with my own investments because of this. Because when I invest money on new products, I get the 20 percent VAT back.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

No

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

No response

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

Yes, well if you are talking about start-ups, it is really important to be aware of the deduction schemes. Because they save you a lot of money, but also cost you a lot of

money. So it is important to involve these things in the financial plan for your enterprise.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

No

What financing related policy do you think can successfully ease the liquidity constraints of enterprises like yours?

Not for our company.

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

I think most of them are working in the Netherlands, so I don't think there will be a lot of differences. Besides the really big players, they are international and therefore probably use different tax schemes.

Do you believe that your sector would benefit from any tailor made policy on the financing side?

I don't know

Could you provide an estimate of the time and monetary costs of tax compliance?

20 hours a year

Do you think that the benefits of the favourable policies you envisaged (question 15) would increase administration costs by affecting legal complexity?

N/A

In your opinion, what should the top three priorities be for policies aimed at facilitating debt based growth at the European level?

N/A

In your opinion, what should the top three priorities be for policies seeking equity based growth at the European level?

N/A

Do you have any policy recommendations to make on corporate income tax-related practices?

No I wouldn't know. I think that we are already doing quite well in the Netherlands. Because we don't have to pay any taxes or VAT as long as you make less than 20.000 euros.

IRELAND

What are the main industries in which you operate?

Lifelong financial planning, wealth management, retirement planning, taxation, business consulting

What is the size of your enterprise in terms of number of employees?

The interviewee believes that he provide his experience on clients, which are mostly SMEs and multinationals

What is the annual turnover of your enterprise?

For his clients, there is much variation, therefore it is hard to establish

Are you aware of any government taxation policies to support companies like yours?

There are no differences between SMEs and multinationals

Is your enterprise currently benefitting from any favourable tax schemes?

No. Taxation is simple and low.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

There are differences between PIT and CIT. This affects the decisions of micro entrepreneurs, who need to make a choice between sole proprietorship, self-employment and establishing a company.

In the past, have such schemes affected your preferences between increasing the equity base or requesting a bank loan?

The existence of deductions on interest is good but the financial structure depends on the size and the industry, not so much to existing schemes.

What role has the CIT had on your financing decisions?

Profits can be reinvested, but this is only true of multinationals. For SMEs this is not a big deal

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

n/a

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

Ireland is a major attraction for multinationals.

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

No, multinationals (especially US ones) come to Ireland but this does not affect their entrepreneurial decisions. Tax planning may be independent from strategic decisions

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

They are; however profits play a significantly different role. In investment decisions, SMEs focus on debt and capital from loans

What financing related policy do you think can successfully ease the liquidity constraints of enterprises like yours?

No answer

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

No answer

Do you believe that your sector would benefit from any tailor made policy on the financing side?

I am satisfied with the fiscal environment that exists in Ireland

Could you provide an estimate of the time and monetary costs of tax compliance?

Hard to give an estimates. However, tax authorities are efficient and it is easy to comply. They are genuinely interested in making tax compliance easier (e.g. by letting enterprises choose between quarterly and annual statements).

Do you think that the benefits of the favourable policies you envisaged (question 15) would increase administration costs by affecting legal complexity?

n/a

In your opinion, what should the top three priorities be for policies aimed at facilitating debt based growth at the European level?

I believe that at least some degree of sovereignty over taxation should be left to individual countries.

In your opinion, what should the top three priorities be for policies seeking equity based growth at the European level?

Same as below

Do you have any policy recommendations to make on corporate income tax-related practices?

No, this might be perceived as "selfish" but I believe that Ireland should be let free to implement the best set of policies, and that tax harmonisation might not be in the country's interest.

IRELAND

What are the main industries in which you operate?

hr and recruitment

What is the size of your enterprise in terms of number of employees?

Staff of 27, 250 by including non permanent staff.

What is the annual turnover of your enterprise?

10 million

Are you aware of any government taxation policies to support companies like yours?

12.5 % CIT, expenditure allowable, taxation on capital investments (depreciation)

Is your enterprise currently benefitting from any favourable tax schemes?

they do but not a big role; depreciation: computer equipment, software to support our database of candidates . Did not make a difference

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

no loans, pay from cash flow, all growth must come from there

In the past, have such schemes affected your preferences between increasing the equity base or requesting a bank loan?

no, access to finance, looking for a loan not possible

What role has the CIT had on your financing decisions?

profits are reinvested, so indirectly yes

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

No

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

come to Ireland, but SMEs but not multination, UK-IE taxation lower, would realise more profits in Ireland- and far east

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

CIT and personal income tax, which is high

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

N/a

What financing related policy do you think can successfully ease the liquidity constraints of enterprises like yours?

n/a

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

Irish SMEs are trying clear the debt is trying them expand. Deduct interests is fine, but I rates are to high relative to inflation, borrow is still unattractive. Banks are killing businesses and individuals. Banks bailed out. The Government failed to insist on the banks extending credit to small companies

Do you believe that your sector would benefit from any tailor made policy on the financing side?

no, because company is not in debt, but other companies have debt based on properties (private/corporate).

Could you provide an estimate of the time and monetary costs of tax compliance?

ok, not too bureaucratic, not difficult to be compliant, most deficient department is the revenue commissioner

Do you think that the benefits of the favourable policies you envisaged (question 15) would increase administration costs by affecting legal complexity?

No answer

In your opinion, what should the top three priorities be for policies aimed at facilitating debt based growth at the European level?

European banks that lend money to Ireland should know that banks are for business, should defend those entrepreneurs who put their resources and assets into their enterprises, those are particularly struggling

In your opinion, what should the top three priorities be for policies seeking equity based growth at the European level?

No answer

Do you have any policy recommendations to make on corporate income tax-related practices?

No answer

UK

What are the main industries in which you operate?

Agrochemicals

What is the size of your enterprise in terms of number of employees?

28 (based in UK and Ireland)

What is the annual turnover of your enterprise?

5.8 m euros

Are you aware of any government taxation policies to support companies like yours?

manufacturing relief

Is your enterprise currently benefitting from any favourable tax schemes?

working capital

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

The company was established in 1975. We benefit from R&D credits, but we you would invest anyway. R&D decisions are based solely on business needs

In the past, have such schemes affected your preferences between increasing the equity base or requesting a bank loan?

Since we only use working capital, we do not require bank loans

What role has the CIT had on your financing decisions?

Positive because profits are invested.

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

No

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

No, we moved to UK only because there was a market there

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

beneficial rates in the manufacturing area good and helps, reinvest

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

n/a

What financing related policy do you think can successfully ease the liquidity constraints of enterprises like yours?

I would be speculating because this is not relevant for me. However access to finance must be addressed at the banking level

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

Similar to ours

Do you believe that your sector would benefit from any tailor made policy on the financing side?

Ireland and UK

Could you provide an estimate of the time and monetary costs of tax compliance?

no, outsource (required in Italy) but it easy to comply and does not create significant hassle

Do you think that the benefits of the favourable policies you envisaged (question 15) would increase administration costs by affecting legal complexity?

n/a

In your opinion, what should the top three priorities be for policies aimed at facilitating debt based growth at the European level?

Banking system should be reformed. However, the enterprise would prefer to grow and invest with its own resources

In your opinion, what should the top three priorities be for policies seeking equity based growth at the European level?

Access to finance easies, cash

Do you have any policy recommendations to make on corporate income tax-related practices?

For my company, this would be a neutral issue, the taxation rate for manufacturing is good.

BELGIUM

What are the main industries in which you operate?

Sales and distribution- lubricants and cleaning products

What is the size of your enterprise in terms of number of employees?

4

What is the annual turnover of your enterprise?

500000 euros; 33.99% CI bracket (depends on taxable income)

Are you aware of any government taxation policies to support companies like yours?

There are subsidies and other incentives in R&D, but not applicable. Moreover, there exist preferential tax rates but they have very restrictive conditions, never been actively involved

Is your enterprise currently benefitting from any favourable tax schemes?

Biggest advantage in Belgium is ACE (allowance on corporate equity). In fact, many use own equity (profits put in reserve), which due to ACE is very advantageous for small companies. Those who benefit from it are usually confined to solid firms with reserves. Conversely, high leveraged companies are unlikely to take up this scheme. The ACE has been made use of for the last 7-8 years, essentially since its implementation.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

The only policy taken up is the ACE, which they greatly benefitted from. However, this has not influenced business decisions strictly speaking (e.g. employment). More simply, taxation was allowed to be reduced to zero and therefore the amount of post-tax profits increased.

In the past, have such schemes affected your preferences between increasing the equity base or requesting a bank loan?

Usually those who take up the scheme are companies with reserves who naturally prefer the equity base over the bank loan.

What role has the CIT had on your financing decisions?

n/a

Do you believe that deductions and allowance schemes have played a role in determining the financial structure of your company? If so, how?

No, the real objective is to make a company profitable. Big companies important can maximise their profits as a result due to their expertise and dedicated personelle. To achieve that stage a company like this would take 10, perhaps 15 years. Cery often these policies in Belgium do not aim to modify the financial structure of the company, since the main goal is employment creation.

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

Because of the size of the company and the commercial focus on Belgium (where the bulk of the sales are), the costs involved of relocating and reorganising the company elsewhere would be too high. Relocating is a feasible option for big multinationals, while for small companies there is no option. Plus, the government would discourage you from relocating, e.g. to Luxemburg, for example through high taxes and bureaucracy.

Do you have any experience suggesting that country specific differences in CIT have an impact on the growth strategies pursued by enterprises?

CIT do not affect growth strategies, they are a "given"

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

All competitors are in the same situation, they do not have a particular advantage. Multinationals could benefit from exploiting the tax code. However this is not about product competitiveness

What financing related policy do you think can successfully ease the liquidity constraints of enterprises like yours?

Does not know. However, CIT should be the same in Europe, and significantly lower. It would increase investment again. You may want to reinvest but after social security little remains to reinvest. Would incentivise foreign companies to locate in EU. They should reduce them drastically.

Do you feel that enterprises in the sector in which you operate are predisposed towards having a certain financial structure?

No answer

Do you believe that your sector would benefit from any tailor made policy on the financing side?

No, but there has been too much focus on big companies, although SMEs are the backbone of the economy and have more serious financing problems

Could you provide an estimate of the time and monetary costs of tax compliance?

It is all done from an external accountant who deals with a bookkeeping (8000 euros per year)

Do you think that the benefits of the favourable policies you envisaged would increase administration costs by affecting legal complexity?

It would make things easier, not worse in terms of administration costs. It is worth noting that the feasibility of relocation depends to a great extent on such costs, which increase the costs of bookkeeping while offsetting benefits

In your opinion, what should the top three priorities be for policies aimed at facilitating debt based growth at the European level?

Lower taxes, too much regulation, costly, govt should be more efficient, more room for companies that create prosperity and growth

In your opinion, what should the top three priorities be for policies seeking equity based growth at the European level?

No answer

Do you have any policy recommendations to make on corporate income tax-related practices?

See above

Belgium

What are the main industries in which you operate?

Light design

What is the size of your enterprise in terms of number of employees?

16 employees

What is the annual turnover of your enterprise?

400,000 euros

What policies currently in place are affecting your growth strategies?

The only one I know is the deductibility of notional interest (it's pretty well-known I think), it works basically like they deduct a one-shot amount from the company's taxable income by means of considering your equity funding as if it was a bank loan. This is still affecting my growth strategies because it still is nicely keeping the amount of corporate-income tax I actually pay lower than what it would be, I don't know, in another country for instance.

Are you aware of any favourable tax schemes to support companies like yours?

Same as Question 4.

Do you think your growth strategy is currently being affected by the existence of such schemes?

Well, now not really any more, but I would say it was the case for like five or six years after I started my business. The think worked like, in order to pay no corporate taxes at all to the government – something you can achieve by simply not having a very big equity base, so that the returns of your assets (on which you are paying very short-term interests) still fall below the "notional interest" amount the government can give you. Badly explained but hey, this is what I basically did for that amount of time, just not expand in order to keep on not paying taxes.

What were the considerations made when deciding to cross the threshold or the reasons why it was more beneficial not to?

Until I decided to go beyond the line, the reasons why it had been more beneficial no to do so were that I needed bigger investments to actually expand activity, something I preferred doing after some years of sparing – which I managed to do thanks to the lower-than-notional-amount trick I just told you about.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

Yes, I probably would have, also in the sense that I would have had no much of alternatives.

However, even *with* the notional thing, I could pursue a pretty careless growth strategy (can you call that aggressive?), so the net effect is that without the policy, I would have done more or less the same thing, just some years before.

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?

This is a nice question. The notional-amount policy did reduce my real CIT rate after I started expanding; indeed, though, I must admit that I did not choose to expand *because* of that policy (i.e. the possibility of a reduced real CIT rate), as I was basically paying no corporate tax at all before expanding.

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

Well, yes, the way the policies I am telling you about is structured did help decide in favour of an expansion: if it there had not been such a yummy CIT implied reduction in it, I would probably have postponed the expansion a little bit, or maybe never even done it at all.

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

I have considered expanding my business outside Belgium, to the Netherlands for instance (I am based in Bruges, Flanders), but so far I have not cared about foreign government support.

Do you have any experience suggesting that country-specific differences in CIT have an impact on the growth strategies pursued by enterprises?

Not at all! I have no experience whatsoever outside Belgium, though I hope I can expand to neighbouring countries such as the Netherlands, Germany, France, and, why not, Luxembourg and will gladly let you know then!

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Unfortunately, I must admit, I do not *know* precisely if tax deductions/allowances are such that these discrepancies are big enough to make a difference, though I do feel a bit of at a disadvantage if compared with bigger firms – they get all the loans they want, attract new equity, etc. In general, I believe tax should adjust for this tendency, but in the opposite direction!

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

Probably an outright reduction, that always impacts liquidity beneficially – better if geared towards growing *small* enterprises, which have less likelihood of profiting from economies of scale.

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

Yes, I think at least companies of my size and my age (i.e. growing, but still relatively small start ups, let us say start-ups wishing to become medium-size enterprises one day) would do probably the same, as what my strategies so far have just been common sense, nor am I particularly expert in business management!

What industry-specific tax policies would you recommend for growing companies in your sector?

Although I feel Belgium is not that bad when it comes to helping small companies grow, if you take into account that a small company might also be just *young*, then it would be desirable for these policies to be simpler to grasp. Specifically, I wish there was an outright contribution to companies that start, but also want to grow immediately. I mean, not that I have anything to complain about the juicy NID allowance I greatly benefited from (I admit it!), but it did serve as an incentive to stay the same in size, for some time.

Could you provide an estimate of the time and monetary costs of tax compliance?

I would say, it takes me around 30-40 days of full-time work. I am unable to provide an estimate of the cost because I do it all myself.

Do you think that the benefits of the favourable policies you envisaged (Question 16) would increase administration costs by affecting legal complexity?

Well clearly, as I said, the very aim of that policy would be that of simplifying existing legislation, so administration costs would (hopefully) decrease.

Belgium

What are the main industries in which you operate?

Light design

What is the size of your enterprise in terms of number of employees?

27 employees

What is the annual turnover of your enterprise?

Around 1 million euros

What policies currently in place are affecting your growth strategies?

There is the so-called NID (Notional Interest Deduction), the "95%-dividend-received" deduction, and the full deduction of capital gains for shareholders.

Are you aware of any favourable tax schemes to support companies like yours?

Yes, I am: I am aware of the ones I have just outlined in the last question, plus a couple of others, such as for instance the full deductibility of arm's length financing charges relating to acquisitions.

Do you think your growth strategy is currently being affected by the existence of such schemes?

The Notional Interest Deduction is reducing my effective CIT rate, leaving me with more liquidity for the funding of long-term investments. The "95%-dividend-received" deduction is having the same effect, while with the full deductibility of capital gains I know I can always attract new shareholders pretty easily, also because they know my business is doing fairly well.

What were the considerations made when deciding to cross the threshold or the reasons why it was more beneficial not to?

There was never anything like a "threshold" I had to cross or not, as business kept growing rather steadily, and pretty much every year, since its very start, so I do not think I can say anything really useful to you for this questions.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

No, on the contrary, I think my growth would have been milder, and especially slower due to harsher liquidity conditions and a condition of slightly-greater difficulty to attract investors.

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?

Again, as I said just a couple of questions ago, there never was a decision to implement a growth strategy or not, simply the company kept on growing since the very beginning. However I can still say that the favourable scheme was one of the main factors why the company could grow so much and so stably.

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

No they did not.

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

Honestly, I never though of this idea!

Do you have any experience suggesting that country-specific differences in CIT have an impact on the growth strategies pursued by enterprises?

As a consequence, well, no, no such experience, sorry.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Not that it is a thing that pertains to my sector so strictly, actually I think there is no peculiarity at all, but yes, bigger companies clearly have to pay more, because either they have less interest to deduct, or they have bigger dividends, so what is left is still to pay.

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

What I think could be a significant improvement is that the effective CIT rate you will end up having to pay is as predictable (and, somehow, fixed) as the official, nominal CIT rate (should be now between 33% and a sharp 34% of your taxable corporate income). Once you know for sure what you will have to pay, you know even better when you are giving away crucial liquidity, or you truly are investing it in some sort of short-term cash cow or something.

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

Why not. I would still have to see the single entrepreneur's style, and preferences, also because the Belgian tax system is rather complex and provides for fairly diversified allowance and deduction schemes.

What industry-specific tax policies would you recommend for growing companies in your sector?

Oh, possibly something like further deductions for companies in the middle, or even upper phases of their growth paths – you always wish they grow even bigger, no? Yeah, something concretely like a bigger dedicated NID amount, for example. But I guess policy-makers know better how to arrange this in the details.

Could you provide an estimate of the time and monetary costs of tax compliance?

It takes me around one and a half months to complete, with costs not being estimable as I do not resort to external help.

Do you think that the benefits of the favourable policies you envisaged (Question 16) would increase administration costs by affecting legal complexity?

Not at all: you can only bring higher predictability by reducing complexity, as in, cutting little norms and the many existing annoying complications.

Belgium

What are the main industries in which you operate?

Exterior furnishing

What is the size of your enterprise in terms of number of employees?

102 employees

What is the annual turnover of your enterprise?

4,311,600 euros ca.

What policies currently in place are affecting your growth strategies?

Notional Interest obviously, then also capital-gain deduction and dividend-withholding tax exemptions in other EU countries (it is a Belgian provision by the way).

Are you aware of any favourable tax schemes to support companies like yours?

Aside the ones I just mentioned, yes, there is also the possibility to deduct income from patents your company owns, or a scheme of foreign-tax credit that protects your income from foreign royalties and interests, but I do not know too much about this last one.

Do you think your growth strategy is currently being affected by the existence of such schemes?

It definitely still is by the Notional Interest: my CIT rate in Belgium is still amazingly low if compared to its face rate, implying I still can enjoy sizeable tax-help in funding my further expansion. (I still feel like specifying that I am not expanding so much at the moment, but this is certainly not due to taxation).

What were the considerations made when deciding to cross the threshold or the reasons why it was more beneficial not to?

Two years after I started everything (two years and a couple of months, precisely), I decided to cross the threshold because I realized that the notional-interest scheme would not only have been friendly if I had stayed the same, but it would have been complemented by other allowance/deduction schemes (especially capital-gain deductions and dividend-withholding tax exemptions, as I said before) that would have made up for the slightly-bigger amount of tax to be paid as a result of successful expansion.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

No, I would probably do the same and more or less (start expanding) at the same point in time, though their remarkable financial help was very much appreciated.

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?

For the normal rate: it is a good one, so (if I am allowed to slightly rephrase the question) it was good to have is so low any way (or rather to keep it in mind as a worst-case scenario, honestly), otherwise I would have converted that expansion into simply opening a subsidiary in the Netherlands and that's it.

For the favourable-scheme rate, the way you call it: even more so!

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

Well, this is basically answered by what I have just said.

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

Yes, but not specifically for their government's support in (only) expanding the business. I thought of Luxembourg for generally lower taxation, nothing more, or more concretely likely than that.

Do you have any experience suggesting that country-specific differences in CIT have an impact on the growth strategies pursued by enterprises?

The point is, I do have experience in comparing cross-national CIT rate, but the ones in question are pretty similar: I have been paying 24-25% CIT in the Netherlands since I started a subsidiary there, while I pay 26-27% in Belgium!

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

In the end, yes: as I said before, while you are tempted to think you will only be able to enjoy the bulk of NID-related amenities when you are some not-well-specified pre-growth stage, you end up discovering a cohort of other complements once you grow, so that I would say in the end you are even.

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

Probably just reducing the face rate, as in, from 33.99% as it is now, to I don't know, 32 or 31, that would be more than enough as it would bring down all the system of successive downward adjustments due to the NID scheme.

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

I see no reason why they should be different from others in other sector, to be frank with you, but from what I know of partners and competitors, and from what I have experienced in tax-compliance administration, I expect them to do very similar things when it comes to deciding to grow larger.

What industry-specific tax policies would you recommend for growing companies in your sector?

I would like, for instance, that my decision not to resort to huge, stupidly expensive and no always worthwhile (also in terms of weather conditions..) exterior expo sites was duly recognized as a wisely-avoided fixed cost (let's call it sunk cost, honestly..), and fiscally rewarded; something like a regime of further NID-sort of reduction if you decide not to go towards that industrially unproductive sunk cost.

Could you provide an estimate of the time and monetary costs of tax compliance?

A full month plus a couple of day is the estimate I give for the time it takes. As for the monetary cost, well, no more than € 20,000 or so.

Do you think that the benefits of the favourable policies you envisaged (Question 16) would increase administration costs by affecting legal complexity?

I wouldn't say so. I am not an expert in fiscal policy-making, but I sense that just reducing the tax rate would not increase the cost you as firm end up actually facing – and having to really pay.

Belgium

What are the main industries in which you operate?

Furnishing and lighting

What is the size of your enterprise in terms of number of employees?

96 employees

What is the annual turnover of your enterprise?

3,700,000 euros

What policies currently in place are affecting your growth strategies?

The tax deductibility of dividends, and obviously the Notional Interest deductibility-scheme. To a lesser extent, the absence of obligations to raise or keep a pre-specified amount or share of capital.

Are you aware of any favourable tax schemes to support companies like yours?

I know if you make discoveries or innovations you are well helped, though it has never been my case so far: you can deduct royalties you have, even abroad outside Belgium, and incomes arising from holding an officially-registered, or just having bought, a patent.

Do you think your growth strategy is currently being affected by the existence of such schemes?

I would say my current growth strategy is not any more affected by the absence of capital duties, while interest deductibility made me pay just last year a 28% CIT rate, instead of the "normal" rate of 34%. Also, being able to deduct dividends paid still

helps raise more liquidity more quickly, and be more attractive in the eyes of new investors (they think you are more likely to actually pay dividends if you know you can deduct them almost completely, and usually they also know that this deductibility helps you grow more via more liquidity).

What were the considerations made when deciding to cross the threshold or the reasons why it was more beneficial not to?

Never really crossed any threshold at any particular point in time…

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

No I don't. I think I couldn't have been more aggressive, and the positive contribution to this from a rather friendly tax scheme was clear.

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?

As I said before, I never really decided to "cross a threshold" at a particular, individually-defined point in time. Let us say that CIT rates in Belgium are low enough to make you feel like growing!

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

Yes, all the time. Notional interest was crucial, as were dividend deductibility and (more in the initial phase) the absence of capital duties.

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

No I haven't. My point of view has always been that Belgium's corporate-expansion tax-support policy was good enough not to make the costs to look for an even-better one worth sustaining. So I never really thought of cross-border relocation.

Do you have any experience suggesting that country-specific differences in CIT have an impact on the growth strategies pursued by enterprises?

Unfortunately, all my subsidiaries are in Belgium, and anyway experiences with external deals have not suggested much of a difference – at least not so far!

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Yes I do; I think companies of difference sizes end up being basically equal in front of tax imposition, yes.

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

I have developed a tendency, throughout the years, to wish there was some sort of mechanism that could provide your firm with a one-year, or anyway rather time-limited allowance, to be given as soon as, and every time, you decide to grow, as a function of the size of that growth relative to how big you were before. This would make growth strategies even more cost-appealing to Belgian firms!

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

I don't know much about this, I am sorry; but anyway, the sense you get when not knowing the matter directly is that whenever all these deductions work for everybody, than divergence should be limited.

What industry-specific tax policies would you recommend for growing companies in your sector?

I would like to see some deductions of the cost of continuous car-movement for our representatives, for instance: since in many cases, we pay them directly, this would just be a linear cost cut, hence directly and straightforwardly beneficial to us, and they are on their turn a key growth instrument.

Could you provide an estimate of the time and monetary costs of tax compliance?

No more than a month. Cost, around € 30,000 through external auditing.

Do you think that the benefits of the favourable policies you envisaged (Question 16) would increase administration costs by affecting legal complexity?

Yes, at least from the way I put it, I must admit, it seems like it would increase administration costs because they would just create complications in the definition of the policy and hence make things a bit more uncertain in their interpretation.

Belgium

What are the main industries in which you operate?

Cements

What is the size of your enterprise in terms of number of employees?

175 employees

What is the annual turnover of your enterprise?

7.5 million euros

What policies currently in place are affecting your growth strategies?

The NID (Deductibility of Notional Interest, though I do not have a precise idea why they call it notional, I am a big ignorant in legal and tax language), while shareholders can deduct the extra income they derive from gains from increases in the value of their share in your firm – which affects my growth strategy because I know they are happy to have this deduction, so that I risk the same if I offer them less.

Are you aware of any favourable tax schemes to support companies like yours?

Not of others beyond those I just mentioned, no.

Do you think your growth strategy is currently being affected by the existence of such schemes?

Yes because I pay only 30.4% CIT (data from 2012) and I know it is because I deduct a lot of my equity-based funding, I can grow considerably faster because of that because I have one more incentive to complete machinery investments for the long run with shareholders' fresh money.

What were the considerations made when deciding to cross the threshold or the reasons why it was more beneficial not to?

My growth path so far has been rather linear, I guess; if anything, I have been recently pondering a huge growth plan aimed at (almost; hopefully!) doubling our annual turnover by building a new factory – smaller, but more technologically modern and thus more cost-efficient – but I have not implemented it yet because I am scared of how the business cycle will go in the next months (and couple of years) in Europe.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

No, I think this makes no sense. I have never thought I should have a more "aggressive" growth strategy, but yeah, the provisions in place were always satisfactory as far as my point of view is concerned.

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?

26–29% is good enough, 34% is too much: given my turnover, I am sure I would even immediately after the implementation of my growth plan get too close to the 34% rate, which is a crucial factor holding me back from the big step.

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

Yeah well, as I said they are a big reason not to, for me; it is more about the structure than about their presence at all, but as I said before, a 34% CIT is a bit too uncompetitive for such a plan to be implemented.

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

Yes I have, and once again for mainly CIT-related reasons. I have looked especially at the Netherlands' much-more-appealing 20% rate.

Do you have any experience suggesting that country-specific differences in CIT have an impact on the growth strategies pursued by enterprises?

Actually I wish I had, in terms of relocation. Instead, I just know from talking to clients and partners in neighbouring countries that Germany and France, for instance, would offer me comparable CIT conditions that would not justify economically the effort of relocating, while Luxembourg's market would be just too small and constrained to represent a meaningful opportunity.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Not at all, small companies pay almost nothing of CIT tax thanks to that double-edged sword that is the NID scheme!

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

I think they should try a CIT asymmetric reduction for those resorting to bank finance for big investment like the one I have in mind – let us say from 34% to 24%, if feasible.

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

Yes, I feel others like me will be more likely to seek bank funding instead of waiting for unlikely tax rebates…

What industry-specific tax policies would you recommend for growing companies in your sector?

Maybe some deductions in the purchase of some materials, or even better, the deductibility of research and innovation on new materials hopefully boosting productivity.

Could you provide an estimate of the time and monetary costs of tax compliance?

Roughly € 45,000–50,000 spread over 40–45 days at the end of each year.

Do you think that the benefits of the favourable policies you envisaged (Question 16) would increase administration costs by affecting legal complexity?

Possibly a little bit, given that it can always be a bit troublesome to add bureaucracy to your tax administration, but I still sense that the figure I provided in Question 17 would not increase by more than a thousand euro in the worst-case scenario.

SPAIN

What are the main industries in which you operate?

Paint industry

What is the size of your enterprise in terms of number of employees?

25

What is the annual turnover of your enterprise?

€3,5 million. Before the crisis it peaked to €6,5 million

What tax policies currently in place are affecting your growth strategy?

not presented in original questionnaire

Are you aware of any favourable tax schemes to support companies like yours?

In terms of taxes the first €300.000 in profit are due to 25%, and beyond that it raises to 30%

Do you think that your growth strategy is currently being affected by the existence of such schemes?

No. The growth strategy is a fundamental in the organization, regardless the tax schemes that should be applied

What were the considerations made when deciding to cross the threshold or the reasons why was more beneficial not to?

It doesn't apply to our particular situation. What is due to pay regarding taxes is paid.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

It's irrelevant

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?

It is less relevant than other factors, as availability of credit from the banks and the protection against non-payments

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

No. The tax scheme is adopted and complied as a product of the productivity of the company, not the other way around

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

No. The market of the company is well established within Spain.

Do you have any experience suggesting that country specific differences in CIT have an impact in the growth strategies pursued by enterprises?

No. The market of the company is well established within Spain.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

I think bigger companies has a more beneficial tax treatments than small companies as ours. Their capacity to have specific accounting and legal departments let them have better treatment, whereas for small business the situation is more harsh

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

I cannot come up with some one

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

Yes. In principle the enterprises in the industry have similar challenges

What industry specific tax policies would you recommend for growing companies in your sector?

An easy access to bank resources. Banks are not always willing to support the SME's.

Could you provide an estimate of the time and monetary costs of tax compliance?

Not unreasonable high. Around € 4.000

Do you think that the benefits of the favourable policies you envisaged (question 16) would increase administration costs by affecting legal complexity?

No, the extra administrative cost would be negligible

In your opinion, what should the top three policy priorities for companies pursuing expansion plans at the European level?

Simple access to financial resources, protection against unpayments and suitable market

Do you have any policy recommendations to make on corporate income tax-related practices?

As I told before, support from the banks is quite important.

Belgium

What are the main industries in which you operate?

Lights

What is the size of your enterprise in terms of number of employees?

114 employees

What is the annual turnover of your enterprise?

5.3 million euros

What policies currently in place are affecting your growth strategies?

We are growing rather smoothly thanks to the deductibility of patent income, which we have so far used for three new lamps we have created. We also benefit from dividend deduction, since we are a group of four partners, and we can have a lower effective rate of corporate taxation thanks to the Belgian notion interest.

Are you aware of any favourable tax schemes to support companies like yours?

I think you can also deduct big earnings from shares if you are that kind of equity investors, though this case has never applied to us.

Do you think your growth strategy is currently being affected by the existence of such schemes?

Well, nothing really beyond what I just said before (Question 4).

What were the considerations made when deciding to cross the threshold or the reasons why it was more beneficial not to?

There was never a point when we faced the decision to cross or not some kind of threshold, but I can still say that I believe (and am rather confident my partners would, too) that the bunch of favourable schemes I have just mentioned did push us to a pretty aggressive style of firm growth (after all, we only started in 2005!).

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

Not at all – as just said, it would have been much less aggressive. I think we would have grown anyway, but noticeably less quickly.

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?

CIT rates were not a factor that entered our decision processes every year, primarily because we just wanted to grow in order to cover some specific market areas (geographically meant – namely Flanders and Northern Brabant, since we are headquartered in Lieges). However I still do think CIT rates would normally enter every firm's decision process at least at some point, especially in light of the Belgian discrepancy of normal-favourable rates (as I am not sure they have it in many other places in Europe..).

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

Patent-income deductibility was not a goal, obviously, as we designed those innovative (and later successful on the market) three lamps just because we felt like giving the market something new, but it was a great asset when we started pursuing more massive investments for geographical growth towards the Flanders area in 2007/2008. Other than that, I think a less helpful notional interest would have slowed down our investments and smoothed them out over a more relaxed time span.

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

No, never!

Do you have any experience suggesting that country-specific differences in CIT have an impact on the growth strategies pursued by enterprises?

Honestly no, we have only being operating within the economic boundaries of Belgium, so frankly I would not know how to help you with this question!

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

I am not completely sure if my impression is actually the case, but yes, the feeling I also would say I share with my partners and colleagues is that tax-wise, we are all treated pretty much the same way.

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

Given our growing enthusiasm for developing innovative new products and patenting them when worthwhile, I was thinking it would be a nice idea to link single-point reductions in the normal CIT rate for every new successful patented innovation your firm develops, as an incentive to innovate and at the same time grow thanks to the fiscal ease in developed these innovations. Hoping it works.

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

I don't think so: if they are not like us (as in, prone and interested in developing new innovations, challenging the market with some new exciting stuff, at least) they are probably going to have a different style – you know, much more predictable, no spikes, and possibly more involvement of financial intermediaries when it comes to fund their growth.

What industry-specific tax policies would you recommend for growing companies in your sector?

All I can think about right now is what I just told you about, basically, de-taxing innovators, which I think would be very good for an industry that always faces the risk of going boring – way, too, boring…

Could you provide an estimate of the time and monetary costs of tax compliance?

Around € 15,000–20,000 over the single year, with these tasks being performed by two external accountants in like a month altogether.

Do you think that the benefits of the favourable policies you envisaged (Question 16) would increase administration costs by affecting legal complexity?

Nah, not really – I think administration costs would increase, if at all, by I don't know, not even a thousand euros in a year.

Belgium

What are the main industries in which you operate?

Cements

What is the size of your enterprise in terms of number of employees?

173 employees

What is the annual turnover of your enterprise?

8 million euros

What policies currently in place are affecting your growth strategies?

Ok so notional interest deduction taxation, dividend deductibility, and more limitedly the deductibility of short-term financing for acquisitions.

Are you aware of any favourable tax schemes to support companies like yours?

No much more than those I just mentioned, sorry – I think you can also either skip, or pay much less, from your dividend tax if you establish in another EU country, but I am not accurately sure because I never really considered the idea carefully.

Do you think your growth strategy is currently being affected by the existence of such schemes?

Yes: while notional interest is good for just accumulating more liquidity especially at the beginning, basically every time we need to involve some new interested shareholder, or equity investor, we can rather easily do so by knowing we will deduct dividend expenses, hence we are not that much dependent on banks, who usually dislike some sorts of frequent changes, if you know what I mean…

What were the considerations made when deciding to cross the threshold or the reasons why it was more beneficial not to?

Well, I remember we wanted to implement a massive growth plan in 2002 and we refrained from doing so because we calculated that CIT would have gone considerably higher, making us lose a lot of tax privilege basically.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

Probably – there must clearly be other factors convincing you to actually pursue all that aggressiveness, but I do think those provisions make a concrete difference.

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?

Our 2002 experience I think is definitely relevant in terms of both CIT rates, since if we had implemented that plan, the differences between the two rates would have decreased to, like… about 1 or 2 percentage points only, if I remember properly. In general anyway, if the two rates are not the first think to look at, they still are very, very important as an orienting factor even of the kind of strategy of growth you want to pursue – if you still want it!

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

Beyond what we decided in 2002, yes, deductibility of dividends was also helpful, leading us the positive way into actually expanding our activities – maybe less massively and more smoothly, steadily, but at least we got more investors on our side thanks to that.

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

Exactly, as I said before, never really thought about it in a meaningful and careful way.

Do you have any experience suggesting that country-specific differences in CIT have an impact on the growth strategies pursued by enterprises?

I do know about partners we have in France and Germany for instance, and from what they have been saying in these years I would derive CIT is important, for sure, but it is not that important of a factor when it comes to fine-tuning your expansion strategy.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Oh, well, no; our very experience show that if we had finally chosen to grow much more aggressively already at those earlier stages, our tax treatment would have jumped pretty sharply from that of a basically start-up subject to that of a big established fish, hence no, I wouldn't say large and small companies have similar tax treatments.

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

I don't know if there would be other downsides, maybe even strong and deep, to this I am saying, but I sense it would be good to eliminate that weird moment when you want to grow, yet you don't in order to still benefit from, after all, generous government support. It doesn't make much sense, right?

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

To some extent yes, because we basically do always the same thing; though, I still suspect that perhaps others would have behaved differently for example in our tough decision dating back to 2002. All in all, matter of individual/corporate preferences, and more limitedly of industry characteristics.

What industry-specific tax policies would you recommend for growing companies in your sector?

Reduce the cost of raw materials: being this a useful priority considering the sector of application, I would appreciate if they introduced a lower VAT for cements buyers, sensibly decreasing our costs of production.

Could you provide an estimate of the time and monetary costs of tax compliance?

I don't know the figure exactly, sorry, but I think it takes us a bulk of 40 days costing something like half a hundred thousands euros maybe?

Do you think that the benefits of the favourable policies you envisaged (Question 16) would increase administration costs by affecting legal complexity?

Oh, I am sure they would increase!

Belgium

What are the main industries in which you operate?

Furnishing

What is the size of your enterprise in terms of number of employees?

69 employees

What is the annual turnover of your enterprise?

2,900,000 euros

What policies currently in place are affecting your growth strategies?

Our growth strategies are currently being affected by the Belgian Notion Interest Deduction, which basically gives you a fixed allowance that you use to reduce your corporate taxation.

Are you aware of any favourable tax schemes to support companies like yours?

No, no other from what I know.

Do you think your growth strategy is currently being affected by the existence of such schemes?

It definitely is: we are using the nice NID facility to smooth forward our growth-related liquidity needs because you can carry forward the portion of total NID allowance you did not use the previous year! So basically we can finance a more steady growth package.

What were the considerations made when deciding to cross the threshold or the reasons why it was more beneficial not to?

It was more beneficial not to cross the threshold (i.e. we were about to try and triple, or up to tripling, our turnover a couple of years ago by opening a new, bigger shop) because we would have lost, as our accountant calculated, almost the entire amount of notional interest deduction offered by the government.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

I think they would just be the same – not more aggressive, possibly less substantial, if at all.

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?

Important but not relevant: CIT rates never influenced us to the point of changing our growth strategies, to be honest.

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

If anything, I would say the nice carry-forward option of the notional-interest allowance provided by the government was kind of a hint to spend more on innovations and investments for growth, so let us say it was a positive propeller.

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

I did, at early stages (1998): I thought the Netherlands were much more of a good place to (re-)start a business given their very (come on!), very favourable tax conditions especially when it comes to growing more, but ended up staying in Belgium because, basically, we don’t do that bad in the field, and this exceeded relocation costs.

Do you have any experience suggesting that country-specific differences in CIT have an impact on the growth strategies pursued by enterprises?

Not that it has an impact on growth strategies finally adopted by enterprises, that no, but I just know fairly well that CIT differences can be crucial sometimes, for instance when you decide – or avoid – to establish a new factory or selling subsidiary in a specific region or country instead of in another.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Yes, especially in light of our golden tax-asset: all sizes of companies can benefit from the carry forward facility!

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

I think CIT should be lower during the initial, say, four years of your business experience, lower to a normal rate of, say 30% instead of 34%.

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

No, I feel that more companies would resort more to small or big loans from banks mostly, or, if they are bigger, issue bonds or so.

What industry-specific tax policies would you recommend for growing companies in your sector?

I think the Belgian tax system needs, and can afford, more (dedicated) tax deductions for the corporate economy: therefore, I believe the best thing would be a strong deduction for those who bring new innovations onto the economy; I would quantitatively design this in direct terms of how much these innovations have increased the firm's productivity, or as an alternative how much turnover has grown only due to this (maybe a bit too difficult to isolate as an effect).

Could you provide an estimate of the time and monetary costs of tax compliance?

We have one accountant doing it all, so I don't know directly how much it takes him unfortunately. As per the cost of complying with tax, well we pay him around € 30,000, maybe up to € 35,000 in some years (not that there is any specific pattern related to external events, anyway).

Do you think that the benefits of the favourable policies you envisaged (Question 16) would increase administration costs by affecting legal complexity?

Oh, well, I probably should admit that that *would* increase administration costs, that's the sensation at least – but I still think it would make a lot of sense economically.

Belgium

What are the main industries in which you operate?

Exterior light design

What is the size of your enterprise in terms of number of employees?

25 employees

What is the annual turnover of your enterprise?

1.2 million euros

What policies currently in place are affecting your growth strategies?

We are being (mostly positively) affected by governmental schemes of tax deduction(s) and allowances that are, from my viewpoint, successfully tailored around our model of firm.

Are you aware of any favourable tax schemes to support companies like yours?

Yes, I am, I know about the notional interest deduction for generally smaller companies, so basically like mine, and this also gives you the opportunity of bringing ahead all you could not use the previous year; then there is the possibility to deduct dividends as if they were operating expenses, though you cannot deduct exactly 100% of those dividends, and also, there is no tax on interests you yield abroad, both in the European Union and within Belgium.

Do you think your growth strategy is currently being affected by the existence of such schemes?

Yes, we rely especially on the absence of taxation over interest incomes yielded by bonds of corporate entities based in several other European countries (mainly Germany, Russia, France, and the Netherlands), while liquidity is generally brought to a higher-than-normal level thanks to the notional-interest reduction of the corporate-tax rate, implying a less costly business growth.

What were the considerations made when deciding to cross the threshold or the reasons why it was more beneficial not to?

When we decided to open a small subsidiary in Leiden (Netherlands), we did so mainly because of market conditions, as in, we just wanted to exploit market opportunities there, while we were more limitedly attracted by a nominally lower rate for corporate-income taxation (it is 20% up there).

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

No, on the contrary I think it would be slightly milder.

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?

I would rank CIT as the third most important factor we evaluated every time it came to thinking of an expansion – no. 1 being market opportunity (i.e. does it make sense or not to open there, will they be enough interested in us, will we be able to raise enough capital, if needed, etc.), and 2 being the presence of a juicy system of tax deductions allowing us to grow in a way that is as careless as possible in terms of tax/bureaucratic concerns.

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

Yes, they do play a determining role: as I have just explained, they basically come first after the most obvious considerations you cannot but make when you think about a possible expansion of business, that is, market conditions here and there (i.e. in the area in which you want to open).

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

Nope, never thought of that.

Do you have any experience suggesting that country-specific differences in CIT have an impact on the growth strategies pursued by enterprises?

Clearly yes: interestingly enough, opening in Leiden (Netherlands) was good for the lower CIT rate (as I said, as low as 20%), though I must admit Belgium proved more generous in terms of the *system* of allowances and deductions in place for (little) firms that wish to grow faster, such as for instance the system of the notional interest deduction.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

No much besides the fact that the smaller you are, the more and the more effectively you benefit from notional interest schemes, and besides the fact that this is obviously not limited to my sector.

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

Probably a bit more of cross-border coordination, especially in the case of countries like Belgium and the Netherlands, very close and very small that you can cross in

matter of hours – I was a bit disappointed not just by discovering that the lower Dutch CIT rate was not as generously compensated by start-up favourable provisions as it the higher Belgian rate is, but also by the consequences of low coordination: had I known this from before, I think I probably would have opened in Belgium than in the Netherlands, or at least the comparison would have been more tied, instead of leaning more towards the Dutch option.

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

I do not see many reasons why they should differ so much. Only, I suspect other businesses are still more attached to the role banks have historically had in financing business, implying a less strong use of new shareholders, I don't know, venture capital and so on.

What industry-specific tax policies would you recommend for growing companies in your sector?

An excise-tax deduction for corporate representatives travelling constantly by car!

Could you provide an estimate of the time and monetary costs of tax compliance?

Time costs are of about 45-50 days a year for tax compliance, costing in total around the figure of € 25–26,000.

Do you think that the benefits of the favourable policies you envisaged (Question 16) would increase administration costs by affecting legal complexity?

Not by much: after all, you would mostly have to provide bills of your car-fuel usage, it's not as if there can be much corruption around that, I think.

Belgium

What are the main industries in which you operate?

Lighting design

What is the size of your enterprise in terms of number of employees?

18 employees

What is the annual turnover of your enterprise?

1,970,000 euros

What policies currently in place are affecting your growth strategies?

My growth strategy is currently being affected by tax schemes such as Belgium's Notional Interest Deduction, besides the absence of capital obligations, which has so far relieved me from concerns over minimum equity percentages to be kept etc.

Are you aware of any favourable tax schemes to support companies like yours?

Besides notional interest, I know for bigger firms there are a lot of deductions for when you try to expand your equity base, or own corporate bonds outside Belgium, or have patents or royalties in Belgium.

Do you think your growth strategy is currently being affected by the existence of such schemes?

Mostly by the notional interest deduction and its possibility to carry forward the part of allowance you have not used yet, all good stuff for piling up growth-funding liquidity.

What were the considerations made when deciding to cross the threshold or the reasons why it was more beneficial not to?

It has been more beneficial not to grow too fast all of a sudden because, so far, we have basically paid no corporate tax at all thanks to the scheme provisions of the NID.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

Yes, though only below the thresholds, i.e. before deciding to cross that threshold. After it, nothing would be significantly different.

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?

They are extremely different (at least in our case!): while in our condition, notional interest taxation brings our effective rate basically down to zero, it can go up to 33.99%! For us, the extremely friendly characteristics of the effective, super-low CIT rate has impact our expanding decision by postponing it until the point that the new selling opportunities offered by the market will be *so* easy to get that we will have to give up our current status!

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

Yes they have, and as I have just said they were the biggest and only factor why we are a bit "stuck" to our current firm size.

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

Yes I have. I have thought about Germany, but more persistently of the Netherlands.

Do you have any experience suggesting that country-specific differences in CIT have an impact on the growth strategies pursued by enterprises?

CIT-rate difference (lower plus no incentive to get stuck to your size) was the primary thing I would look at when thinking of relocation to the Netherlands, although I am not sure this can be labelled as "direct" experience – anyhow, it is the only thing I know to answer your question!

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Well, not at all, in the sense that if you are so stupid to grow much larger and even do that quickly, you will lose out from a lot of forgone fiscal privileges!

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

Just… lower the rate and start phasing out the excessive amount of deduction that brings the

Effective CIT rate prevailing in Belgium for companies like mine, close or equal to zero.

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

Yes for sure, though I don't think my sector makes any substantial difference from the national-economy average.

What industry-specific tax policies would you recommend for growing companies in your sector?

I think, and not just in the sector in which I operate, there should be more *real* start-up government finance: the overly-generous NID provision, while from a selfish point of view it is really great to have it, it is more of an incentive to yes start a company, but then stay in the small-size area for a long, undetermined time; what if you want to grow way larger? Or if you need to grow that larger, on the basis of the peculiarities of the market in which you (wish to) operate?

Could you provide an estimate of the time and monetary costs of tax compliance?

€ 15,000 and 32–35 days a year.

Do you think that the benefits of the favourable policies you envisaged (Question 16) would increase administration costs by affecting legal complexity?

Not sure; possibly a little bit, but just providing solid start-up finance, if its allotting is linked to easily-defined requirements, then administrative costs can even remain untouched.

SPAIN

What are the main industries in which you operate?

Power conduction, railways industry, Solar and ceramics industry, Heat treating

What is the size of your enterprise in terms of number of employees?

95

What is the annual turnover of your enterprise?

More than €10 million.

What tax policies currently in place are affecting your growth strategy?

not presented in original questionnaire

Are you aware of any favourable tax schemes to support companies like yours?

No I don't. Perhaps such tax schemes exist in another industry or for a determined size of company, but in our case it's not applicable. I think the limit is for companies with a turnover lower than €8 million.

Do you think that your growth strategy is currently being affected by the existence of such schemes?

No. Especially since we are not subject of special schemes

What were the considerations made when deciding to cross the threshold or the reasons why was more beneficial not to?

In the scale of our company such consideration are irrelevant

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

No. As mentioned before we are not beneficed or restricted by special tax provisions

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?

The drive of growing comes with some liabilities including tax considerations, which are compared with the positive effects of increasing production and therefore turnover. In our case, it has a low relevance.

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

Yes. The deductions play an important role especially in the R&D division, which therefore has been positively influenced by such allowance schemes

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

No. We are part of a multinational group, therefore that consideration doesn't make sense for us

Do you have any experience suggesting that country specific differences in CIT have an impact in the growth strategies pursued by enterprises?

Yes. That was specially evident with the dynamic attested during the crisis, where we all could see different industrial behaviours from country to country

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

In theory yes, there is a similar tax treatment. But in reality is possible to find specific differences, outside the legal framework

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

In general terms the CIT currently applied is high.

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

We don't have specific information regarding the growth strategies of other enterprises/competitors.

What industry specific tax policies would you recommend for growing companies in your sector?

Support to productive investment and the R&D by means of tax deductions

Could you provide an estimate of the time and monetary costs of tax compliance?

Quite high. In our case we were audited therefore this item increased dramatically during this year, in the order of €50.000. It is foreseeable that in the future it should return to a lower level, since it's unlikely to have another audit in the short/middle term

Do you think that the benefits of the favourable policies you envisaged (question 16) would increase administration costs by affecting legal complexity?

Not specially. The tools are ready and available and the complexity should not increase out of proportion

In your opinion, what should the top three policy priorities for companies pursuing expansion plans at the European level?

I do not make the distinction among different expansion plans. Rather I insist in the support to productive investment and R&D

Do you have any policy recommendations to make on corporate income tax-related practices?

As I told before, Support to productive investment and the R&D by means of tax deductions

Romania

What are the main industries in which you operate?

Clothing

What is the size of your enterprise in terms of number of employees?

8 employees

What is the annual turnover of your enterprise?

Ca. 900,000 euros

What policies currently in place are affecting your growth strategies?

Mostly the almost-exemption from CIT granted to small firms: you pay 3% CIT instead of 16%.

Are you aware of any favourable tax schemes to support companies like yours?

Yes, given my size, I pay very, very little tax on my firm's income.

Do you think that the level of capital raised by your company has been affected by the presence of such schemes?

Yes absolutely. Although I would be more prone to say that such a beneficial provision has stronger impact on other aspects of corporate management, capital raised was for us also more because we were more attractive from the side of costs.

What were the considerations made when deciding to cross the threshold or the reasons why it was more beneficial not to?

Does not apply (firm size).

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

Yes, I think I would *have to* pursue a more aggressive growth strategy, because at that point my size (or turnover level) would make little or no difference tax-wise.

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process whether to implement a growth strategy or not?

Essential. The CIT rate jumps to 16% if you become a bigger firm, so we have right now no incentive to grow unless strictly necessary for market purposes.

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

All I have been using is the possibility to carry losses forward for seven years at most, but this has not influenced my decision whether to not expand.

Have you ever considered relocating your company to any other member State to benefit from government support in expanding the business?

Yes I have: I wanted to move to Italy or Spain to benefit from government grants (but, I confess, also for the language!).

Do you have any experience suggesting that country-specific differences in CIT have an impact in the growth strategies pursued by enterprises?

I only have my experience in Romania, but no personal idea of cross-country CIT differences.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Clearly not, 3% and 16% are very different tax rates for CIT – implications are that you really have less of an incentive to grow, although you have a super-strong incentive to start the business. Probably this is not bad for the economy of Romania.

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

I think the 3% rate is the best thing ever, at least from the prospect of having more liquidity left for operations.

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

I have no idea – but I think my sector is not necessarily very "special", so there should not be much of a difference from other sectors.

What industry-specific tax policies would you recommend for growing companies in your sector?

Either you also reduce the 16% CIT rate for bigger firms so as to eliminate the incentive not to grow, or I don't know, you might also think of increasing from 3% to 16% by very small steps – no idea if this would work though.

Could you provide an estimate of the time and monetary costs of tax compliance?

About a month, 25,000-30,000 euros cost.

Do you think that the benefits of the favourable policies you envisaged in Question 16 would increase administration costs by affecting legal complexity?

Not necessarily. If it remains a matter of tax rate, most probably legal complexity would remain intact.

In your opinion, what should the top three policy priorities be for companies pursuing expansion plans at the European level?

Well, although the low 16% Romanian rate is good for us anyway, I know there are higher rates elsewhere in Europe, so probably it should be made closer to ours (or ours closer to theirs, but I have no idea what would happen here then…). Also, I would make sure no country has such a bad incentive not to let your company grow just because it is cheaper to stay small. Thirdly, well… I would possibly try to introduce a limited set of deductions for operating costs of bigger, or growing companies so as to incentivize them to grow more/faster.

Do you have any policy recommendations to make on income tax-related practices?

I think CIT is already very low in Romania – I can at most say it should be lower as well in other countries of Europe.

Romania

What are the main industries in which you operate?

Interior and light design

What is the size of your enterprise in terms of number of employees?

21 employees

What is the annual turnover of your enterprise?

1,510,000 euros

What policies currently in place are affecting your growth strategies?

The most appreciable tax deduction we are benefit from is the one for expenses of marketing/advertising in new markets, which is deducted from corporate income because it is an expense incurred in order to produce taxable income.

Are you aware of any favourable tax schemes to support companies like yours?

Not much – you can pay as little as 16% on capital gains if, for example, you sell part of your property (immovable or not).

Do you think that the level of capital raised by your company has been affected by the presence of such schemes?

I think it really was not influenced.

What were the considerations made when deciding to cross the threshold or the reasons why it was more beneficial not to?

Market reasons. I believe we will keep on being on a steady expansion trend so I can fairly confidently say I do not care about the old low-CIT rate any longer.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

Probably a little bit more aggressive at the beginning, that is before you have finally crossed the threshold.

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process whether to implement a growth strategy or not?

As I said, it was not that much relevant for us as in the end we resolved to cross it anyway; I can say it was crucial in determining a not-so-aggressive growth policy during the pre-threshold phase.

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

No, not at all.

Have you ever considered relocating your company to any other member State to benefit from government support in expanding the business?

Nope.

Do you have any experience suggesting that country-specific differences in CIT have an impact in the growth strategies pursued by enterprises?

I only know about this common "problem" in Romania.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Clearly not, as a "grown-up" firm you have to take your responsibilities and contribute a bit more to the State – but think there are pretty balanced pro's and con's for everyone, so that in the end the results is the same if you are small or big.

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

If you cannot lower the rate back to the good-old one of 2% (or what was it before), at least introduce better, and more generous, deductions and exemptions. I think dividends should be exempted totally.

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

No I do not.

What industry-specific tax policies would you recommend for growing companies in your sector?

As I just said, exempt dividends from tax if really you cannot reduce the CIT rate by a little bit.

Could you provide an estimate of the time and monetary costs of tax compliance?
20 days maybe? Cost would not go beyond 10,000 euros a year, but I am not very sure.

Do you think that the benefits of the favourable policies you envisaged in Question 16 would increase administration costs by affecting legal complexity?

A little bit.

In your opinion, what should the top three policy priorities be for companies pursuing expansion plans at the European level?

I only would say that CIT rates should be all the same across Europe, and administered by only one central agency. There is a lot of corruption here in Romania, and you have no idea how difficult it is for the State to get fiscal management right.

Do you have any policy recommendations to make on income tax-related practices?

Not much, I think the Romanian framework is not as bad as many depict it to be – only there is a bit to big of a differentiation between small and medium/big firms, such that you kind of regret having grown too fast sometimes.

Netherlands

What are the main industries in which you operate?

Infrastructure, road and water construction, construction, IT

What is the size of your enterprise in terms of number of employees?

36

What is the annual turnover of your enterprise?

A bit over 2 million, but that is calculated over 20 people. We are growing a lot still.

What policies currently in place are affecting your growth strategies?

Only equity, we started with zero.

Are you aware of any favourable tax schemes to support companies like yours?

Yes, I am aware of some. Start-up allowance for instance.

Do you think that the level of capital raised by your company has been affected by the presence of such schemes?

No definitely not, it has nothing to do with that. These policies reduce the burden, but that's all. They do not stimulate anything. If you want to be eligible for these kind of rules, you need to arrange a lot. And that's costly, the rules are not smart. The more rules, the more costs.

What were the considerations made when deciding to cross the threshold or the reasons why it was more beneficial not to?

No not at all. I had to pull a lot of tricks in order to be able to build up equity. The rules are not black and white, if you think something is a rule; there is often room for interpretation.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

No

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process whether to implement a growth strategy or not?

No

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

No

Have you ever considered relocating your company to any other member State to benefit from government support in expanding the business?

No

Do you have any experience suggesting that country-specific differences in CIT have an impact in the growth strategies pursued by enterprises?

No, because you don't base your rate on the amount of CIT you pay. Basicly, you calculate your profits, and in the end you are happy you can pay tax. If I pay a lot of CIT, it means I am making a lot of profit. Competitiveness is mainly rooted in the costs of wages.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

No. Well there are employment agencies that do not pay retirement. They make the employees sign documents in which they agree that there is no retirement to be paid. By doing that they evade a lot of costs. The big companies in my sector (Rijksoverheid/Arcadis) hire a lot of freelancers, which have a VAR (Declaration of Independent Contractor Status). But the VAR is not right, it is not enforced. This

creates a very unequal situation in the sector. Because the freelancers don't have the three clients they are supposed to, so that's wrong. It is a lot of tax evasion. The whole freelance thing is a big tax evasion scheme, because you say you have three clients, but there is no enforcement or check on that. That is a difference of about 30 percent. And that destroys the market, that there is no enforcement on these tax regulations.

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

I don't have any liquidity problems. The one thing that I would like if the gebruikelijkloonregeling would be abolished. I have three companies, I can not be earning more money than the best paid worker in every company I own. I don't need to get paid in any company. Because of this rule, it is really hard for me to build up reserves. When i was still the only employee, i could earn as less as possible. With the rest of the money i could hire someone else. Which allowed me to be an entrepeneur. I don't understand this rule. It would be great if booking money could be made fiscally attractive. But especially, the gebruikelijkloonregeling; at some point I will have to earn 600.000 euro. That would make no sense. But this really annoys me, I want to invest in people and companies. But then the tax authorities tell me I don't earn enough money myself.

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

I am neutral about this. I studied it a little bit. And it is kind of average.

What industry-specific tax policies would you recommend for growing companies in your sector?

I would like there to be a deduction for the amount of people you are able to get back to work. I am trying really hard to find jobs for people, but it is really complicated. Sometimes its like SMEs are not being understood, there should be a policy that gives you a deduction on the Unemployment Insurance Act (UIA). If you take people out of the UIA you should be rewarded. There is no incentive to hire people. Why would you. There is no start-up allowance for new employees.

Could you provide an estimate of the time and monetary costs of tax compliance?

I have about 15.000 euros of external costs, and 22.000 euros for someone within our company.

Do you think that the benefits of the favourable policies you envisaged in Question 16 would increase administration costs by affecting legal complexity?

Yes, I think so. It would be very useful.

In your opinion, what should the top three policy priorities be for companies pursuing expansion plans at the European level?

Keep it simple, less rules. Make it consist out of three components or something, make it clear. Some rules were found in the 80s.

Do you have any policy recommendations to make on income tax-related practices?

It would be great if they could make it all equal, all taxes should be equal for everyone. CIT is complicated, it should not differ per company, everyone should pay the same percentage. Generally I think there is to much CIT to be paid, a quarter is a lot. If you calculate it, you pay about 70% of taxes. Everything should be simplified, If you are late with paying your taxes, the European Commission makes you pay 8 percent extra. As an incentive, it is no incentive. It is a fine. It puts loads of pressure on the market. That's not even the margin of profit for some companies. That should be abolished immediately, it is very demotivating. Also, there is more and more rules, that means that the current rules are not competent, so they create extra rules and make it more complicated. Keep it simple.

Romania

What are the main industries in which you operate?

Consultancy, clients (transport, small enterprises)

What is the size of your enterprise in terms of number of employees?

20 employees

What is the annual turnover of your enterprise?

income 200k euros

What tax policies currently in place are affecting your growth strategy?

income tax- no different rates,, only for very small enterprises for which tax base is on income (first year), vat (same for all)

Are you aware of any favourable tax schemes to support companies like yours?

yes referential, no interest to keep rate small. Too short turnover, btw 54 and 56k, he will behave (e.g. commerce, margin not so big, if margin is high, e.g. services, worth crossing the threshold). Does not happen very often. No option to choose btw two types of taxation (pref. 3 percent on total income, otherwise 16 pc on profits). enterprises know cause they ask an accountant.

Do you think that your growth strategy is currently being affected by the existence of such schemes?

To postpone some invoices, no impact on employment.

What were the considerations made when deciding to cross the threshold or the reasons why was more beneficial not to?

No answer

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

No answer

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?

No answer

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

No answer

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

No answer

Do you have any experience suggesting that country specific differences in CIT have an impact in the growth strategies pursued by enterprises?

low rate, Cyprus and Bulgaria low rates too, but no experience that Romanian companies go abroad. CIT one of many reasons (cost of work, salaries)

Do you feel that, within your sector, large and small companies are subject to similar tax treatments?

N/A

If there are any differences, what are their implications?

No answer

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

incorporated: first two years without any payment, problem is not the rate, but the very bureaucratic way of calculating, SME needs to contact experts, laws change very often, entrepreneurs cannot follow this, too much and aggressive tax control

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

No answer

What industry specific tax policies would you recommend for growing companies in your sector?

No answer

Could you provide an estimate of the time and monetary costs of tax compliance?

high, these cost reductions could go in the favour of tax authorities, many deductible and not deductibles, an headache, discouraging. 20 hours per month only for compliance. Btw 200 euros per month and 400

Do you think that the benefits of the favourable policies you envisaged (question 16) would increase administration costs by affecting legal complexity?

No answer

In your opinion, what should the top three policy priorities for companies pursuing expansion plans at the European level?

no quarterly payments, but annual one, separate tax code. More prevention, should not wait before calculating penalties. Bonuses from penalties calculated on the payer, try to grow payer; salaries based on that, obliged to fine

Do you have any policy recommendations to make on corporate income tax-related practices?

N/A

ROMANIA

What are the main industries in which you operate?

fiscal consultancy, retail services, retail

What is the size of your enterprise in terms of number of employees?

less than 10 employees

What is the annual turnover of your enterprise?

higher than threshold, 16% profits; clients operate in retail, benefit from preferential.

What tax policies currently in place are affecting your growth strategy?

clients apply to income, a part from cost of goods. For them it's hard to pay taxes, bad for liquidity cause paid on INCOME. While 16% applied on difference income and costs. In services, preferential tax rate is good cause costs of goods is low. Opposite for retail, bad. next year legislation will be changed.

Are you aware of any favourable tax schemes to support companies like yours?

deductions and allowances do not play a role

Do you think that your growth strategy is currently being affected by the existence of such schemes?

No answer

What were the considerations made when deciding to cross the threshold or the reasons why was more beneficial not to?

hard to say, invest less

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

legislation is not flexible, necessity to provide SMEs with flexible policies, uncertainty bad too many changes, hard to plan

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?

No answer

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

No answer

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

Countries with smaller and more flexible taxation. Clients in retail, not flexible, hard to relocate, understand to understand the tax

Do you have any experience suggesting that country specific differences in CIT have an impact in the growth strategies pursued by enterprises?

No answer

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

No answer

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

No answer

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

company: 16% profits, not good. Annual turnover more than 65000 euros.

What industry specific tax policies would you recommend for growing companies in your sector?

other considerations, not CIT; better control, politics of costs and marketing

Could you provide an estimate of the time and monetary costs of tax compliance?

government will improve the system, expectation good for next year

Do you think that the benefits of the favourable policies you envisaged (question 16) would increase administration costs by affecting legal complexity?

No answer

In your opinion, what should the top three policy priorities for companies pursuing expansion plans at the European level?

No answer

Do you have any policy recommendations to make on corporate income tax-related practices?

simplification of tax system, necessity of initial capital. Personal taxation too high and not good

ROMANIA

What are the main industries in which you operate?

fiscal consultancy

What is the size of your enterprise in terms of number of employees?

4

What is the annual turnover of your enterprise?

65k euro. Clients are mostly SMEs, mostly below and above the 65k treshold.

What tax policies currently in place are affecting your growth strategy?

3% on income.

Are you aware of any favourable tax schemes to support companies like yours?

It is hard to determine whether this really affects growth strategies, since all enterprises benefit from that. They do not decide to take up the favourable scheme

Do you think that your growth strategy is currently being affected by the existence of such schemes?

No answer

What were the considerations made when deciding to cross the threshold or the reasons why was more beneficial not to?

management knows we are around this threshold, but it is unlikely that the change in rate will affect opportunities to grow

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

No this is hard to say. Moreover, the 3% rate helps only to a mixed extend. In fact, the rate changes, other things are the same. For taxation authorities, small and medium sized enterprises are all the same, and do not understand that SMEs have different needs and capacity

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?

Mixed, I do not believe that favourable rates play a role

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

No, the main difference is in the rate, Romania has a very simple system

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

They have tax on expenses that the state does not recognise. 16% that is not on the activity

Do you have any experience suggesting that country specific differences in CIT have an impact in the growth strategies pursued by enterprises?

No

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

There are no differences, but this is the problem. Tax authorities should recognise their different capacities and needs. Bigger companies have consultants and special employees for complying and writing the financial statement, they are favoured.

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

Access to finance does not directly relate with CIT

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

There are no differences.

What industry specific tax policies would you recommend for growing companies in your sector?

The same I would suggest for Romania as a whole (see below)

Could you provide an estimate of the time and monetary costs of tax compliance?

Hard to generalise. However, costs are not directly related to the workload. Work is much more for statement systems, which is overly complex. The problem is that you see a manager using a car while the company is losing. There need to be other policies, especially for companies lagging behind. If the company is losing the 3 percent issue is irrelevant.

Do you think that the benefits of the favourable policies you envisaged (question 16) would increase administration costs by affecting legal complexity?

No answer

In your opinion, what should the top three policy priorities for companies pursuing expansion plans at the European level?

They should be evaluated, they do not need to have as much bureaucracy as large enterprises, tax authorities want same documents and same expectations as bigger ones. You cannot ask small markets to have the same level of documents. Also, companies are coming to Romania from abroad as a result of a more flexible tax system. Companies in the energy green industry, coming from Bulgaria. Flexibility in general matters. Romanian companies instead might want want to relocate but stay here and focus on the Romanian market.

Do you have any policy recommendations to make on corporate income tax-related practices?

At the European level, the declarative system needs to be simplified. Big problems with penalties if a company does not pays debt. We apply delays interests to the debt. Fine levels must be more lenient. There must be more prevention on the part of tax authorities, rather than penalties. The problem is that tax authorities don't have an interest in helping SMEs.

SPAIN

What are the main industries in which you operate?

Technology based company located in Madrid, technical services (ICT is the core business) in the pharmaceutical sector. It also collaborates with retail and contact centres.

What is the size of your enterprise in terms of number of employees?

15 employees

What is the annual turnover of your enterprise?

2012: 1.8 million euros. 2013: 1.5 million euros.

What tax policies currently in place are affecting your growth strategy?

Before 2012, we were benefitting from R&D incentives, which were high. The VAT increase is now the most burdensome fiscal element.

Are you aware of any favourable tax schemes to support companies like yours?

We do not benefit to my knowledge to any substantial tax schemes. Moreover, taxable income generated by the company locates it above the threshold which determines eligibility to preferential CIT schemes.

Do you think that your growth strategy is currently being affected by the existence of such schemes?

N/A. However, the interviewee stressed that labour costs are very high (50% of the company's costs). Labour costs should therefore be considered as the most important item in the balance sheet to benefit from tax cuts.

What were the considerations made when deciding to cross the threshold or the reasons why was more beneficial not to?

Entrepreneurial decisions were more important than any other factor.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

N/A (above the thresholds). However, lower VAT would definitely boost sales and therefore internal growth.

How would you assess the relevance of the CIT rates (both the favourable scheme and the normal CIT rate) on the decision process on whether to implement a growth strategy or not?

This is mostly irrelevant. The most important elements are labour costs, VAT, and the Euro Dollar exchange rate for trade with non EU countries.

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your activities? If so, how?

They are not relevant if they are not well targeted. However, for example, when they are implemented in the context of partnerships between SMEs and universities they can prove useful. These must be particularly important with respect to some important assets (servers, laptops, patents, trademark registration). The European Commission should promote innovation, not R&D. Innovation policy is particularly developed in the US and in Asia, and this gives them a competitive edge.

Have you ever considered relocating your company to any other member state to benefit from government support in expanding the business?

Yes, we are going to expand to Mexico and Colombia.

Do you have any experience suggesting that country specific differences in CIT have an impact in the growth strategies pursued by enterprises?

This is not easy. With respect to differences between countries, we are interested in countries outside of Europe, such as Mexico and Colombia. What matters is not so much CIT, but: markets, tax schemes, lower VAT, more grants, cheap technical knowledge. We used the EU f7 program, but we experienced a lot of admi problems. In SOuth America there are similar programmes but the take up is easier.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Differences in treatment are not so much between small and medium sized enterprises, but between old and new companies, since they are subject to different rates. They are free of labour taxes for six months, which gives them an advantage. This is not fair.

What CIT provision do you think can successfully ease the liquidity constraints of growing enterprises like yours?

Does not know.

Do you feel that enterprises in the sector in which you operate are prone to pursuing similar growth strategies?

N/A

What industry specific tax policies would you recommend for growing companies in your sector?

At the macro level, appreciation of the Euro, employee contraction, VAT is more important than CIT. Bureaucracy and better management of public administration would make grants and similar schemes more enticing

Could you provide an estimate of the time and monetary costs of tax compliance?

31%

Do you think that the benefits of the favourable policies you envisaged (question 16) would increase administration costs by affecting legal complexity?

n/a

In your opinion, what should the top three policy priorities for companies pursuing expansion plans at the European level?

Erasmus and other investment programmes in innovations.

Do you have any policy recommendations to make on corporate income tax-related practices?

N/A

Poland

What are the main industries in which you operate?

Interior furnishing

What is the size of your enterprise in terms of number of employees?

50 employees

What is the annual turnover of your enterprise?

2.5 million euros

What policies currently in place are affecting your growth strategies?

Only a CIT exemption for big investments (above 100,000 euros) and the consequent parallel exemption from real estate taxation.

Has your company recently pursued M&A or partnership opportunities? Please explain.

No it has not.

Are you aware of any favourable tax schemes to support companies like yours?

Yes. For instance there are things like exemptions from corporate income taxation if you pursue investments for more than 100,000 euros in specific zones of the country, or in those zones you can also have a locally-granted exemption from real estate taxation.

Do you think that your growth strategy is currently being affected by the existence of such schemes?

Yes, our growth strategy is mildly being affected by the fact that we have recently purchased land for a total investment higher than those just mentioned 100,000 euros, which also exempts us from real estate tax.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

On the contrary, without such provisions our growth strategy would be less aggressive.

How would you assess the relevance of CIT rates (both the favourable rate – if any – and the normal CIT rate) on the decision on whether to acquire, or merge with, other companies?

Does not apply (follows from 5).

(If M&A in the past) Do you think that CIT has affected the number of deals and values of the acquisitions with your partners?

Does not apply (follows from 5).

Do you believe that deductions and allowance schemes have played a role in the decision on whether to expand your business? If so, how?

Basically, as I have just explained to you, they were crucial in pushing us to trespass the "critical mass" of that EUR 100,000+ investment.

Do you have any experience suggesting that differences in CIT between member States affect/distort the development of cross-country M&A projects? If yes, in what way?

No I do not.

Do you feel that, within your sector, there exists fiscal legislation that directly facilitates/complicated M&A activities?

Honestly no.

What industry-specific tax policies would you recommend/advise with a view to favouring growing companies in your sector?

I think small companies should be given more and more generous tax credits and reliefs – for example tax rebates if you hire more people, etc.

Could you provide an estimate of the time and monetary costs of tax compliance?

Around 15 days, and with a total complex of costs close to 20,000 euros.

Do you think that the benefits of the favourable policy you envisage in Question 14 would increase administration costs by affecting legal complexity?

I think it would increase legal complexity by a little bit.

In your opinion, what should the top three policy priorities be for companies pursuing expansion plans at the European level?

1) be faced with as few bureaucratic constraints as possible when hiring new people; 2) pay lower labour tax and CIT; 3) not feel powerless when you are a start-up.

Do you have any policy recommendations to make on corporate income tax-related practices?

Lower rates in general.

Poland

What are the main industries in which you operate?

IT

What is the size of your enterprise in terms of number of employees?

38 employees

What is the annual turnover of your enterprise?

1,600,000 euros

What policies currently in place are affecting your growth strategies?

CIT exemption.

Has your company recently pursued M&A or partnership opportunities? Please explain.

We have recently acquired a smaller IT company in our town. That was all of our M&A experience so far.

Are you aware of any favourable tax schemes to support companies like yours?

Yes: we are a partnership, hence we are exempted from CIT taxation!

Do you think that your growth strategy is currently being affected by the existence of such schemes?

Yes definitely, in the sense that we have comparatively more liquidity that we can use to grow faster.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

No, I am sure it would be softer.

How would you assess the relevance of CIT rates (both the favourable rate – if any – and the normal CIT rate) on the decision on whether to acquire, or merge with, other companies?
Irrelevant.

(If M&A in the past) Do you think that CIT has affected the number of deals and values of the acquisitions with your partners?

Deal was only one; as to the value, I think CIT could have affected it, but in the end it did not because they also were a partnership so there were no asymmetries in CIT treatment between us.

Do you believe that deductions and allowance schemes have played a role in the decision on whether to expand your business? If so, how?

They impacted the possibility to grow, but not the decision whether to grow – that was mainly oriented by arising market opportunities.

Do you have any experience suggesting that differences in CIT between member States affect/distort the development of cross-country M&A projects? If yes, in what way?

I do not have cross-country M&A experience unfortunately!

Do you feel that, within your sector, there exists fiscal legislation that directly facilitates/complicated M&A activities?

No I do not.

What industry-specific tax policies would you recommend/advise with a view to favouring growing companies in your sector?

The purchase of machinery for the IT sector should definitely be deductible, if not tax exempt.

Could you provide an estimate of the time and monetary costs of tax compliance?

At most 20 days (not necessarily working full-time on it), and for a total monetary cost of around EUR 8,000–10,000, more or less.

Do you think that the benefits of the favourable policy you envisage in Question 14 would increase administration costs by affecting legal complexity?

Minimally.

In your opinion, what should the top three policy priorities be for companies pursuing expansion plans at the European level?

1) Unify M&A rules, so that companies in different countries do not need to worry about significant legislation asymmetries. 2) there should be ad-hoc CIT exemptions/allowances for companies pursuing M&A both internally and on a cross-country basis. 3) Eased start-up finance.

Do you have any policy recommendations to make on corporate income tax-related practices?

Probably CIT exemptions for partnership should be explored Euro-wide

Poland

What are the main industries in which you operate?

Cements

What is the size of your enterprise in terms of number of employees?

110 employees

What is the annual turnover of your enterprise?

Around 6 million euros

What policies currently in place are affecting your growth strategies?

Nothing more than a couple of small exemptions/deductions, the biggest of which is that dedicated to tax losses.

Has your company recently pursued M&A or partnership opportunities? Please explain.

No I have not.

Are you aware of any favourable tax schemes to support companies like yours?

Yes, for instance we are benefiting from the "loss carry-forward system", which enables you to deduct tax losses from income during five subsequent years, subject to an upper limit of 50%.

Do you think that your growth strategy is currently being affected by the existence of such schemes?

A tiny bit – it provides us with some extra liquidity, if anything.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

Probably a bit less aggressive, but in the end the difference would not be that significant.

How would you assess the relevance of CIT rates (both the favourable rate – if any – and the normal CIT rate) on the decision on whether to acquire, or merge with, other companies?

Does not apply (follows from 5).

(If M&A in the past) Do you think that CIT has affected the number of deals and values of the acquisitions with your partners?

Does not apply (follows from 5).

Do you believe that deductions and allowance schemes have played a role in the decision on whether to expand your business? If so, how?

No they did not.

Do you have any experience suggesting that differences in CIT between member States affect/distort the development of cross-country M&A projects? If yes, in what way?

Does not apply (follows from 5).

Do you feel that, within your sector, there exists fiscal legislation that directly facilitates/complicated M&A activities?

I actually think there is nothing particular to the cements sector.

What industry-specific tax policies would you recommend/advise with a view to favouring growing companies in your sector?

Deduct productive investments as operating expenses.

Could you provide an estimate of the time and monetary costs of tax compliance?

A total cost of (max) € 30,000 for almost a month in total per year.

Do you think that the benefits of the favourable policy you envisage in Question 14 would increase administration costs by affecting legal complexity?

I sense it might, but probably not by much.

In your opinion, what should the top three policy priorities be for companies pursuing expansion plans at the European level?

I think cross-country mergers and/or acquisitions should have common rule, as in, one only legislation, since it makes no sense that any different pair of merger or acquisition can be treated differently depending on the countries the (two) partners are based in. Secondly, mergers and acquisitions should not be taxed, anywhere in the Union, and thirdly they should probably also be incentivized through tax reliefs and further exemptions, so as to promote internal-market integration.

Do you have any policy recommendations to make on corporate income tax-related practices?

No, nothing special from me.

Spain

What are the main industries in which you operate?

Light design

What is the size of your enterprise in terms of number of employees?

149 employees

What is the annual turnover of your enterprise?

7 million euros

What policies currently in place are affecting your growth strategies?

We are benefiting from accelerated depreciation of a couple of fixed assets, namely technological equipment and immovable property.

Has your company recently pursued M&A or partnership opportunities? Please explain.

Yes. We have fully acquired a small light-design company in the Canary Islands back in 2010, while we are currently discussing a merger with a slightly bigger company, active in our sector. We have started discussing of this opportunity with them in early 2013.

Are you aware of any favourable tax schemes to support companies like yours?

From our experience, we currently benefit from a CIT reduction from 30% to 25%, which you get if your total annual turnover is below 8 million euros – it is not much because it only applies to your first € 120,000 of taxable income, but it helps.

Do you think that your growth strategy is currently being affected by the existence of such schemes?

I would say it does help, but it does not affect our growth strategy significantly.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

No, on the contrary, even if their presence does not change much, if anything our growth strategy would be less aggressive.

How would you assess the relevance of CIT rates (both the favourable scheme – if any – and the normal CIT rate) on the decision on whether to acquire or merge with other companies?

This is a very good question. The most relevant example I can bring is that we have acquired (fully) a small company doing the same thing as us in the Canary Islands, and we were obviously really happy to know they are taxed at 4% there. Obviously I cannot say this was the main reason why we acquired that firm, but it was one of the factors guiding our decision.

(If M&A in the past) Do you think that CIT has affected the number of deals and values of the acquisitions with your partners?

Unfortunately, that was the only acquisition we had. All I can say is that probably the value of our deal was affected by the presence of such a low CIT rate in the Canary Islands, as in, we might have had to think of an even-smaller company to acquire, had it been in a differently-taxed region of Spain (I mean with a much higher CIT rate).

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your business? If so, how?

No, they weren't that significantly determinant in our growth strategies.

Do you have any experience suggesting that differences in CIT between Member States affect/distort the development of cross-country M&A projects? If yes, in what way?

I do not have this experience yet. I wish I can provide some useful guideline in the near future though.

Do you feel that, within your sector, there exists fiscal legislation that directly facilitates/complicates M&A activities?

I do not feel Spanish legislation has ever complicated our M&A activities honestly, nor do I know of particular points where it would facilitate us – but I guess there might be some, I just do not know about this so well.

What industry-specific tax policies would you recommend/advice with a view to favouring growing companies in your sector?

I think the current CIT allowance I was telling you about goes in the right direction, but it is a bit too small in what it gives you. I think its reduced rate (28% instead of 30% in most Spanish regions) is good enough, while it simply should be allowed to apply not just to the first annual € 120,000 of taxable income, but go a bit further, say until € 400,000–500,000.

Could you provide an estimate of the time and monetary costs of tax compliance for your business?

Around 20+ days and a total cost of ca. € 25,000, or slightly more.

Do you think that the benefits of the favourable policies you envisaged in Question 14 would increase administration costs by affecting legal complexity?

Of course not, it would be just about changing one single number!

In your opinion, what should the top three policy priorities be for companies pursuing expansion plans at the European level?

1) make homogeneous, and ease, legislation on mergers and acquisitions, so that expansion-geared partnerships across national borders are much smoother; 2) de-tax the purchase of assets, but with the same policy all over Europe, once and for all – for instance, I have come to appreciate the Spanish provision for accelerated depreciation of fixed assets; 3) de-tax labour!

Do you have any recommendations to make on corporate income tax-related practices?

I have no experience outside Spain but my personal feeling, as I was telling you, is that other European countries might have different taxation, sometimes very different, making it not-that attractive to think of investing somewhere else in Europe. That, by the way, has incidentally been a hurdle for me every time I would, though not too seriously, consider the option of opening somewhere else in Europe instead of in Spain.

<u>Spain</u>

What are the main industries in which you operate?

Lighting and light design

What is the size of your enterprise in terms of number of employees?

141 employees

What is the annual turnover of your enterprise?

6.5 million euros

What policies currently in place are affecting your growth strategies?

Accelerated depreciation; the 10% tax credit for purchasing computers (we have renewed all that in 2013) and for our telecommunications expenses; and a lower CIT rate for the first € 120,000 of taxable corporate income. All these affect our growth strategies because they just leave us with more money to finance our operations, and because key assets to be used in these operations, such as IT and communication, are less of a cost.

Has your company recently pursued M&A or partnership opportunities? Please explain.

We merged with a former competitor – for the exact same products, i.e. lights, and light-design services – in 2009, and that's it.

Are you aware of any favourable tax schemes to support companies like yours?

Yes, all those I have just mentioned (Question 4) are available for smaller, or middle-small, companies whose turnover does not exceed 8 million euros.

Do you think that your growth strategy is currently being affected by the existence of such schemes?

Yes yes, we end up with just more liquidity than you would normally expect, and I must confess that while every company would set for itself the target of growing beyond an annual turnover of 8 million euros (we also do!), it is nice that we are still below it given the pretty generous scheme we are benefiting from.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

Not at all, it would be less pronounced!

How would you assess the relevance of CIT rates (both the favourable scheme – if any – and the normal CIT rate) on the decision on whether to acquire or merge with other companies?

It was not a crucial factor in that we both were facing the same CIT rate (30%, as we are both based in Castilla), and we face the same rate now.

(If M&A in the past) Do you think that CIT has affected the number of deals and values of the acquisitions with your partners?

No it did not, as I said.

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your business? If so, how?

Why not. Probably not *the* crucial reason why we decided to, or felt easier in, growing, but the tax allowances and deductions I was talking about were a non-negligible help without which we would most probably have grown slower.

Do you have any experience suggesting that differences in CIT between Member States affect/distort the development of cross-country M&A projects? If yes, in what way?

Nope.

Do you feel that, within your sector, there exists fiscal legislation that directly facilitates/complicates M&A activities?

I would say, all I have experienced of M&A legislation in Spain tells me there is no much hassle with legal-compliance in this kind of operations in the country – not that I have much of a comparative perspective as I have never come to thinking of foreign mergers, or of taking steps towards acquiring a foreign company, but I feel that the fact that the State more or less "lets us be" can be considered as a facilitation of M&A activities.

What industry-specific tax policies would you recommend/advice with a view to favouring growing companies in your sector?

I think taxes should be reduced for growing companies, meaning that for instance the CIT rate should reach a level like 10, or 15%, when you pursue massive investments oriented to growth, such as opening a subsidiary or buying any other physical capital.

Could you provide an estimate of the time and monetary costs of tax compliance for your business?

It takes us around a month, or slightly less sometimes, and we spend around € 35,000–40,000 over tax compliance.

Do you think that the benefits of the favourable policies you envisaged in Question 14 would increase administration costs by affecting legal complexity?

No, not much in my opinion.

In your opinion, what should the top three policy priorities be for companies pursuing expansion plans at the European level?

I feel that some more direct-facilitation measures for partnerships and M&A's, such as adopting common legislation and simplifying the existing one, should be taken *at the European level*; 2) companies in this condition should also have easy access to

European funds thought exactly for growing companies and/or start-up's; 3) these European funds should be very big.

Do you have any recommendations to make on corporate income tax-related practices?

Yes, as I said, it should just be much lower for companies undergoing massive growth-enhancing investments. I can't know think of much else in terms of other practices.

Spain (large)

What are the main industries in which you operate?

Lighting

What is the size of your enterprise in terms of number of employees?

372 employees

What is the annual turnover of your enterprise?

21 million euros

What policies currently in place are affecting your growth strategies?

Straight-line depreciation of tangible assets and VAT exemption for exports are the main policies that affect our growth strategy: while straight-line depreciation of tangible assets increases our amount of liquid money available for current, every-day operations, the VAT exemption influences our growth strategy simply because it is a huge incentive to export even more – a trend that you can see in at least the past five years, and not just because there has been an obvious decrease of Spain's internal demand due to the recent crisis.

Has your company recently pursued M&A or partnership opportunities? Please explain.

No, we have not pursued any such activity so far.

Are you aware of any favourable tax schemes to support companies like yours?

As we sell a lot outside Spain, we benefit from a 100%-exemption from VAT.

Do you think that your growth strategy is currently being affected by the existence of such schemes?

Yes exactly, we are growing a lot faster in the extra-Spain market thanks above all, alongside the crisis in Spain, to the very favourable tax scheme of the VAT exemption.

Do you believe that without such provisions you would pursue a more aggressive growth strategy?

Without it, our growth strategy would be far less aggressive, no doubt.

How would you assess the relevance of CIT rates (both the favourable scheme – if any – and the normal CIT rate) on the decision on whether to acquire or merge with other companies?

First of all, there is no such thing as a "favourable" CIT rate for us – we only always pay 30%. I know it can be from lower to much lower in other areas of the country, but all our Spanish activities and subsidiaries are based in Catalonia, so no CIT-rate difference. Having said this, I can say CIT rates are not relevant at all on the decision – or, in our case, on the mere considering – whether to merge/acquire or not.

(If M&A in the past) Do you think that CIT has affected the number of deals and values of the acquisitions with your partners?

No (follows from 9).

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your business? If so, how?

I think they have, and mainly because knowing that we wouldn't be taxed for VAT purposes let us plan bigger investments for the foreign market, causing our growth to be more successful.

Do you have any experience suggesting that differences in CIT between Member States affect/distort the development of cross-country M&A projects? If yes, in what way?

Well, no, we have not engaged in M&A, within or across the Spanish borders.

Do you feel that, within your sector, there exists fiscal legislation that directly facilitates/complicates M&A activities?

I do not think there is any particular sector-specific legislation on M&A, and I do not really think there is anything in our legislation that makes us either particularly competitive, or particularly unfavourable, in terms of M&A provisions.

What industry-specific tax policies would you recommend/advice with a view to favouring growing companies in your sector?

Although we strongly appreciate the Spanish government's effort to push national exports through VAT exemption, I think more decisive action should be taken for corporate taxation: if it is not possible to exempt exporters also from CIT – come on, it might after all cause a big drain to our public finances, and we all know we do not

need this in the present condition – at least there should be a strong reduction for all sizes of exporters, without discrimination.

Could you provide an estimate of the time and monetary costs of tax compliance for your business?

Up to € 95,000 is the cost, while timing does not exceed 2 months.

Do you think that the benefits of the favourable policies you envisaged in Question 14 would increase administration costs by affecting legal complexity?

I think administration costs would indeed rise because, after all, adding exemptions always complicates things a little bit for managers and administrators.

In your opinion, what should the top three policy priorities be for companies pursuing expansion plans at the European level?

Number one, surely reduce taxation on labour from a European funding source: no other way out of this crisis! Secondly, something similar should be done, if possible, for corporate-income taxation, but then again, I would only put this as second priority. As a third policy priority, I think Europe should have something like we have as an export-exemption, or at least an export-deduction: I am not completely sure that what our firm exports outside Spain, but still inside Europe should be considered as export; more to it, I think if Europe really took exports more seriously, it would become more competitive internationally and also come out of the crisis by getting just more integrated with more far-away markets, such as Asia.

Do you have any recommendations to make on corporate income tax-related practices?

No, nothing else actually.

France

What are the main industries in which you operate?

Lighting design

What is the size of your enterprise in terms of number of employees?

15 employees

What is the annual turnover of your enterprise?

2,2 million €

Are you aware of any favourable tax schemes to support companies like yours?

I think there are some deductions for the staff you employ

Have these affected your preferences between debt and equity?

In any way I think

Are you aware of tax incentives for venture capitalists and business angels who want to invest in an enterprise like yours?

No, I think I have never heard of them

If yes, have such incentives impacted the financial sustainability of your enterprise in a significant way? If you had to take on scale, would eligibility for preferential CIT rates be a criterion for setting your growth targets?

N/A

Do you believe that deductions and allowance schemes play a role in determining the financial structure of your company? If so, how?

Not the financial structure, no

When started up your company, did you consider locating in any other member state as a result of this?

No

Do you believe that differences in CIT across the EU affect the competitiveness of your enterprise? If so, how?

There are other things more important than CIT that have effects on competitiveness

Do you feel that the sector in which your company operates is subject to any particular favourable or unfavourable tax schemes?

I think it is the same as in other sectors.

Please provide an estimate of the time and monetary costs of tax compliance.

We pay our accountant, it costs around 30000€ a year, but comprising also all other tax compliance fees.

UK

What are the main industries in which you operate?

Architecture

What is the size of your enterprise in terms of number of employees?

40 employees

What is the annual turnover of your enterprise?

5 million euros

What policies currently in place are affecting your growth strategies?

All we have is deductions for management expenses and avoidance for specific interest payments – which only impacts our growths strategies limitedly, but hey, it provides us with some extra liquidity.

Has your company recently pursued M&A or partnership opportunities? Please explain.

No I have not.

Are you aware of any favourable tax schemes to support companies like yours?

I am actually not.

Do you think that your growth strategy is currently being affected by the existence of such schemes?

Does not apply (follows from 6).

Do you think that without such provision you would pursue a more aggressive growth strategy?

Does not apply (follows from 7).

How would you assess the relevance of CIT rates (both the favourable scheme – if any – and the normal CIT rate) on the decision whether to acquire or merge with other companies?

Does not apply (follows from 5).

(If M&A in the past) Do you think CIT has affected the number of deals and values of the acquisitions with your partners?

No (follows from 5).

Do you believe that deductions and allowance scheme have played a role in determining whether to expand your business? If so, how?

No they did not influence decisions to expand my business or not.

Do you have any experience suggesting that difference in CIT between member States affect/distort the development of cross-country M&A projects? If yes, in what way?

No I do not.

Do you feel that, within your sector, there exists fiscal legislation that directly facilitates/complicates M&A activities?

I do not think there is anything specific, no.

What industry-specific tax policies would you recommend/advise with a view to favouring growing companies in your sector?

Although labour tax is not excessively high in the United Kingdom, since human capital is our most precious asset, I would more than appreciate a tax-rate reduction.

Could you provide an estimate of the time and monetary costs of tax compliance?

2 days at most. No cost.

Do you think the benefits of the favourable policies you envisaged in Question 14 would increase administration costs by affecting legal complexity?

I do not think so. As in, not at all.

In your opinion, what should the top three policy priorities be for companies pursuing expansion plans at the European level?

1) allow for easier cross-country mergers, 2) level the playing field when it comes to common legislation, 3) give tax incentives for cross-country mergers and acquisitions.

Do you have any policy recommendations to make on corporate income tax-related practices?

Make the reduced rate *significantly* lower, and not almost identical to the normal rate.

UK

What are the main industries in which you operate?

Light design

What is the size of your enterprise in terms of number of employees?

98 employees

What is the annual turnover of your enterprise?

Around 10 million euros

What policies currently in place are affecting your growth strategies?

Other than an acquisition we had three years ago (so, I guess, M&A normal legislation), nothing else.

Has your company recently pursued M&A or partnership opportunities? Please explain.

We have acquired another London-based (smaller) subsidiary three years ago.

Are you aware of any favourable tax schemes to support companies like yours?

Nothing more than simple, low-level deductions such as interests and some operating expenses.

Do you think that your growth strategy is currently being affected by the existence of such schemes?

To be honest, it is not.

Do you think that without such provision you would pursue a more aggressive growth strategy?

I think there would be no significant difference.

How would you assess the relevance of CIT rates (both the favourable scheme – if any – and the normal CIT rate) on the decision whether to acquire or merge with other companies?

CIT rates were not a factor.

(If M&A in the past) Do you think CIT has affected the number of deals and values of the acquisitions with your partners?

Neither has CIT affected deals or values of (our only) acquisition.

Do you believe that deductions and allowance scheme have played a role in determining whether to expand your business? If so, how?

I strongly believe they have not!

Do you have any experience suggesting that difference in CIT between member States affect/distort the development of cross-country M&A projects? If yes, in what way?

I do not have such experience actually – all in the UK so far.

Do you feel that, within your sector, there exists fiscal legislation that directly facilitates/complicates M&A activities?

I do not have that feeling actually.

What industry-specific tax policies would you recommend/advise with a view to favouring growing companies in your sector?

In Britain, I would just recommend *starting* to care about both start-ups and smaller/medium companies like mine in a different way – that is making a differentiation from bigger established corporations. Doing this seriously would be more than enough.

Could you provide an estimate of the time and monetary costs of tax compliance?

1 full business day. No particular monetary cost.

Do you think the benefits of the favourable policies you envisaged in Question 14 would increase administration costs by affecting legal complexity?

Yes, probably it would.

In your opinion, what should the top three policy priorities be for companies pursuing expansion plans at the European level?

1) be sure to have proper government funds to support projects at risk or when your liquidity is not enough, 2) model Euro-wide M&A legislation on the UK's example, 3) incentivize green growth.

Do you have any policy recommendations to make on corporate income tax-related practices?

I think it should be lower more or less anywhere in Europe, with special attention to certain "crazy" countries that are really going beyond the line with tax rate

UK

What are the main industries in which you operate?

Interior design

What is the size of your enterprise in terms of number of employees?

45 employees

What is the annual turnover of your enterprise?

7 million euros approximately

What policies currently in place are affecting your growth strategies?

Yearly interests are deducted from corporate income, which is kind of good for financing expansion projects – although it is not much, if alone.

Has your company recently pursued M&A or partnership opportunities? Please explain.

No it has not!

Are you aware of any favourable tax schemes to support companies like yours?

Well, beyond interest deductions you can deduct your business car, clothes (if proved strictly necessary for the job only), phone calls (which is rather good as a policy!), and even office decorations!

Do you think that your growth strategy is currently being affected by the existence of such schemes?

Only slightly by deductions of interests and operating costs such as phone calls.

Do you think that without such provision you would pursue a more aggressive growth strategy?

Most probably it would be equally "aggressive", if we can call it that way…

How would you assess the relevance of CIT rates (both the favourable scheme – if any – and the normal CIT rate) on the decision whether to acquire or merge with other companies?

To begin with, the favourable and the normal CIT rates differ by little, so I see little chance they could make a sizeable difference. Also, I do not see why – and this, I guess, comes from my personal experience – CIT rates should be so important in determining merger/acquisition decisions.

(If M&A in the past) Do you think CIT has affected the number of deals and values of the acquisitions with your partners?

No (follows from 5).

Do you believe that deductions and allowance scheme have played a role in determining whether to expand your business? If so, how?

Not *whether* to expand it or not, but they have helped by lowering our costs (through deductions from corporate income).

Do you have any experience suggesting that difference in CIT between member States affect/distort the development of cross-country M&A projects? If yes, in what way?

Sorry, I do not have any cross-country experience!

Do you feel that, within your sector, there exists fiscal legislation that directly facilitates/complicates M&A activities?

I would say: there is nothing that *directly* complicates, nor facilitates, mergers and acquisitions in the United Kingdom; if anything, I think legislation in the UK is rather accommodating for firms looking into possibilities of mergers or acquisitions.

What industry-specific tax policies would you recommend/advise with a view to favouring growing companies in your sector?

I think a good policy (but do not hate me: I have no clue if it is already in place! Sorry!) would be to lift any tax on mergers and acquisitions – not sure how big of an impact this may have, but I think the British economy would especially benefit from this.

Could you provide an estimate of the time and monetary costs of tax compliance?

2 full business days, more or less. Costs are minimal.

Do you think the benefits of the favourable policies you envisaged in Question 14 would increase administration costs by affecting legal complexity?

I do not think so, it would be all about removing a tax after all, instead of introducing some kind of self-reported mess or so.

In your opinion, what should the top three policy priorities be for companies pursuing expansion plans at the European level?

1) Ease M&A taxation; 2) Ease M&A regulation, as in: deregulate with no regrets; 3) open up to foreign, extra-EU markets in terms of regulation and competence/power of the competition authority (antitrust agencies, etc.).

Do you have any policy recommendations to make on corporate income tax-related practices?

Not really, although I would probably explore the possibility of making stronger exceptions to the baseline CIT rate in favour of illiquid firms, highly-indebted firms (if due to external circumstances such as a big economic slowdown), or start-ups/new companies.

UK

What are the main industries in which you operate?

IT

What is the size of your enterprise in terms of number of employees?

34 employees

What is the annual turnover of your enterprise?

5.8 million euros

What policies currently in place are affecting your growth strategies?

The one we are mostly benefiting from is actually the absence of withholding taxation on dividends – it is good because it rewards investors and creates a positive reputational precedent.

Has your company recently pursued M&A or partnership opportunities? Please explain.

We have merged with a former competitor in 2008.

Are you aware of any favourable tax schemes to support companies like yours?

Not really.

Do you think that your growth strategy is currently being affected by the existence of such schemes?

Does not apply (follows from 6).

Do you think that without such provision you would pursue a more aggressive growth strategy?

Does not apply (follows from 6).

How would you assess the relevance of CIT rates (both the favourable scheme – if any – and the normal CIT rate) on the decision whether to acquire or merge with other companies?

CIT rates are definitely important for a business, also in the UK, but they did not influence our merger decision.

(If M&A in the past) Do you think CIT has affected the number of deals and values of the acquisitions with your partners?

Not the number, since we only have a single experience. That single experience, moreover, was not influenced by CIT – both rates and policy design.

Do you believe that deductions and allowance scheme have played a role in determining whether to expand your business? If so, how?

I firmly believe all such things do not determine expansionary decisions: these are determined by how eager you are to expand to begin with, by how strong/weak competitors are, by how big you should be to introduce yourself to an interesting/profitable (new) market, and by the willingness of potential partners to merge/start cooperating.

Do you have any experience suggesting that difference in CIT between member States affect/distort the development of cross-country M&A projects? If yes, in what way?

No cross-country experience for M&A unfortunately, although I could tell you about my experience with other EU countries' CIT taxation…

Do you feel that, within your sector, there exists fiscal legislation that directly facilitates/complicates M&A activities?

I think legislation in Britain is neutral enough – I do not know if it promotes M&A's enough, though, I should check what they do in other countries…

What industry-specific tax policies would you recommend/advise with a view to favouring growing companies in your sector?

Help make equity expansion more attractive with respect to debt-financed growth. Don't get me wrong, it's not as if current legislation is bad equity-wise, but I think more could be done – for instance, by introducing tax (mostly CIT) deductions for dividends paid to investors, which are not present exist in England.

Could you provide an estimate of the time and monetary costs of tax compliance?

30-32 full hours of (paper)work, at no particular monetary cost.

Do you think the benefits of the favourable policies you envisaged in Question 14 would increase administration costs by affecting legal complexity?

Yes, I cannot hide legal complexity would end up increasing a bit, but I still do not think my time costs for tax compliance are so high not to tolerate a small increase.

In your opinion, what should the top three policy priorities be for companies pursuing expansion plans at the European level?

By all means, make equity-based investment attractive (so as to create downwards competition in the bond market), and de-tax dividends. That is all.

Do you have any policy recommendations to make on corporate income tax-related practices?

I would be fine if dividends paid to investors were deducted!

Luxemburg (micro)

What are the main industries in which you operate?

Editing (books)

What is the size of your enterprise in terms of number of employees?

3 employees

What is the annual turnover of your enterprise?

800,000 euros

Are you aware of any favourable CIT deduction or allowances schemes to support companies like yours?

So far, we have benefited from an almost complete deduction of intangible goods other than immovables, and those were actually the basic machinery plus computers and furnishing of our little factory. That deducts from CIT. For all the rest, it's not as if there is any specific provision for very small companies, nor for initiatives that have started within the range of the last five years.

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your business? Please explain how.

Well, I don't think I can say my business has every properly "expanded": we just started in 2011 and I hired two people immediately, period.

In your opinion, should CIT deduction and allowance schemes be designed differently? If yes, how?

Beyond a more pronounced skew in favour of smaller, and especially new, business initiatives, I think deductions and allowances should do more for stimulating research and development-related investments, possibly even in exchange for a (slightly!) higher CIT rate.

Could you provide an estimate of the time and monetary costs of tax compliance for your business?

40–50 hours. As for the monetary cost, there is no cost as I do not have to pay anyone for doing this.

In your opinion, what policies could be put in place to lower the costs of administering tax payments?

Just re-uniting all of them in one only payment. Oh, and not to forget that we should decide whether to take *either* the fiscal year, *or* the calendar year.

Do you think that the existence of allowances/deductions affect the time and monetary costs of income tax compliance for your business?

I am actually completely sure that they do not.

Do you think that the benefits of the favourable policies you envisaged in Question 8 would outweigh the costs due to legal complexity?

I'm pretty sure legal-complexity costs would decrease significantly.

In your opinion, what should the top three tax-policy priorities be for mature companies at the EU level?

For *mature* companies?? Ok so: I guess, de-tax (through money from the Commission, or whoever) growth-related investments, de-tax labour homogeneously, and also at least reduce taxation on productive investment, since even "mature" companies have no reason not to grow even more and establish even more solidly on the market.

Do you have any policy recommendations to make on corporate income tax-related practices?

Yes, only that corporate taxation should be more geared towards putting start-ups and inherently-small firms in easier conditions to grow faster.

Luxemburg (small)

What are the main industries in which you operate?

Architecture and home solutions

What is the size of your enterprise in terms of number of employees?

21 employees

What is the annual turnover of your enterprise?

1.9 million euros

Are you aware of any favourable CIT deduction or allowances schemes to support companies like yours?

I know – because my company has largely benefited from it – that 50% deductions in CIT are made for dividends of parent companies resident here in Luxembourg – such as mine.

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your business? Please explain how.

Yes, definitely, and the way is very simple: the 50% CIT deduction for dividends enabled me to involve smaller, but more, and more willing investors and shareholders, hence grow more at a lower costs – as in, incur less debt and be able to resort more on cheap equity.

In your opinion, should CIT deduction and allowance schemes be designed differently? If yes, how?

I actually think that, at least for what I know, such schemes are pretty muck O.K. for how they are right now.

Could you provide an estimate of the time and monetary costs of tax compliance for your business?

Around 15 days (not full though) I think is a good measure, while the costs is not very high, probably close to like a dozen of thousands of euros in a year – fiscal or solar, whatever.

In your opinion, what policies could be put in place to lower the costs of administering tax payments?

Unite them in one payment and try to avoid advance payments, that's all I have to say.

Do you think that the existence of allowances/deductions affect the time and monetary costs of income tax compliance for your business?

No, not really – they might to some, very limited, extent, but my business has always pretty much faced the same kind, and quantity of administration costs, regardless of whether we were benefiting from deductions/allowances or not in a specific period or year.

Do you think that the benefits of the favourable policies you envisaged in Question 8 would outweigh the costs due to legal complexity?

Clearly not.

In your opinion, what should the top three tax-policy priorities be for mature companies at the EU level?

I think mature companies should be able to involve new, higher-qualified human capital more easily, also thanks to a decrease in the taxes on labour – that I would put as number 1 priority actually. Then, if anything, administration costs should be lowered by adopting more similar legislation on taxation – I actually have no idea, but I am sure that moving (relocating or just stretching operations outwards) across European countries is still a big mess in terms of legal and tax compliance! Thirdly, I am sure Europe as a whole would benefit from stronger deductions for start-ups (and maybe even administrative exemptions as well, like "you do not even have to fill in this form" etc.).

Do you have any policy recommendations to make on corporate income tax-related practices?

I think reducing the rate Euro-wide would be more than enough.

Luxemburg

What are the main industries in which you operate?

Architecture and home solutions

What is the size of your enterprise in terms of number of employees?

145 employees

What is the annual turnover of your enterprise?

6.4 million euros

Are you aware of any favourable CIT deduction or allowances schemes to support companies like yours?

Yes, I know the 50% dividend-exemption from CIT and the other one, the 80% exemption from CIT for patent and intellectual-property income. We have so far used the former, and pretty extensively.

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your business? Please explain how.

In terms of (good!) statistics, I can say the 50% exemption I just told you about, let us have a debt-to-equity ratio never higher than 0.5, although I do not exactly know if not having that deduction would have made the ratio *so* much different. Anyhow, as I think our debt-to-equity ratio has always been pretty low, I am actually sure that helped us grow because it's always better to rest on the surety of equity instead of making expensive loans – especially when shareholders are happier to come in (even from outside Luxembourg! And this is very good) to help your business!

In your opinion, should CIT deduction and allowance schemes be designed differently? If yes, how?

Nah, I feel their design is pretty much all right. I have nothing to complain about.

Could you provide an estimate of the time and monetary costs of tax compliance for your business?

It is not at all "expensive" in direct monetary terms because I do it all, and it takes me 6 or 7 full days.

In your opinion, what policies could be put in place to lower the costs of administering tax payments?

No advance payments on taxes of any sort – CIT even less.

Do you think that the existence of allowances/deductions affect the time and monetary costs of income tax compliance for your business?

Yes, to some extent. As in, it might be that it takes me 1 or 2 days more to fill in all forms and take care of all bureaucratic procedures – but not really more than that.

Do you think that the benefits of the favourable policies you envisaged in Question 8 would outweigh the costs due to legal complexity?

I don't think so, I think there is no reason why that would increase legal complexity by any means or to any extent honestly.

In your opinion, what should the top three tax-policy priorities be for mature companies at the EU level?

Priority number 1: apply even higher deductions from dividends (or similar forms of equity promotion vis-à-vis reliance on debt) and also outside Luxembourg, since yes it's good that a lot of capitals come to Luxembourg, but if we're all together in this Europe I'm not sure this leads us very far…

Priority number 2: reduce intellectual-property deductions (if it is like in Luxembourg! It's not like I know taxation perfectly for all EU members!) and increase them for training activities – you have no idea how much poorly-qualified workers we keep on finding all the time!

Priority number 3: make sure EU-wide differences in CIT rates are not more spread than, I don't know, 30%? As in, it should not be the case that in one country you have 50% taxation in one country and 18% in another, otherwise free movement makes it too easy to leave!

Do you have any policy recommendations to make on corporate income tax-related practices?

Reduce the CIT tax rate for sure!

Luxemburg (large)

What are the main industries in which you operate?

Finance

What is the size of your enterprise in terms of number of employees?

402 employees

What is the annual turnover of your enterprise?

15.1 million euros

Are you aware of any favourable CIT deduction or allowances schemes to support companies like yours?

Yes! We have been deducting half of our dividends in CIT since we started business in 2001!

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your business? Please explain how.

Basically promising bigger dividends was a great thing, so I would definitely say that deducing all that money from your dividends made us very attractive on the market for corporate finance.

In your opinion, should CIT deduction and allowance schemes be designed differently? If yes, how?

No, not in Luxembourg at least.

Could you provide an estimate of the time and monetary costs of tax compliance for your business?

We spend around € 35,000 every year more or less, and it takes around 25 days to carry out completely.

In your opinion, what policies could be put in place to lower the costs of administering tax payments?

I think they should all be made electronically: that makes things easier, reduces attempts to evade taxes, and is cheaper instead of just hiring people around.

Do you think that the existence of allowances/deductions affect the time and monetary costs of income tax compliance for your business?

No they don't.

Do you think that the benefits of the favourable policies you envisaged in Question 8 would outweigh the costs due to legal complexity?

Yes, definitely.

In your opinion, what should the top three tax-policy priorities be for mature companies at the EU level?

Well, I think what I have just said about electronic payments should definitely be a high-ranked priority. Other than that, there are many things Europe should do… for example have only one social-security contribution system: do you know how complicated it is to hire cross-border workers (and there are so many who want to work in Luxembourg you have no idea! And most of the times they are pretty well qualified) who never even know how to manage their social-security future? Also, I think there should be a direct allowance for money spent complying with tax: how can you even expect to levy taxes on such an outrageous expense?!

Do you have any policy recommendations to make on corporate income tax-related practices?

It should be less invasive for companies that employ a lot of people, like us…

<u>Luxemburg (large)</u>

What are the main industries in which you operate?

Luxury

What is the size of your enterprise in terms of number of employees?

417 employees

What is the annual turnover of your enterprise?

18.7 million euros

Are you aware of any favourable CIT deduction or allowances schemes to support companies like yours?

We have made massive use of the 80% intellectual-property deduction from corporate income taxation.

Do you believe that deductions and allowance schemes have played a role in determining whether to expand your business? Please explain how.

The 80% CIT deduction for intellectual-property income was a crucial element in helping us grow: we outsourced production of certain jewels for instance, to others that wanted to do so, but didn't have the (patented!) know-how, while we did: we spared on costs, boosted our profits, and re-invested everything to increase our size. And that was successful!

In your opinion, should CIT deduction and allowance schemes be designed differently? If yes, how?

I think the present condition is fair enough.

Could you provide an estimate of the time and monetary costs of tax compliance for your business?

Around half a hundred thousand euros in expenses, half a month in time.

In your opinion, what policies could be put in place to lower the costs of administering tax payments?

Advance payments are a thorn on your side even when you operate in the luxury industry (where profits are easy and high compared to costs, i.e. margins tend to be generously rewarding) – I think this bad policy *should* be substituted with something more bearable and less absurd.

Do you think that the existence of allowances/deductions affect the time and monetary costs of income tax compliance for your business?

Not really.

Do you think that the benefits of the favourable policies you envisaged in Question 8 would outweigh the costs due to legal complexity?

No, no, clearly that wouldn't increase any cost – obviously then, benefits would outweigh non-existing resulting costs.

In your opinion, what should the top three tax-policy priorities be for mature companies at the EU level?

1) reduce legal complexity and the costs of tax compliance for everyone, 2) reduce labour taxation, 3) reduce CIT.

Do you have any policy recommendations to make on corporate income tax-related practices?

As I said, reduce CIT and also make sure companies wishing to relocate or move operations are not completely appalled, or confused at the very least, by the plethora of diverging legal provisions when it comes to CIT definition, application, and enforcement.

Austria

Are you aware of any favourable CIT deduction or allowances schemes to support R&D for companies like yours?

Yes, R&D incentives are rather generous in Austria: you either deduct R&D expenses, implying that you basically just restrict the taxable base, or you get the so-called "tax premium", which is basically like an outright grant in cash that you get.

Have you benefited from R&D grants? How did this impact your growth strategy?

Not grants, but we have benefited from both the two major R&D tax-incentive programmes Austria has put in place.

Do you believe that deductions and allowance schemes have played (or could play) a role in determining whether to invest in R&D? If so, how?

They definitely have so far: knowing about especially the tax premium, we simply invested a lot in R&D and I believe we would have done much less lacking those premia/deductions.

Do you think that the existence of allowances/deductions for R&D affects significantly the time and monetary costs of income tax compliance for your business?

No, not significantly. Certain costs have to be borne anyways.

In your opinion, what should the top three tax-policy priorities be for R&D-focused companies at the EU level?

Certainly, if a cash-based premium is too difficult to implement at the EU level (or also just Eurozone, why not), tax deductions for companies investing in R&D should simply also be taken as a share European initiative, maybe through a Directive or something. I would also say Europe should try to fund research per se, that is, research that is not directly aimed at innovation through specific projects, as I believe the corporate sector can do much better than academia in this, if properly helped with the funding. Thirdly, maybe also require firms to invest a certain portion of their operating profits in R&D, but this should be not too stringent as a requirement.

Austria

Are you aware of any favourable CIT deduction or allowances schemes to support R&D for companies like yours?

You can only get a cash premium for the research and development activities your company engages in. There used to be also a similarly-defined tax-deduction scheme but it was abolished a couple of years ago.

Have you benefited from R&D grants? How did this impact your growth strategy?

Yes I have: although I guess my company's success in terms of economic growth was more due to the quality of the research projects we carried out, the three R&D grants we benefited from were a clear-cut asset in achieving that growth.

Do you believe that deductions and allowance schemes have played (or could play) a role in determining whether to invest in R&D? If so, how?

I think they do, but not in such an obvious way. I mean, the old tax-deduction scheme was definitely a clearer incentive to invest in R&D no matter what, while now with only the cash premium you never know if what you are doing is enough – the grants are given irrespective of your success, but this is only the starting point! You don't know if your research is meaningful enough in the long term to justified what has still been a sizeable investment (or sunk cost!).

Do you think that the existence of allowances/deductions for R&D affects significantly the time and monetary costs of income tax compliance for your business?

A tiny bit.

In your opinion, what should the top three tax-policy priorities be for R&D-focused companies at the EU level?

1) Give a very strong economic incentive for all companies to invest in R&D, and I mean funds for everyone, 2) give more to smaller subjects, as i) they usual face

higher liquidity constraints, and ii) you never know, two people in a micro-firm could produce better research than a very big player, 3) try to use similar instruments: e.g., all countries should use tax deductions, maybe just with different rates or something.

Austria

Are you aware of any favourable CIT deduction or allowances schemes to support R&D for companies like yours?

No I don't know of any such thing, sorry!

Have you benefited from R&D grants? How did this impact your growth strategy?

I have never benefit from anything like R&D grants in my company – I also have never pursued R&D policies at all, actually.

Do you believe that deductions and allowance schemes have played (or could play) a role in determining whether to invest in R&D? If so, how?

I need to start by saying that because I never even engaged in such activities, I don't know much about this kind of regulatory environment in Austria or in Europe. I am sure, though, that properly-designed allowance schemes (or deductions, whatever) can do a lot when it comes to deciding whether to invest that money or not – I know it from similar experiences of economic decisions, just in other areas of investment.

Do you think that the existence of allowances/deductions for R&D affects significantly the time and monetary costs of income tax compliance for your business?

No (follows from previous answers).

In your opinion, what should the top three tax-policy priorities be for R&D-focused companies at the EU level?

Oh, this is a difficult one! As I said I don't know much about R&D at all actually, but I'll try by following my gut feelings if you allow me to.

Firstly, as I myself do not hear much about this topics being much spoken of recently, I sense more should be done (fund-wise) for European corporate actors when it comes to research. Secondly, I think corporate-sector research should always be tied to projects that can credibly make a difference in boosting a company's, or a sector's, productivity and profits (possibly? Right?) – this would imply designing convenient R&D tax allowances/deductions with that conditionality requirement. And lastly, I think R&D European efforts in terms of tax relief or credit should be jointly administered, to also give the sense that it is a common initiative and that more than just your country care a lot about research.

Austria

Are you aware of any favourable CIT deduction or allowances schemes to support R&D for companies like yours?

I know there is only one thing Austria is doing in this field, and that is that they give you money after you demonstrate you have successfully engaged in a research project – nice thing is that it can be "bad" research as well, i.e. it can ultimately turn out to be a failure as well.

Have you benefited from R&D grants? How did this impact your growth strategy?

No I have never benefited from R&D grants honestly.

Do you believe that deductions and allowance schemes have played (or could play) a role in determining whether to invest in R&D? If so, how?

They have not in my case because I have not decided to pursue R&D yet; I think they could play a role if they were more quantitatively significant: the grant you get in Austria seems fancy and everything (and indeed its specifications are well-thought, I must say), but in the end it proves too little in convincing you to actually take part in that research you are thinking about.

Do you think that the existence of allowances/deductions for R&D affects significantly the time and monetary costs of income tax compliance for your business?

No (follows from previous answers).

In your opinion, what should the top three tax-policy priorities be for R&D-focused companies at the EU level?

1) just be more considerable: I must admit I don't know how it is in other EU countries, but I do sense there might be no much difference in the fact that they don't give you enough to decide to do that research; 2) use similar tools: if you know there won't be much of a difference in other countries, if you are a researcher you are more likely to stay where you are, and the whole area will ultimately benefit from it (also those who are not investing directly); 3) have a proper-called EU-wide Strategy for R&D instead of random country-specific initiatives (even if individually good) – that is a strong signal you

Austria

What are the main industries in which you operate?

Electro craft

What is the size of your enterprise in terms of number of employees?

180

What is the annual turnover of your enterprise?

Euro 18.2 M

Are you aware of any favourable CIT deduction or allowances schemes to support R&D for companies like yours?

No

Do you believe that deductions and allowance schemes have played a role in determining whether to invest more in R&D? If so, how?

Generally speaking, more information is needed on such schemes. Only then deductions and allowances can be effective

In your opinion, should CIT deduction and allowance schemes be designed differently? If yes, how?

Yes, the entrepreneur would appreciate an increased deductibility system

Could you provide an estimate of the time and monetary costs of tax compliance for your business?

Approximately 2040 hours and about 100000 euros per year

Do you think that the existence of allowances/deductions for R&D affect significantly the time or monetary costs of income tax compliance for your business?

Yes, should the entrepreneur make use of them

Do you think that the benefits of the favourable policies you envisaged (question 7) would outweigh the costs due to legal complexity?

Yes

In your opinion, what should the top three tax policy priorities be for R&D focused companies at the EU level?

The entrepreneur believes that three aspects of tax policy should be prioritised. First, the number of taxes should be reduced to make the fiscal system more simple. Second, tax payments should be reduced. Third, the overall administrative burden should decrease and made less complex

ITALY

What are the main industries in which you operate?

Basic technical supply (boiler, central heating replacement)

What is the size of your enterprise in terms of number of employees?

2

What is the annual turnover of your enterprise?

Prefers not to say

What policies currently in place are affecting your growth strategies?

VAT tax brakes

Are you aware of any favourable tax schemes to support companies like yours?

Tax relief on energy requalification of exising building (based on Irpef, personal income tax) (legislative decree 2013)

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

No. In principle, there exists a "prestito d'onore" (loan) which is granted for people who are unemployed for 6 months, but conditions were considered too strict at the time of choosing to start up his enterprise

What role, if any, have special depreciation rates played on capital acquisition plans (e.g. machinery etc.)?

Very important. Used for machinery and equipment. Moreover, they can be used for the training of employees (over multiple years) and for advertisements

Do you believe that special depreciation schemes have ever had an impact on the financial structure of your company? If so, how?

No, only indirectly due to greater profits, in which case he would spend more resources on investment activities

Have you ever considered relocating your company to any other member state to benefit from special depreciation rates elsewhere?

No

Do you have any experience suggesting that cross country differences in depreciation rates have an impact on the growth strategies pursued by enterprises?

Yes, in other countries it is possible to benefit from favourable depreciation rates simply by purchasing capital and keeping the normal sale receipt

Do you feel that, within your sector, large and small companies are subject to similar depreciation rates? If there are any differences, how does this affect small enterprises' competitiveness versus large enterprises'?

Yes

[For small enterprises] Have you ever decided not to pursue growth plans in order to remain eligible for special depreciation rates?

No

Do you have any experience suggesting that industry sector choice can be affected by special depreciation rates?

No

Do you believe that your sector would benefit from any (other) special depreciation rates? What should this and related policies address?

Yes, the activity is capital intensive and requires capital (equipment) to grow

Could you provide an estimate of the time and monetary costs of tax compliance?

Does not know. He outsources these activities to tax advisor; he does not believe that costs are excessive

Do you think that the benefits of the favourable policies you envisaged (question 14) would increase administration costs by affecting legal complexity?

Yes since it would affect his growth plans

In your opinion, what should the top three priorities be for investment and research enhancing policies at the European level?

Tax evasion is important, both in the sale of products and in the purchasing of machinery. Very often they are sold directly to the individual, although transactions are traceable

In your opinion, what should the top three priorities be for policies fostering R&D at the European level?

Depreciation can play an important role in affecting investment decisions

Do you have any policy recommendations to make on corporate income tax-related practices?

Fight tax evasion in order to reduce the overall burden of taxation

ITALY

What are the main industries in which you operate?

Packaging, printing

What is the size of your enterprise in terms of number of employees?

55

What is the annual turnover of your enterprise?

5-13 million euros

What policies currently in place are affecting your growth strategies?

Benefitted from incentives on labour costs for new graduates

Are you aware of any favourable tax schemes to support companies like yours?

No

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

No. The company was founded in 1952 and it is hard to determine whether there have been fiscal reasons for choosing the industry sector

What role, if any, have special depreciation rates played on capital acquisition plans (e.g. machinery etc.)?

Spending on machinery and other items subject to depreciation is extremely important. On average, technological investment have made up about 15% of turnover every year

Do you believe that special depreciation schemes have ever had an impact on the financial structure of your company? If so, how?

They have not played a role recently, but potentially they might

Have you ever considered relocating your company to any other member state to benefit from special depreciation rates elsewhere?

Indeed they are considering relocating to either EU (Romania, Slovakia) or non-EU countries (Serbia). However, transportation and labour costs are the main drivers. Surely, however, the initial investments would benefit from special depreciation rates since the company makes use of sophisticated machinery.

Do you have any experience suggesting that cross country differences in depreciation rates have an impact on the growth strategies pursued by enterprises?

Yes. However, labour costs play a much more important role

Do you feel that, within your sector, large and small companies are subject to similar depreciation rates? If there are any differences, how does this affect small enterprises' competitiveness versus large enterprises'?

Does not know

[For small enterprises] Have you ever decided not to pursue growth plans in order to remain eligible for special depreciation rates?

Does not apply

o you have any experience suggesting that industry sector choice can be affected by special depreciation rates?

Yes because competitiveness between companies is mostly determined by the quality and efficiency of machinery, which is expensive and makes up a significant share of total costs

Do you believe that your sector would benefit from any (other) special depreciation rates? What should this and related policies address?

Yes. Potentially it might divert growth strategy from other EU countries back to Italy.

Could you provide an estimate of the time and monetary costs of tax compliance?

The respondent does not know, but the administration department takes care of that in a very efficient and cost effective way.

Do you think that the benefits of the favourable policies you envisaged (question 14) would increase administration costs by affecting legal complexity?

Yes, although it is true that, from the entrepreneur's point of view, the simplicity of the tax system per se is extremely valuable. The Italian tax system is already complicated enough.

In your opinion, what should the top three priorities be for investment and research enhancing policies at the European level?

Research is not an established sector within the firm, since it is possible to experiment during the production process.

In your opinion, what should the top three priorities be for policies fostering R&D at the European level?

No response

Do you have any policy recommendations to make on corporate income tax-related practices?

IRAP is perceived negatively, since it hits who is already lagging behind. From the government point of view, it does not generate too high revenues yet it complicates even further the tax system.

Italy

What are the main industries in which you operate?

Light-design solutions

What is the size of your enterprise in terms of number of employees?

15 employees

What is the annual turnover of your enterprise?

Ca. 800,000 euros

What policies currently in place are affecting your growth strategies?

Mainly that we can deduct expenses incurred for funding research and development plans – it is not a very big deal, but this has help us grow so far.

What financing mix has your company chosen during the start-up phase?

60% financed at debt.

Are you aware of any favourable tax schemes to support companies like yours?

Not much, really. I know that 10% of the regional tax on productive activities is deductible for personal income tax-determination purposes, for instance.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

No it was not.

Do you think that the level of capital raised by your company has been affected by the presence of such schemes?

No, it was not because I put it myself and that was it.

What role, if any, have special depreciation rates played on capital acquisition plans (e.g. machinery etc.)?

The only thing I can say is that they pushed us towards buying immovable property, and renting machinery and operating equipment.

Do you believe that special depreciation schemes have ever had an impact on the financial structure of your company? If so, how?

No, the financial structure was not affected.

Have favourable tax schemes affected your preferences between debt and equity?

They have affected my preferences (towards equity), but not changed reality!

Are you aware of tax incentives for venture capitalists and business angels who want to invest in an enterprise like yours?

No

If yes, have such incentives impacted the financial sustainability of your enterprise in a significant way?

Does not apply (follows from 12).

Have you ever considered locating in any other member state to benefit from government support for growing companies, or to benefit from special depreciation rates?

Not much about depreciation rates, but yes, I have several times wondered if I should not have moved to Germany to benefit from a wide array of favourable policies – from CIT to bureaucracy – but what held me back was family primarily, and of course the language.

Do you believe that differences in CIT across the EU affect the competitiveness of your enterprise? If so, how?

Of course I do! Especially in countries such as Britain, Benelux, Germany, or smaller new dynamic economies they just pay much less (even just in CIT terms), so that my company faces just considerably higher costs compared to them – something that clearly impacts your productivity in the wrong way.

Do you have any experience suggesting that cross-country differences in depreciation rates have an impact on the growth strategies pursued by enterprises?

No I do not, nor would I expect depreciation rates to be so important anyway.

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

The only thing that comes to my mind – but trust me, it is very annoying – is that if you are bigger, if you have *far* more opportunities to "get into an agreement" with tax authorities should there be any "mistake" in your tax-reporting files – in the sense that you have more liquidity to convince them with, basically.

Have you ever decided not to pursue growth plans in order to remain eligible for special depreciation rates?

No, not at all.

Do you believe that your sector would benefit from any (other) special depreciation rate? What should this and related policies address?

I just think depreciation rates should simply be lower for machinery.

What type of taxation policies would best ease the liquidity constraints the enterprises like yours face?

Just reduce taxation overall. The ones I hate the most (and I feel most other entrepreneurs also hate) are labour tax and the regional tax on productive activities, on top of too high personal-income tax, rather-high CIT, and a terrible attitude by tax authorities taking for granted that you are a tax evader.

Do you feel that the sector in which your company operates is subject to any particular favourable or unfavourable tax schemes?

No, not really.

If so, have these ever affected your investment decisions?

No (follows from 21).

Do you believe that your sector would benefit from any particular tax incentives or deductions?

As I said before, better depreciation rates for machinery would suffice.

Please provide an estimate of the time and monetary costs of tax compliance.

About a month at the beginning of the year. I pay my accountant something like 40,000 euros for that.

Do you think that the benefits of the policies you envisaged in Question 23 would outweigh the administration costs of managing them?

Yes, they would. Although one must be really cautious about the fact that not so many people can do the depreciation maths by themselves! (I also cannot, to cite an example!)

In your opinion, what should the top three priorities be for policies fostering R&D at the European level?

1) Provide grants in the first place; 2) provide them in every country; 3) if possible, subtract grants distribution from national administration (would be greatly appreciated!).

Do you have any policy recommendations to make on corporate income tax-related practices?

For Italy? I would still say the CIT rate is too high, but I would not want my country's policy-makers get me wrong and, the only time the might have the funds (and the willingness…) to reduce taxes, to think CIT reduction is a no. 1 priority…

Italy

What are the main industries in which you operate?

Architecture

What is the size of your enterprise in terms of number of employees?

2 employees

What is the annual turnover of your enterprise?

200,000 euros approximately

What policies currently in place are affecting your growth strategies?

None!

What financing mix has your company chosen during the start-up phase?

Some three-quarters of debt, the rest was put by the two of us.

Are you aware of any favourable tax schemes to support companies like yours?

I have to tell you I do not know of favourable tax schemes in Italy.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

No (follows from 6).

Do you think that the level of capital raised by your company has been affected by the presence of such schemes?

No (follows from 6).

What role, if any, have special depreciation rates played on capital acquisition plans (e.g. machinery etc.)?

Although important, they did not play significant roles such as being the most determining factor (or one of the most determining factors) behind decisions to buy/not buy capital.

Do you believe that special depreciation schemes have ever had an impact on the financial structure of your company? If so, how?

My point: no, the financial structure of the company has always been the same, and unaffected by this kind of things.

Have favourable tax schemes affected your preferences between debt and equity?

No, not at all. I have always been, and always will be, more in favour of equity over debt, only I did not have much money to do all what I wanted.

Are you aware of tax incentives for venture capitalists and business angels who want to invest in an enterprise like yours?

Needing angels: yes; knowing of any: no.

If yes, have such incentives impacted the financial sustainability of your enterprise in a significant way?

Does not apply (follows from 12).

Have you ever considered locating in any other member state to benefit from government support for growing companies, or to benefit from special depreciation rates?

Not (yet!).

Do you believe that differences in CIT across the EU affect the competitiveness of your enterprise? If so, how?

I think Italy in general is just less competitive compared to many other EU countries; my enterprise in particular is less competitive because it has to give more money away in tax – including CIT – instead of just reinvesting it on productive assets/projects.

Do you have any experience suggesting that cross-country differences in depreciation rates have an impact on the growth strategies pursued by enterprises?

No cross-country experiences!

Do you feel that, within your sector, large and small companies are subject to similar tax treatments? If there are any differences, what are their implications?

Yes, I think the tax treatment is pretty similar for both small and big companies in Italy. Terrible for everyone.

Have you ever decided not to pursue growth plans in order to remain eligible for special depreciation rates?

Not at all, I really want to grow and I could not care less about this kind of time-wasting considerations.

Do you believe that your sector would benefit from any (other) special depreciation rate? What should this and related policies address?

I would have many things to suggest here. One example would be to not distinguish too much between assets purchased new and those purchased used: we usually purchased them used because we do not need that much of brand-new technological accuracy, but we still depreciate the 100% in the first year, which, in my opinion, is ill-suited to both the current economic conditions and our particular business needs.

What type of taxation policies would best ease the liquidity constraints the enterprises like yours face?

Reduce *all* taxes + eliminate/strongly reduce labour tax (labour is crucial for growth, but they do not really seem to get this…).

Do you feel that the sector in which your company operates is subject to any particular favourable or unfavourable tax schemes?

Nothing specific to the sector.

If so, have these ever affected your investment decisions?

Does not apply (follows from 21).

Do you believe that your sector would benefit from any particular tax incentives or deductions?

For hiring new people – that would help. And also for training of employees (I mean, we are 2 people now, but I know it from past experience).

Please provide an estimate of the time and monetary costs of tax compliance.

10 non-full days in a year. I pay like 4,000 or 5,000 euros in a year more or less.

Do you think that the benefits of the policies you envisaged in Question 23 would outweigh the administration costs of managing them?

It would be absolutely worth it!

In your opinion, what should the top three priorities be for policies fostering R&D at the European level?

1) they should just let companies be: intervene less, tax less – which translates into possibly less money allocated to grants, and more to cutting taxes and providing R&D firms with tax credits and incentives; 2) increase the public R&D budget of the Union; 3) tie member States to higher targets of public R&D expenditure (in GDP terms).

Do you have any policy recommendations to make on corporate income tax-related practices?

Reduce corporate income tax, period.

FINLAND

What are the main industries in which you operate?

Software services and development, programming services

What is the size of your enterprise in terms of number of employees?

14 in Finland, 2 in Sweden and 2 in the USA

What is the annual turnover of your enterprise?

EUR 1.8 million

What policies currently in place are affecting your growth strategies?

No tax policies directly influencing our business. We are happy about the special depreciation policy, training discounts, and any other tax incentives.

Are you aware of any favourable tax schemes to support companies like yours?

The same as above.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

No

What role, if any, have special depreciation rates played on capital acquisition plans (e.g. machinery etc.)?

As a software company, there's no heavy machinery. Special depreciation rates have not played a role.

Do you believe that special depreciation schemes have ever had an impact on the financial structure of your company? If so, how?

Some obvious effects on financial results and profit structures, so there is a positive effect.

Have you ever considered relocating your company to any other member state to benefit from special depreciation rates elsewhere?

No.

Do you have any experience suggesting that cross country differences in depreciation rates have an impact on the growth strategies pursued by enterprises?

In heavier industry, these will have an effect. However, in lighter industries such as software and IT, this is not as great.

Do you feel that, within your sector, large and small companies are subject to similar depreciation rates? If there are any differences, how does this affect small enterprises' competitiveness versus large enterprises'?

No large differences.

[For small enterprises] Have you ever decided not to pursue growth plans in order to remain eligible for special depreciation rates?

No. If there have been changes to growth plans, these have only been positive and we have decided to accelerate our growth, rather than decelerate it.

Do you have any experience suggesting that industry sector choice can be affected by special depreciation rates?

One hears rumours sometimes, but I would not think this is the case.

Do you believe that your sector would benefit from any (other) special depreciation rates? What should this and related policies address?

Obviously there could be more incentives in place to improve the business environment. The special depreciation rates have some limits which will be easily met, so perhaps lifting these limits could be an option to boost SMEs.

Could you provide an estimate of the time and monetary costs of tax compliance?

EUR 10.000 approximately

Do you think that the benefits of the favourable policies you envisaged (question 14) would increase administration costs by affecting legal complexity?

Likely to have a small effect.

In your opinion, what should the top three priorities be for investment and research enhancing policies at the European level?

Stronger tax incentives to boost private venture capital (e.g. TEKES risk funding is not sufficient at present). (2) Close to market innovation cooperation and research collaboration between SMEs, also internationally. This is very challenging at present, although some cooperation exists between Finland and Sweden. (3) Innovation policy should be such that it would support SMEs.

In your opinion, what should the top three priorities be for policies fostering R&D at the European level?

No answer

Do you have any policy recommendations to make on corporate income tax-related practices?

Venture capital (private). (2) A change of trajectory at the EU level, similar to that of the Lisbon strategy, that public procurement would favour more innovative approaches. (3) Quantitative easing measures should also influence SMEs - so far we have not received anything or noticed the impact from these measures.

FINLAND

What are the main industries in which you operate?

Clothes manufacturing, design and sales

What is the size of your enterprise in terms of number of employees?

12

What is the annual turnover of your enterprise?

EUR 15 million

What policies currently in place are affecting your growth strategies?

Not directly. However, they do indirectly through special tax rates, such as the double depreciation rates in the 2014/15 tax years and a new tax discount on the employment of additional personnel.

Are you aware of any favourable tax schemes to support companies like yours?

The tax reforms by the current government taking effect in 2014 will have a favourable effect. The corporate income tax base will fall to 20%, which compares well with Estonia's 21%. Furthermore, the additional special, double depreciation rates will be beneficial. However, the investments by enterprises in the current economic climate are very scarce, so the effect will be limited.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

The company was established in the 1970s. At that time, I would imagine that they had an effect. The policies at the time tried to strengthen the development of municipalities, and the incentives that must have been in place in the 70's in the Keitele region must have helped the enterprise take root.

What role, if any, have special depreciation rates played on capital acquisition plans (e.g. machinery etc.)?

No direct effect, but the decision-making process will probably be faster and more straight-forward if there are favourable rates in place, making the decision simple and more obvious.

Do you believe that special depreciation schemes have ever had an impact on the financial structure of your company? If so, how?

I have no experience, it is obvious that special rates will improve the profitability and liquidity of the business - all the income of the company will not be taken away in tax.

Have you ever considered relocating your company to any other member state to benefit from special depreciation rates elsewhere?

Estonia's favourable tax base of 21% vs. Finland's higher tax base is an excellent incentive for companies to relocate across the bay to Estonia. MASI also considered this and had a sister company in Estonia for a very short period, but it was discontinued in 2012.

Do you have any experience suggesting that cross country differences in depreciation rates have an impact on the growth strategies pursued by enterprises?

There is a direct effect, as taxes are very strong incentives for companies. If a small company is going to cross a threshold into becoming a large enterprise (>250 employees) and hence lose Finnvera and other financial support intended for SMEs of under 250 employees, then the decision may be taken to limit growth strategies. These kinds of thresholds do not favour labour-intensive enterprises, where employee numbers are high (e.g. manufacturing). This may have a bad impact on the economy, which wants to have high employment rates.

Do you feel that, within your sector, large and small companies are subject to similar depreciation rates? If there are any differences, how does this affect small enterprises' competitiveness versus large enterprises'?

They are quite the same. At the EU level, there is harmonisation taking place. The special depreciation rates date back to approximately the 1960s, and favour large capital investment that will have a long-term effect. When this system is discontinued, the system will emphasise the present more.

[For small enterprises] Have you ever decided not to pursue growth plans in order to remain eligible for special depreciation rates?

The threshold of 250 employees impacted our plans to expand negatively, and we decided not to do so.

Do you have any experience suggesting that industry sector choice can be affected by special depreciation rates?

Not really. The entrepreneur will have their unique mix of reasons to establish a business. These may or may not include tax-related reasons.

Do you believe that your sector would benefit from any (other) special depreciation rates? What should this and related policies address?

Not greatly, but when the company is making large capital investments, the timing of special depreciation rates and when they are available will have an influence in whether these investments will be favourable or not.

Could you provide an estimate of the time and monetary costs of tax compliance?

No estimate.

Do you think that the benefits of the favourable policies you envisaged (question 14) would increase administration costs by affecting legal complexity?

I do not believe so.

In your opinion, what should the top three priorities be for investment and research enhancing policies at the European level?

The tax base could generally be such that would support employment and growth. (2) A labour-intensive business should have more benefits available, as it supports employment in the economy. (3) Individuals should also have more money in hand after taxes, as this would enable higher consumption and hence improve the state of SMEs as well.

In your opinion, what should the top three priorities be for policies fostering R&D at the European level?

No answer

Do you have any policy recommendations to make on corporate income tax-related practices?

Same as above.

FINLAND

What are the main industries in which you operate?

Retail of pet accessories

What is the size of your enterprise in terms of number of employees?

330 permanent employees, 450 in total including part-time and temporary employees

What is the annual turnover of your enterprise?

EUR 65 million

What policies currently in place are affecting your growth strategies?

Not aware of any tax policies that would support our business.

Are you aware of any favourable tax schemes to support companies like yours?

Not aware of any tax policies that would support our business.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

I do not think so, but I have only been with the company for 3.5 years, so I cannot provide a conclusive answer to this.

What role, if any, have special depreciation rates played on capital acquisition plans (e.g. machinery etc.)?

The nature of our business is such that tax schemes and such do not really influence capital acquisition plans, as very little machinery is needed in the retail business.

Do you believe that special depreciation schemes have ever had an impact on the financial structure of your company? If so, how?

No

Have you ever considered relocating your company to any other member state to benefit from special depreciation rates elsewhere?

No. The retail business is such that you will operate in the local area that you have decided to operate in, and you're very much tied to that area.

Do you have any experience suggesting that cross country differences in depreciation rates have an impact on the growth strategies pursued by enterprises?

Not aware.

Do you feel that, within your sector, large and small companies are subject to similar depreciation rates? If there are any differences, how does this affect small enterprises' competitiveness versus large enterprises'?

I will not say yes or no, as I do not know.

[For small enterprises] Have you ever decided not to pursue growth plans in order to remain eligible for special depreciation rates?

I will not say yes or no, as I do not know.

Do you have any experience suggesting that industry sector choice can be affected by special depreciation rates?

No experience of this.

Do you believe that your sector would benefit from any (other) special depreciation rates? What should this and related policies address?

Again, as stated earlier, the retail sector benefits from these very little, so this is not highly relevant.

Could you provide an estimate of the time and monetary costs of tax compliance?

Approximately EUR 5000 per year. The strategic decisions and planning are mainly made by the CFO, then approved by the Board. External consultants are also used.

Do you think that the benefits of the favourable policies you envisaged (question 14) would increase administration costs by affecting legal complexity?

Not applicable.

In your opinion, what should the top three priorities be for investment and research enhancing policies at the European level?

On special tax incentives and depreciation rates, there should be a minimal requirement for documentation. When the bureaucracy gets too high, too much time and money is wasted on the documentation in order to enforce these tax benefits.

In your opinion, what should the top three priorities be for policies fostering R&D at the European level?

No answer

Do you have any policy recommendations to make on corporate income tax-related practices?

On the European level, one issue that has been very visible in the press lately has been that of transfer pricing and how individual countries look after their own interests. If transfer pricing is not predictable, it becomes very problematic for firms. The strict supervision of own best interest by national tax authorities has to be controlled somehow.

NETHERLANDS

What are the main industries in which you operate?

Event industry

What is the size of your enterprise in terms of number of employees?

16.

What is the annual turnover of your enterprise?

I don't want to tell you exactly, but it is somewhere between 100.000 and 500.000 euros

What policies currently in place are affecting your growth strategies?

With this company I don't really take it into account. With other companies of mine I do.

Are you aware of any favourable tax schemes to support companies like yours?

Yes, I am. But I am not really familiar with them. My accountant knows about it a lot, and he just takes care of it.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

Makes it easier to start an enterprise. It gives you some of the benefits that you won't have if you work for a boss.

What role, if any, have special depreciation rates played on capital acquisition plans (e.g. machinery etc.)?

We just buy something when we need it, don't take anything in account with that.

Do you believe that special depreciation schemes have ever had an impact on the financial structure of your company? If so, how?

No

Have you ever considered relocating your company to any other member state to benefit from special depreciation rates elsewhere?

No

Do you have any experience suggesting that cross country differences in depreciation rates have an impact on the growth strategies pursued by enterprises?

Our customers are mostly in the Netherlands, I have a few clients abroad. But these are not the type of conversations I have with them. I do not have any insight in this matter.

Do you feel that, within your sector, large and small companies are subject to similar depreciation rates? If there are any differences, how does this affect small enterprises' competitiveness versus large enterprises'?

No

[For small enterprises] Have you ever decided not to pursue growth plans in order to remain eligible for special depreciation rates?

No, we operate in a market with a couple really small enterprises. And a couple really big ones. The differences between those are huge, and so are the type of investments they can make. But it makes the small companies much easier to be flexible on the market, I think it is a benefit to be small in this market.

Do you have any experience suggesting that industry sector choice can be affected by special depreciation rates?

No never.

Do you believe that your sector would benefit from any (other) special depreciation rates? What should this and related policies address?

I would like to see the Werkkostenregeling disappear. It has a huge influence on our business, many business events are now not eligible to be reduced from their taxes. So it makes them more expensive, which makes it less interesting for companies to spend money on business events.

Could you provide an estimate of the time and monetary costs of tax compliance?

One day every three months, four days a year. So that's about 20 hours. About 4000 euros a year.

Do you think that the benefits of the favourable policies you envisaged (question 14) would increase administration costs by affecting legal complexity?

No answer

In your opinion, what should the top three priorities be for investment and research enhancing policies at the European level?

It should be based on innovation, and measurable. Those are my two priorities

In your opinion, what should the top three priorities be for policies fostering R&D at the European level?

Honestly, I have no idea about such a matters. I have a business, and taxes is not something I think about a lot. That's not my job.

Do you have any policy recommendations to make on corporate income tax-related practices?

Like I said, I don't know a lot about this. Obviously, we do pay too much tax. And it would be good if especially starting enterprises would have more benefits.

NETHERLANDS

What are the main industries in which you operate?

Retail

What is the size of your enterprise in terms of number of employees?

16.

What is the annual turnover of your enterprise?

1 million

What policies currently in place are affecting your growth strategies?

We invested ourselves, and we found a private investor and we also have a loan at a bank.

Are you aware of any favourable tax schemes to support companies like yours?

Yes, of a couple I am. But I am not able to tell you which exactly.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

It is probably connected in some way. But it is not determinative.

What role, if any, have special depreciation rates played on capital acquisition plans (e.g. machinery etc.)?

No

Do you believe that special depreciation schemes have ever had an impact on the financial structure of your company? If so, how?

Yes, I know of their existence

Have you ever considered relocating your company to any other member state to benefit from special depreciation rates elsewhere?

No, I don’t know about that. I am especially the founder and I interested the investor. And I don't know whether this is decisive for an investor.

Do you have any experience suggesting that cross country differences in depreciation rates have an impact on the growth strategies pursued by enterprises?

No, not in the structure.

Do you feel that, within your sector, large and small companies are subject to similar depreciation rates? If there are any differences, how does this affect small enterprises' competitiveness versus large enterprises'?

Shortly, yes. In the early beginning we were considering whether we should settle in the Netherlands or somewhere else. In the end, we decided to keep it simple. To make sure that everything works. That decision was independent from any tax.

[For small enterprises] Have you ever decided not to pursue growth plans in order to remain eligible for special depreciation rates?

I don't know that

Do you have any experience suggesting that industry sector choice can be affected by special depreciation rates?

No I don't have that impression, I don't know what the differences are. They probably exist. But that's not something we think about a lot. Those things get important when you pay a lot of tax. At this point, we are mostly trying to ensure we have business at all. After, you can focus on not paying too much tax. Otherwise, you are only concerned with not preparation, and you would not be able to get to work. It is important to first start working, after you can look whether it is necessary to deal with it (taxes) in a certain way.

Do you believe that your sector would benefit from any (other) special depreciation rates? What should this and related policies address?

Everything is still quite simply for us, this is not the type of policy we are working on. I would not know.

Could you provide an estimate of the time and monetary costs of tax compliance?

Well, we are also in technique. And if you look at that, there are definitely a couple of preferable schemes there.

Do you think that the benefits of the favourable policies you envisaged (question 14) would increase administration costs by affecting legal complexity?

Yes, you might make investments more easily

In your opinion, what should the top three priorities be for investment and research enhancing policies at the European level?

Of course you would benefit from incentives and deductions (mentions no particular one)

In your opinion, what should the top three priorities be for policies fostering R&D at the European level?

We outsource that part, and it costs us tens of thousands of Euros a year.

Do you have any policy recommendations to make on corporate income tax-related practices?

Yes, generally.

NETHERLANDS

What are the main industries in which you operate?

Corporate services, charities, NGOs, not for profit sector

What is the size of your enterprise in terms of number of employees?

350

What is the annual turnover of your enterprise?

Between 5-10 million

What policies currently in place are affecting your growth strategies?

As an entrepreneur, it is obviously really nice for me that the CIT went down in the Netherlands. As an European entrepreneur, in the years that we were active in more countries, it was nice that there was a convergence of CIT across countries. It is all around 20-30 percent. When I started, in the Netherlands CIT was still over 35 percent. And there were huge differences in Europe, the Netherlands used to be in the highest category, now we are in the lower middle category. As an entrepreneur it is not really important how much you need to pay, obviously as less as possible, but whether its 35 or 25 is not that important. It is just really annoying if it differs a lot, the biggest companies are constantly working on optimisation, and therefore barely have to pay taxes. As SME entrepreneur i find it very difficult to put a lot of effort in these kind of things, or change my licenses to Malta for instance. Advisors try to convince me of that. As an SME, I find this inhibitory and distracting. As an entrepreneur, I appreciate low rates and rates that are transparent and egalitarian - convergence. I also appreciate, simplicity of rates, and policies between countries based on depreciation systems/rules. Right now I am driving a hybrid car, because its fiscally attractive. It saves me loads of money, the Netherlands helps me a lot with that. But if I buy this car in Germany it is completely different, as an internationally

operating entrepreneur these kind of differences make things complicated. I just want to be an entrepreneur, I don't mind paying taxes. But I would like one rate, which is the same everywhere. I don't to put energy in these differences. When I started in Germany, I got 25 000 euros from a local government there to start a company, it did not influence whether I started. Because I only heard it after I decided to start. Then I started in a different Bundesland, so I got 25 000 euros again. It is nice to get the money, but as an entrepreneur, it makes me realize that I probably miss these kind of things often. As an entrepreneur you don't really think about taxes and subsidies.

Are you aware of any favourable tax schemes to support companies like yours?

I am aware of the environmental subsidies, like with the car. I am aware of subsidies for international expansion. I am aware of subsidies for innovation. I have used these for software innovations. Generally I am aware of some and I use them. But I don't enjoy it, I'd rather have all of them abolished.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

Definitely not.

What role, if any, have special depreciation rates played on capital acquisition plans (e.g. machinery etc.)?

None, we make use of these kind of depreciation rates. Especially during the financial crisis, to decrease the pressure of CIT by profiting from liquidity advantages. As entrepreneur, you don't suddenly buy a machine or something, today instead of tomorrow just because you can depreciate it. You buy one if you need it. Maybe, you do it in December so you can put it under that same year. It doesn't make you happy these things.

Do you believe that special depreciation schemes have ever had an impact on the financial structure of your company? If so, how?

Not at all.

Have you ever considered relocating your company to any other member state to benefit from special depreciation rates elsewhere?

Yes, partly, I have been thinking about a holding on Malta or Cyprus. I have discussed this with an advisor. So yes, I have considered it. I did not do it. First, because I would have been obliged to have a yearly shareholders meeting there. Second, I find it a far fetched spurious construction. Which got very close to tax evasion. And if i would have had to explain this to my clients and family, i would feel ashamed. It is like a scam. Even though my advisor, who cost 400 euro an hour, told me every big company, like Shell, does this. They have entire departments to figure this stuff out. I decided to keep life simple, and not spend energy on this

Do you have any experience suggesting that cross country differences in depreciation rates have an impact on the growth strategies pursued by enterprises?

I do not have that experience. And as a SME entrepreneur, I would say, that other SME entrepreneurs who make less than 10 million, don't base their enterprises on these things. I think this would be different for the really big companies, because it is about bigger numbers.

Do you feel that, within your sector, large and small companies are subject to similar depreciation rates? If there are any differences, how does this affect small enterprises' competitiveness versus large enterprises'?

In my sector, if I would define this as my enterprise and the competition. Then yes. For other sectors it Is probably different.

[For small enterprises] Have you ever decided not to pursue growth plans in order to remain eligible for special depreciation rates?

does not apply

Do you have any experience suggesting that industry sector choice can be affected by special depreciation rates?

No I do not have that experience.

Do you believe that your sector would benefit from any (other) special depreciation rates? What should this and related policies address?

My sector is very labour intensive, its all about the people that work for us. We are working really hard on using tablets and innovating apps for tablets. So we can share the story of charities by using iPads. It improves our service, and we completely change the sector by investing in this. If the government would say, every investment in technological hardware/iPads can be depreciated by using special depreciation schemes; that would be nice. It would make things easier for us. And i think it would stimulate others too. Special depreciation rates, are especially useful for enterprises that make profit. So the pioneers, that have small enterprises do not have huge profits. Would not profit from this much. Second, it also influences your balance, as a small enterprise, you increase your costs but your solvency decreases. A special depreciation, is nice for a experienced enterprise, and it may influence decision making a little bit. It gives you a bit of tax benefit. But for small entrepreneurs, it has disadvantages because it does not only shorten your balance, but also decreases your assets. Which is important to the bank. Your equity decreases.

Could you provide an estimate of the time and monetary costs of tax compliance?

A couple of days a year, and around 10 000 euro. We decreased the costs in the crisis.

Do you think that the benefits of the favourable policies you envisaged (question 14) would increase administration costs by affecting legal complexity?

I find it hard to estimate the legal complexity. But if it would be as easy as: you can depreciate all tablets at the same time. Then it would be really easy, if I can depreciate every invoice that says 'tablet'. But in most cases there are a lot of rules that are there in order to try and prevent fraud.

In your opinion, what should the top three priorities be for investment and research enhancing policies at the European level?

I would love to be able to purchase knowledge for a low price. If universities and research institutes, if the knowledge infrastructure that is under the influence of EU and governments, if their knowledge would be available for me. Maybe by giving me a voucher for 1 or 2 percent of my turnover; that I can then spend on knowledge at these institutes. I pay a lot of taxes, a lot of VAT. If I would get a voucher worth of a certain percentage of turnover, wages or VAT. And use this voucher to purchase innovation. I would really appreciate that. Then you stimulate me and me colleagues to actually spend money on innovation, because we have the voucher. And, if I would be given an offer of say 100000 euros, I would be inclined to spend a little bit more. A rule, where the government says I am giving you a low cost way to invest in innovation. It is very simple. I would also really like, if I as an entrepreneur, would be invited to places where I would meet other entrepreneurs and people with knowledge. Like conferences and lectures. That will stimulate me to encounter people with knowledge. Scientists are constantly being motivated to share knowledge with other scientists and the pharmaceutical industry. As an entrepreneur, I am quite lonely in the top of my company. I would have to organize all the meetings myself. But I don't always meet people with knowledge and the power to innovate. If the EU would invite 10 entrepreneurs from my sector, or the top three of EU countries. And would say you created a lot of jobs in Europe. In total, 25000 people have worked for me. So we created loads of jobs. If the EU would say you are a big player in the sector, we invite all the other big ones. And we invite 5 professors and IT specialists. And then create an innovation. I would love that. That might cost me 10 or 20 thousand euros, but it would give me a lot of energy. In the Netherlands, we created a very innovative product with all our competitors, no one knows about this abroad. We are the only one who have this, but I would not mind sharing this!

In your opinion, what should the top three priorities be for policies fostering R&D at the European level?

Connecting entrepreneurs, to scientists. Connections; relations, marketplaces, internet forums; lunches. I am convinced that it is not about money, because people that get subsidies were going to do what they had planned anyway. Especially SMEs, they want to innovate because they are entrepreneurs, but they are busy so they don't have random meetings with interesting people. Big companies go to conferences, they do a lot of networking. Entrepreneurs network to find new clients. They don't have the discipline to go to conferences to learn. But if you bring them in contact with knowledge, they will find the funding, they have the money. They can develop products and find clients. When companies are older, innovation gets less attention, because they are so busy. Governments would help themselves a lot by connecting and inspiring entrepreneurs and thus start innovating more. Entrepreneurs like innovating.

Do you have any policy recommendations to make on corporate income tax-related practices?

Enhancing liquidity, by lowering the pace of tax collecting. So a super simple way for governments to increase the liquidity of enterprises, the costs for the government would be really low. This is what they did with VAT in the Netherlands as well. If you have an enterprise, you pay your VAT one month after the end of term. This was great, all entrepreneurs agree. It was the best measure. If they would do the same for payroll tax and VAT, that would be good. Also, having cash is real, so if the government would be able to make it easier to have more cash. more real money, entrepreneurs would be more inclined to innovate and invest. Especially now that the interest rate is so low. Rules have to be transparent, easy and simple. If it is easy, and they have money, entrepreneurs will invest.

GERMANY

What are the main industries in which you operate?

Accountancy.

What is the size of your enterprise in terms of number of employees?

95.

What is the annual turnover of your enterprise?

12 million

What policies currently in place are affecting your growth strategies?

Especially foreign policy, because we now have offices in Germany, England, the Netherlands and the Ukraine. So it is especially the international CIT tax, we need to find out how to deal with that.

Are you aware of any favourable tax schemes to support companies like yours?

Yes, that's something we always research.

Do you think that the decision of establishing your enterprise has been affected by the presence of such schemes?

No

What role, if any, have special depreciation rates played on capital acquisition plans (e.g. machinery etc.)?

No, no role. No, we don't work with that.

Do you believe that special depreciation schemes have ever had an impact on the financial structure of your company? If so, how?

No, because we didn't do it. But it can have, if you start capitalising and then when you suddenly need to depreciate, people often forget it. It is nice one year, but then the depreciations increase.

Have you ever considered relocating your company to any other member state to benefit from special depreciation rates elsewhere?

No. Because, as internet, in online accounting. You need to be reliable, if you perform all kinds of fiscal tricks. It becomes very non transparent. Then you will stop having accounting offices as your clients.

Do you have any experience suggesting that cross country differences in depreciation rates have an impact on the growth strategies pursued by enterprises?

No. I am in the internet business right, so you just stay in one country. And you don't move from country to country. And the Netherlands is quite preferable.

Do you feel that, within your sector, large and small companies are subject to similar depreciation rates? If there are any differences, how does this affect small enterprises' competitiveness versus large enterprises'?

No, I think most people don't do any of this. There are a lot of people, listed enterprises, they use a lot of capitalising and then depreciations. It depends on what kind of company you are. Listed enterprises are more prone to do that, that's why they can hire people easier and then throw them out as soon as they want. That influences the competitiveness of smaller companies, because they cannot capitalise as much as the larger ones. They are able to play with these things, especially the Americans.

[For small enterprises] Have you ever decided not to pursue growth plans in order to remain eligible for special depreciation rates?

does not apply

Do you have any experience suggesting that industry sector choice can be affected by special depreciation rates?

No, I don't have that experience. But I am only talking about software and internet, not about shipyards or something like that.

Do you believe that your sector would benefit from any (other) special depreciation rates? What should this and related policies address?

I think it wouldn't make a difference for the small companies. It does for the big companies, they have entire fiscal team, and they are able to do way more with those things. As a small company you cannot do that.

Could you provide an estimate of the time and monetary costs of tax compliance?

They used to be higher, now that we are part of Wolters & Kluwer, it has become less. But, we used to be very busy with that, income tax, CIT, VAT, etcetera. Relatively, as a small enterprise, you spend more time and money on this. Than a big one. I think there is at least one person, who spends at least three days a month on this. That's about 36.000 euros a month.

Do you think that the benefits of the favourable policies you envisaged (question 14) would increase administration costs by affecting legal complexity?

No answer

In your opinion, what should the top three priorities be for investment and research enhancing policies at the European level?

They are trying to do it, that you need to pay less taxes. I forgot what it is called, but you can put the hours you have used in a specific fund and get it back. What I think is important, that there needs to be clarity on less VAT, but especially CIT. CIT is a lot of hassle, because a lot of start-ups don't profit from CIT because they are not making any profit. So you need to find something that also benefits these small companies. I would look for something along the lines of VAT instead of CIT. Because you only pay CIT if you make profit. You need to focus on VAT and payroll tax, so that if you for instance hire new people you can pay less taxes, to stimulate everything.

In your opinion, what should the top three priorities be for policies fostering R&D at the European level?

That it becomes easier to hire young people, and then give them the chance to experiment. We are creating an entirely new product, and that's with young people. No one can be older than 34. And if you can stimulate this, one is doing much better.

Do you have any policy recommendations to make on corporate income tax-related practices?

No, I would really focus on start ups and starting employees. By creating a favourable rate for them, so that people are more prone to start. And, what I would do, with older people. In England for instance, when you are 65, you need to stop working. But when you become 62, you start working less. And in the last year, you stop working but you spend all your time guiding young people. It's funny to see, we should that here too. Like a mentor, and then there is a more preferable tax scheme for these people.

Luxemburg

What are the main industries in which you operate?

Cements

What is the size of your enterprise in terms of number of employees?

378 employees

What is the annual turnover of your enterprise?

12 million euros

What financing mix (debt versus equity) has your company chosen during the start-up phase?

The mix we used for the start-up phase was a 0.62 debt-to-equity ratio (debt around 38%).

Are you aware of any favourable tax schemes to support companies like yours?

Yes, for instance we use the fiscal-unity concept to consolidate everything and pay less. You can also deduct investor money as beneficial participation into the company.

Do you believe that your sector would benefit from any particular tax incentives or deductions?

I think in particular that the net worth tax, although pretty low as it is right now, is not a good idea to keep: it creates an incentive (and it has, for us) to invest less in assets and keep more (but to be honest a bit too much) liquidity. I think it really should be removed.

Please provide an estimate and an assessment of the time and monetary costs of tax compliance.

20 days at the very most, money not more than € 10,000–15,000.

Do you think that the benefits of the favourable policies you envisaged in Question 6 would outweigh the administration costs of managing them?

Well, not at all, abolishing a legislative provision without substituting it with anything else is obviously not going to increase your administrative hassles.

In your opinion, what policies could be put in place to lower the costs of administering tax payments?

I think a priority should be consolidating corporate-tax payments into one for each single year: that would simplify everything by a lot, and all in one move!

Do you feel that EU legislation has increased significantly the costs of tax compliance? If so, do you believe that its benefits outweigh the costs?

Not for us in Luxembourg for sure, I don't know for other countries. But other things being the same, I think the fact that we have the EU more probably reduce administrative costs, including tax compliance – after all you can always relocate somewhere else in the Union, if tax compliance is so costly in your home country, no?

In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?

As first priority, I think that government revenues from corporate-income tax should be moved somewhere else, for instance all on personal tax: taxing corporate income and profits is an incentive not to grow! Secondly, I think there should be only one, single, shared tax administration, with taxes all going to Brussels and being managed from there. At the third level of priority, then, I think there should be more of a shared effort to increase benefits and tax incentives to invest in assets.

Do you have any policy recommendations to make on corporate income tax-related practices?

No, not really. Again, I would just hope that corporate taxation is moved as a burden on other taxable sources.

Luxemburg (SME)

What are the main industries in which you operate?

Lighting and light design

What is the size of your enterprise in terms of number of employees?

174 employees

What is the annual turnover of your enterprise?

7 million euros

What financing mix (debt versus equity) has your company chosen during the start-up phase?

We (I) relied entirely on debt in the sense that no equity contribution was received, or sought for, beyond the initial capital I put in the firm.

Are you aware of any favourable tax schemes to support companies like yours?

Yes, for instance I know that if new investors become shareholders of your company, and you keep as liquidity at least one-tenth of the money received, you enjoy a full exemption from taxation for that money.

Do you believe that your sector would benefit from any particular tax incentives or deductions?

I think the amount of tax the State requires of you in terms especially of taxation on company income should be lower if your company is really not that big. I think this would be more easily measured by just counting the number of employees – you can't lie on that!

Please provide an estimate and an assessment of the time and monetary costs of tax compliance.

To be very accurate, I would say it takes my company as a whole a total of 8–10 days to complete tax compliance-related procedures, while I feel confident to say it does not drain more than around, say, € 20,000 yearly from our liquidity resources.

Do you think that the benefits of the favourable policies you envisaged in Question 6 would outweigh the administration costs of managing them?

No, not at all actually. Yes basically as I said, not only you can't lie if the measure considered by the State's tax-administration officers is the number of employees (and not the turnover, for instance), but there is also no relevant addition to your original administration costs: you simply have to pay less.

In your opinion, what policies could be put in place to lower the costs of administering tax payments?

I think the biggest "cost" is actually the fact that you have to make four (four, Jesus!) advance payments of business taxation every year, and above all the fact that these payments are even advanced! I still really do not understand the reason behind this policy choice, but I really think that if one normal and non-advanced payments was envisaged in a year, liquidity available would increase by a lot, and you know, having less liquidity is definitely a cost!

Do you feel that EU legislation has increased significantly the costs of tax compliance? If so, do you believe that its benefits outweigh the costs?

EU legislation? I think it really doesn't matter. No, I don't think the EU has had any impact on my and on other firms' tax-compliance costs with its policies.

In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?

1) have the same policies and make sure we (as Luxembourg) are not flooded with dirty capitals fleeing into the country; 2) make sure it is administered in the same way throughout the Union and with the same timing(s); 3) abolish advanced payments!

Do you have any policy recommendations to make on corporate income tax-related practices?

As I said before, just think of reducing the amount of corporate tax levied on smaller enterprises (I don't know, let's say 200 employees or less).

Slovenia

What are the main industries in which you operate?

Light design

What is the size of your enterprise in terms of number of employees?

20 employees

What is the annual turnover of your enterprise?

1.8 million euros

What financing mix (debt versus equity) has your company chosen during the start-up phase?

Only debt.

Are you aware of any favourable tax schemes to support companies like yours?

Usually, you can deduct the value added tax you pay as a customer and not have it pay when you sell to your customers. That is all I know.

Do you believe that your sector would benefit from any particular tax incentives or deductions?

Yes of course: as I have only been using debt as a source of financing, a good example would be to exempt interests from taxation, or deducting them from the base of corporate income.

Please provide an estimate and an assessment of the time and monetary costs of tax compliance.

Around 10 days. As for the cost, all things considered it may well take you away some 3,000-4,000 euros in a year.

Do you think that the benefits of the favourable policies you envisaged in Question 6 would outweigh the administration costs of managing them?

Yes definitely.

In your view, what policies could be put in place to lower the costs of administering tax payments?

Definitely reducing the number of different taxes so that everything is easier and quicker to understand, then I would also unite all payment in one instalment, and avoid any kind of advance payment.

Do you feel that EU legislation has increased significantly the costs of tax compliance? If so, do believe that its benefits outweigh the costs?

Honestly I think that if there are any tax-compliance costs in Slovenia, they are created by the government's legislation, not by the European Union…

In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?

1) reduce it, 2) have a (or a set of) common rate, 3) allow for more tax deductions, allowances, reliefs, and credits for smaller firms.

Do you have any policy recommendations to make on corporate income tax-related practices?

None, I am actually satisfied by the fact that the government will have lowered corporate income tax from 20% to 15% by 2015.

Slovenia

What are the main industries in which you operate?

Light and interior design

What is the size of your enterprise in terms of number of employees?

15 employees

What is the annual turnover of your enterprise?

1,470,000 euros

What financing mix (debt versus equity) has your company chosen during the start-up phase?

Roughly two-thirds debt and one-third equity.

Are you aware of any favourable tax schemes to support companies like yours?

No honestly.

Do you believe that your sector would benefit from any particular tax incentives or deductions?

Of course it would! I am a big ignorant on the subject, but as an entrepreneur I would definitely appreciate a deduction of machinery purchases, or other operating expenses such as paying for your employees' benefits and such.

Please provide an estimate and an assessment of the time and monetary costs of tax compliance.

48 full hours of work more or less, costs could amount for 2,000 euros for all I know.

Do you think that the benefits of the favourable policies you envisaged in Question 6 would outweigh the administration costs of managing them?

They would indeed create some administration costs, but I seriously do not believe benefits would not outweigh them.

In your view, what policies could be put in place to lower the costs of administering tax payments?

Simplification, simplification, simplification.

Do you feel that EU legislation has increased significantly the costs of tax compliance? If so, do believe that its benefits outweigh the costs?

No I do not.

In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?

1) provide for a common framework of deductions geared especially at categories of firms that have faced difficulties in these recent crisis years: small illiquid firms, firms that have incurred significant (and usually unsustainable) debt, 2) reduce interest rates, 3) oblige banks to open more credit to firms no matter their size.

Do you have any policy recommendations to make on corporate income tax-related practices?

Reduce it homogeneously – without exaggerating.

<u>Slovenia</u>

What are the main industries in which you operate?

Editing

What is the size of your enterprise in terms of number of employees?

24 employees

What is the annual turnover of your enterprise?

1.6 million euros

What financing mix (debt versus equity) has your company chosen during the start-up phase?

80% debt

Are you aware of any favourable tax schemes to support companies like yours?

All I know is that you can deduct the VAT you pay for your business purchases and only report to tax authorities the difference between what you have paid and what your customers pay.

Do you believe that your sector would benefit from any particular tax incentives or deductions?

Deducting purchases of machinery would be essential.

Please provide an estimate and an assessment of the time and monetary costs of tax compliance.

5 full days. No real big cost.

Do you think that the benefits of the favourable policies you envisaged in Question 6 would outweigh the administration costs of managing them?

I am 100% sure.

In your view, what policies could be put in place to lower the costs of administering tax payments?

Using more the Internet and technology to reduce the impact of bureaucracy, and simplify tax-administration provisions.

Do you feel that EU legislation has increased significantly the costs of tax compliance? If so, do believe that its benefits outweigh the costs?

I do not think so!

In your opinion, what should the top three priorities be in the area of corporate income taxation at the European level?

Firstly, I would increase corporate income taxation slightly for very big firms – they really do need to contribute more. Secondly, I would help/force financial institutions to open easier credit lines. Thirdly, I would adopt common initiatives to make the use of equity (relative to that of debt) easier and more immediate.

Do you have any policy recommendations to make on corporate income tax-related practices?

I am actually fine with the legal framework provided in Slovenia for CIT I have to say.

18 TAX ADVISERS SURVEY RESULTS

This section presents the full results of the online survey of tax advisers carried out in 2013 and 2014. The structure of the analysis follows the structure of the survey questionnaire. The diagrams below are provided for the sake of completeness. A number of the most relevant diagrams have been incorporated into the main text of the report.

Figure 10.8.2.1 In which country is the majority of your clients established?

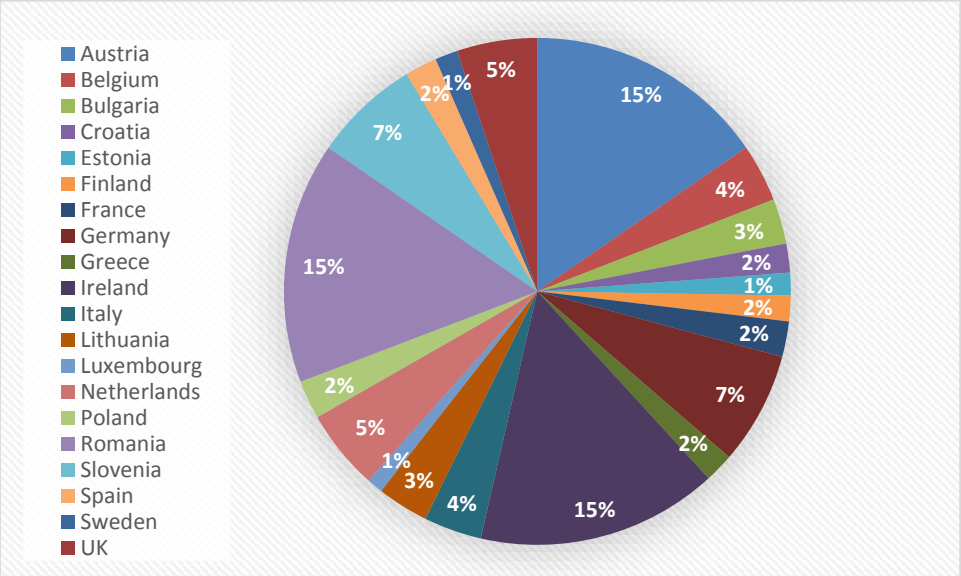


Figure 10.8.2.2 What is the size of your enterprise in terms of number of employees?

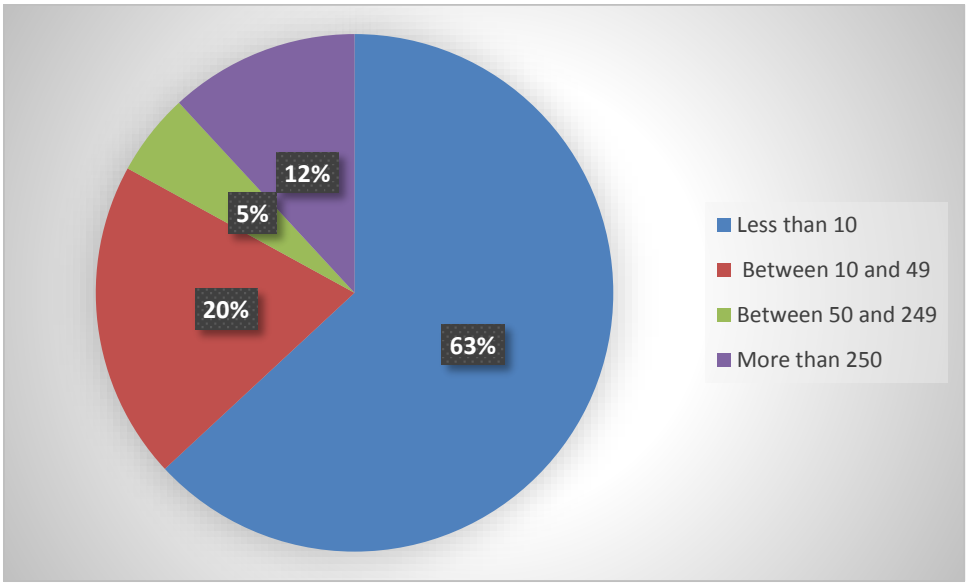


Figure 10.8.2.3 What is the annual turnover of your enterprise?

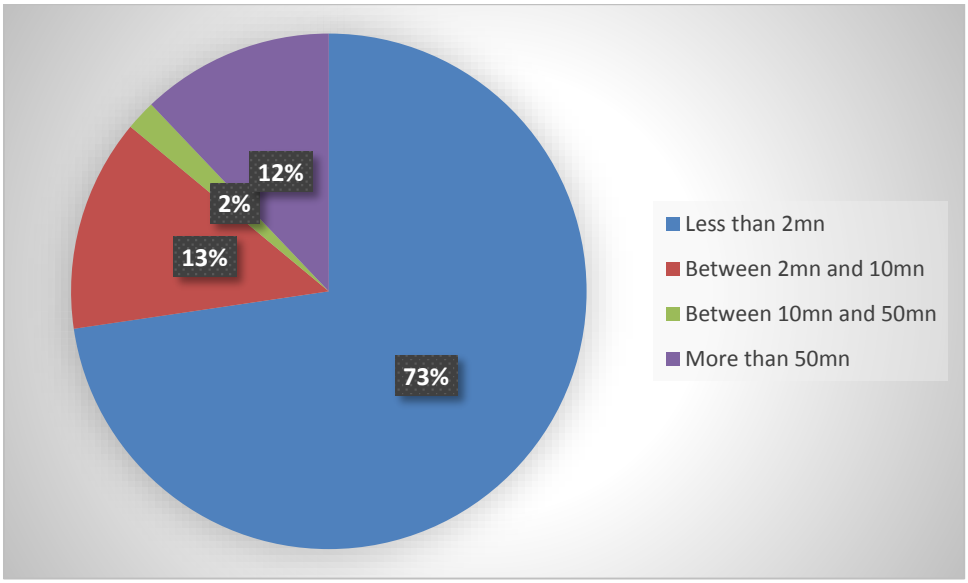


Figure 10.8.2.4 What is the size of the majority of the enterprises you work with?

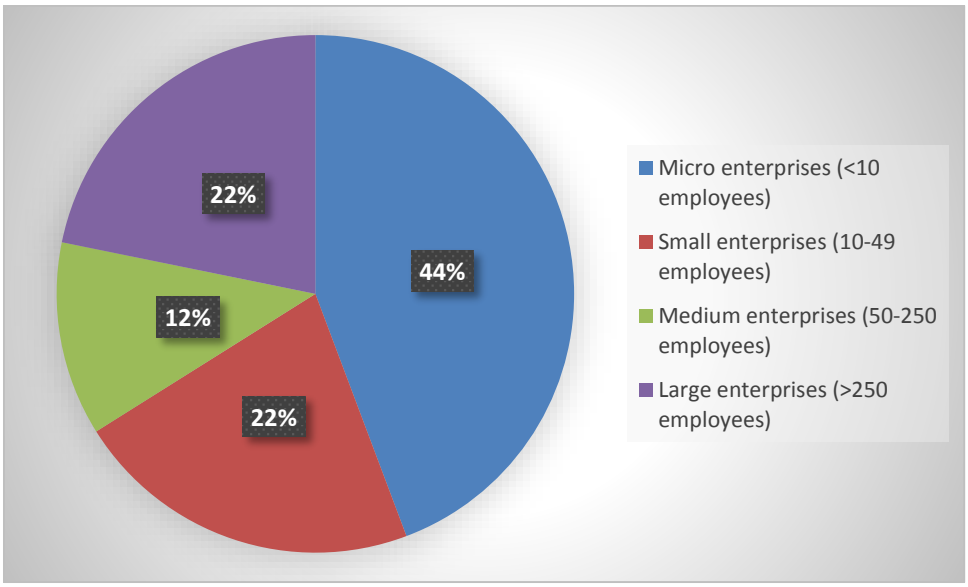


Figure 10.8.2.5 What are the main industries your clients operate in?

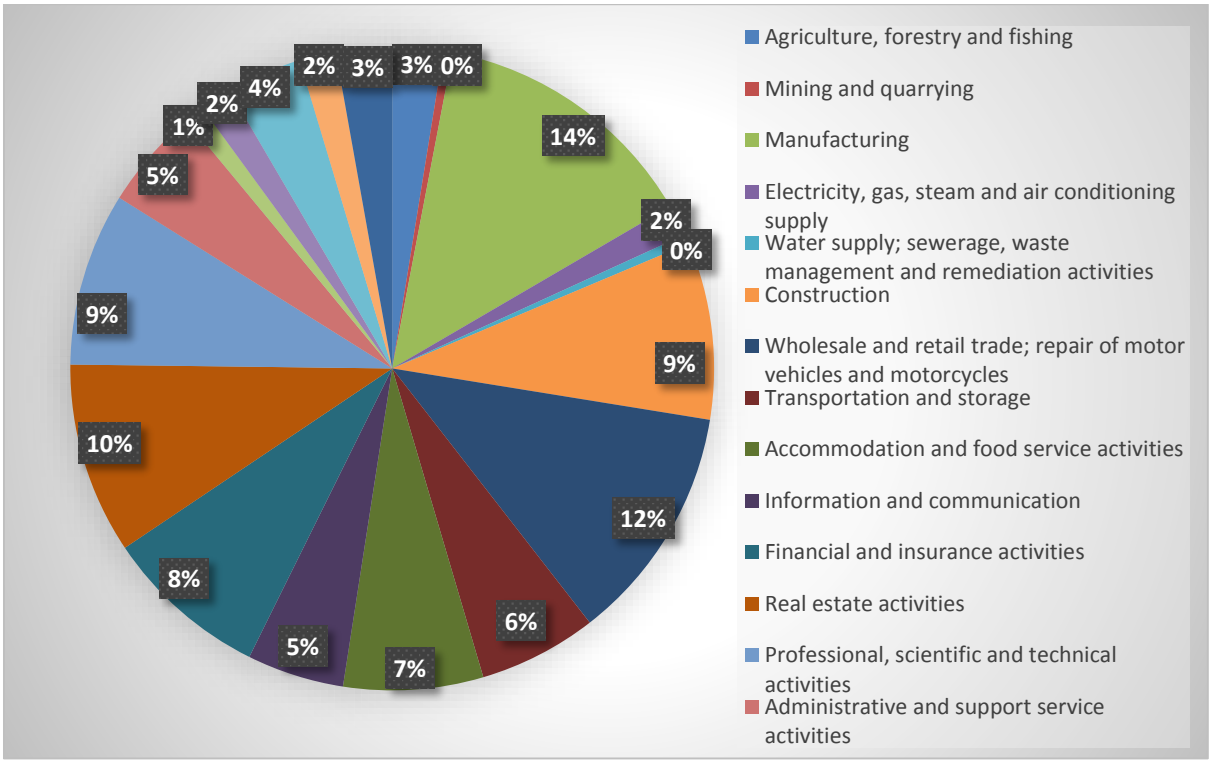


Figure 10.8.2.6 Does the fiscal system in your country provide a specific CIT rate different for SMEs and larger enterprises?

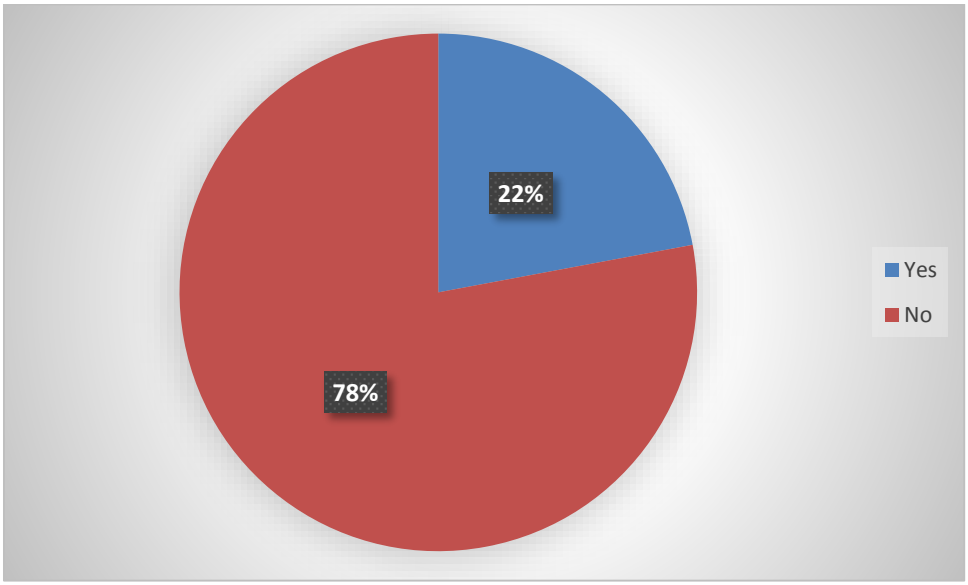


Figure 10.8.2.7 On the whole, how do CIT levels compare between SMEs and larger enterprises in your country?

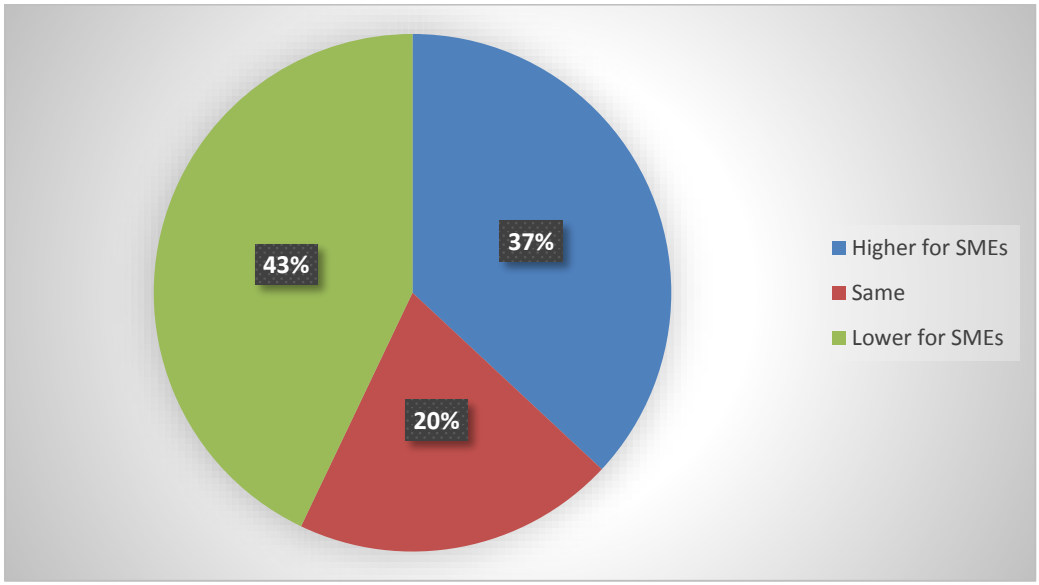


Figure 10.8.2.8 Do these drivers affect the overall behaviour of enterprises depending on their size? (multiple answers allowed)

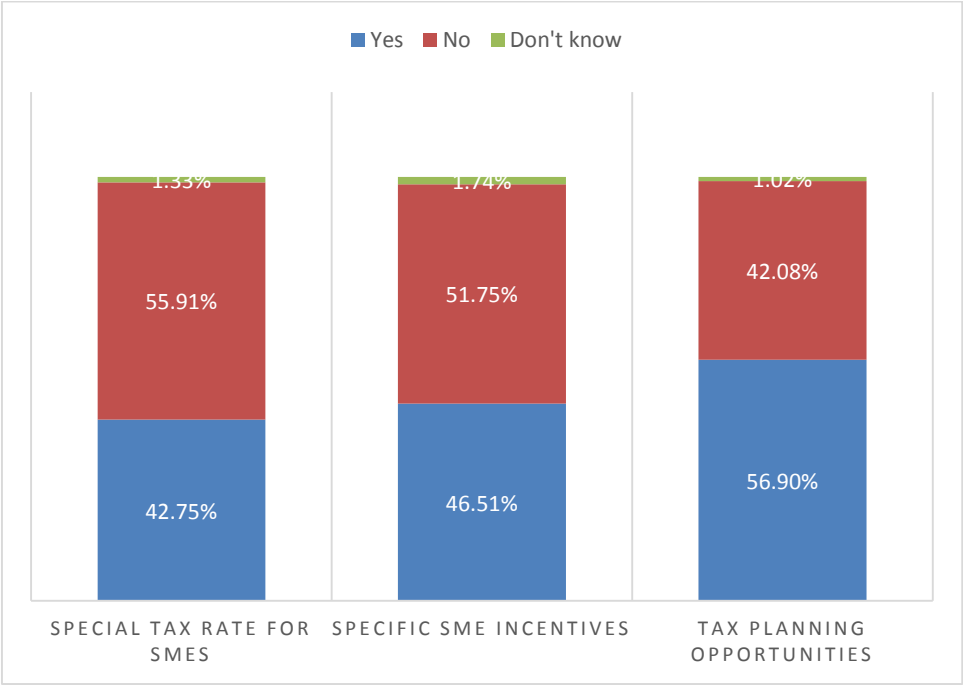
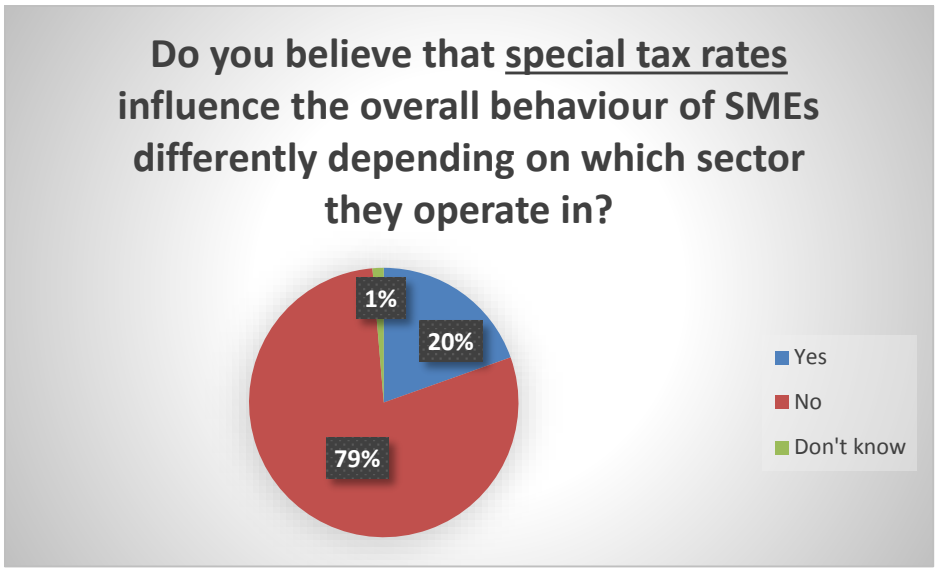
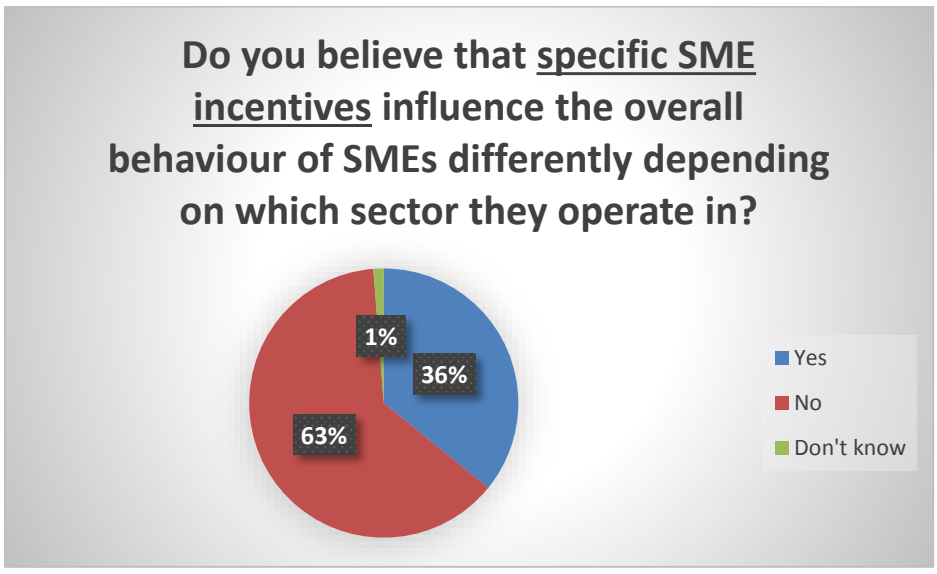


Figure 10.8.2.9 In your opinion, do you believe that these drivers influence the overall behaviour of SMEs differently depending on which sector they operate in?





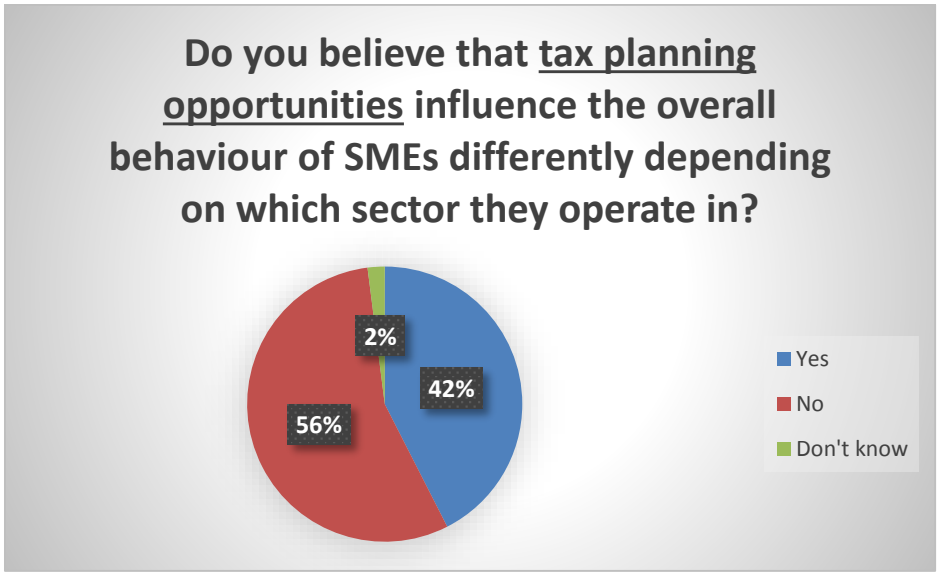


Figure 10.8.2.10 Do you believe that CIT provisions regarding profits, retained earnings and dividends affect SMEs behaviour?

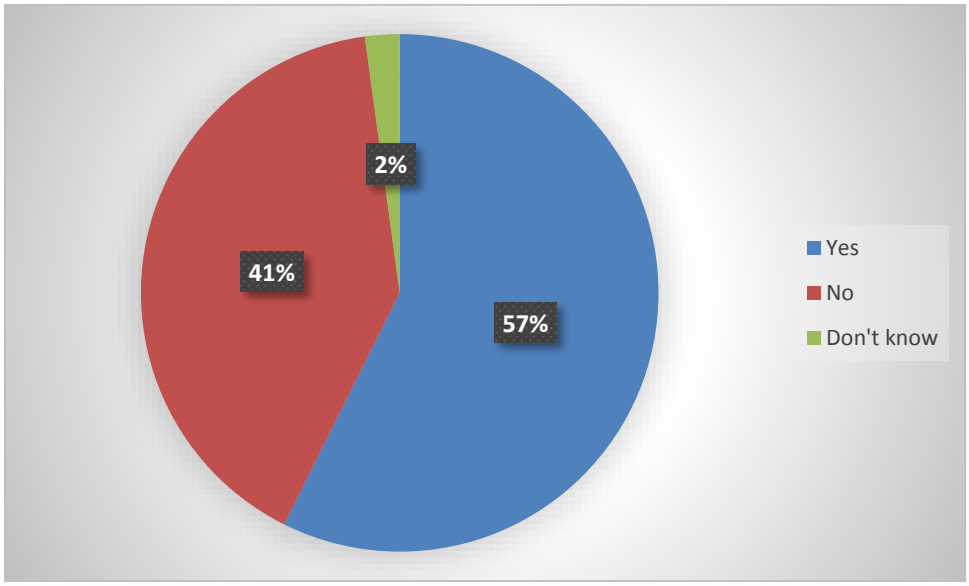


Figure 10.8.2.11 If yes, which of the following aspects are influenced by CIT provisions on profits, retained earnings and dividends?

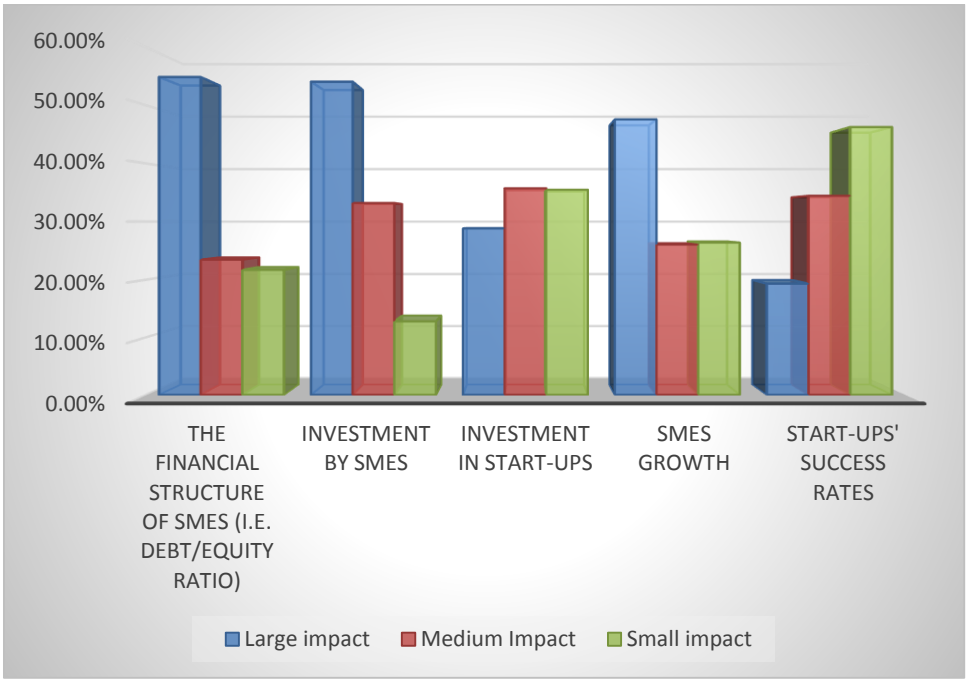


Figure 10.8.2.12 Do you believe that provisions regarding profits, retained earnings and dividends might affect SMEs differently to larger enterprises?

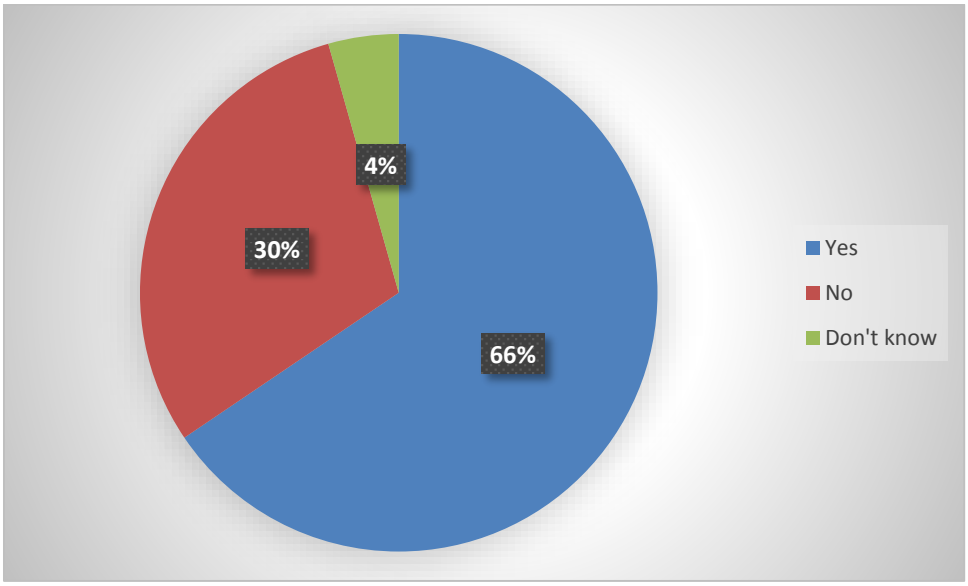


Figure 10.8.2.13 If yes, how?

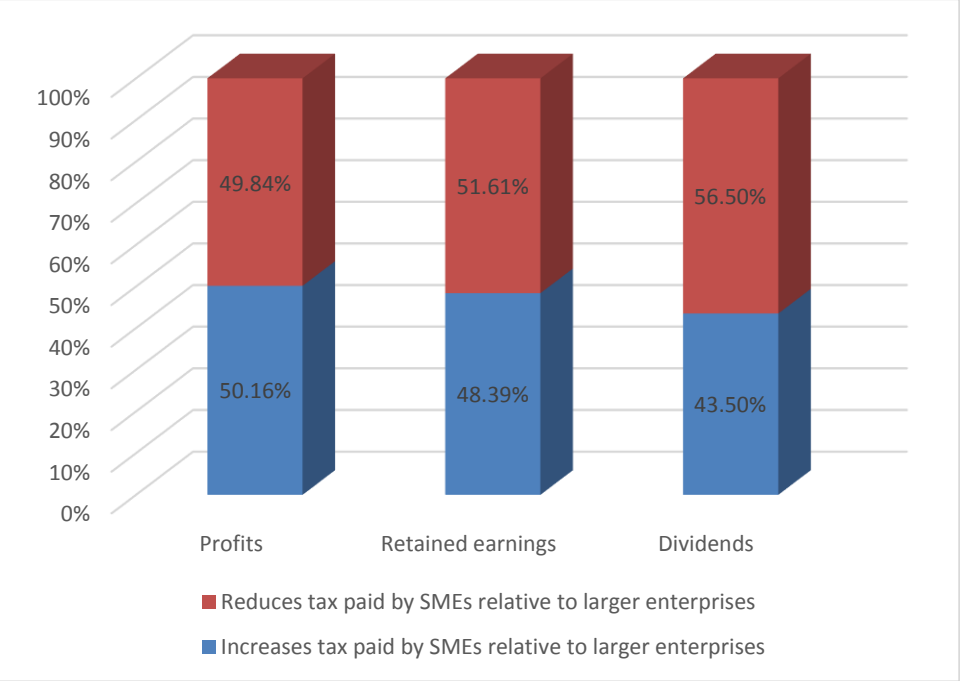


Figure 10.8.2.14 To what extent enterprises of different sizes benefit from (make use of) CIT deductions on investments (e.g. R&D or other investment) in practice?

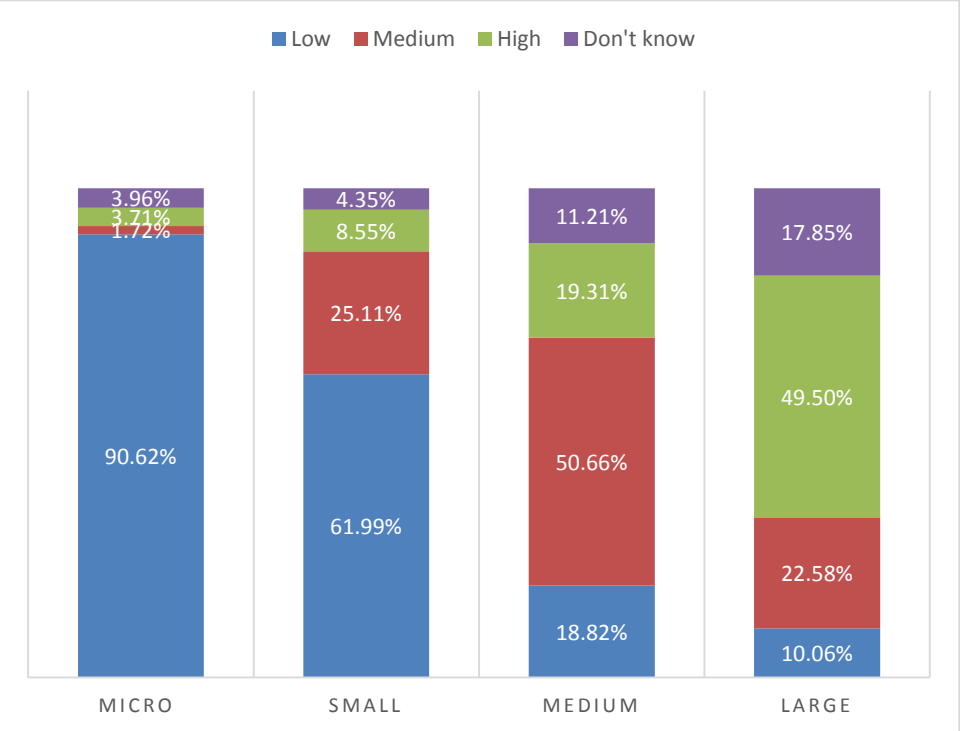


Figure 10.8.2.15 What is your perception of the impact of CIT deductions for investments (e.g. R&D or other investment) on the effective tax rate for SMEs?

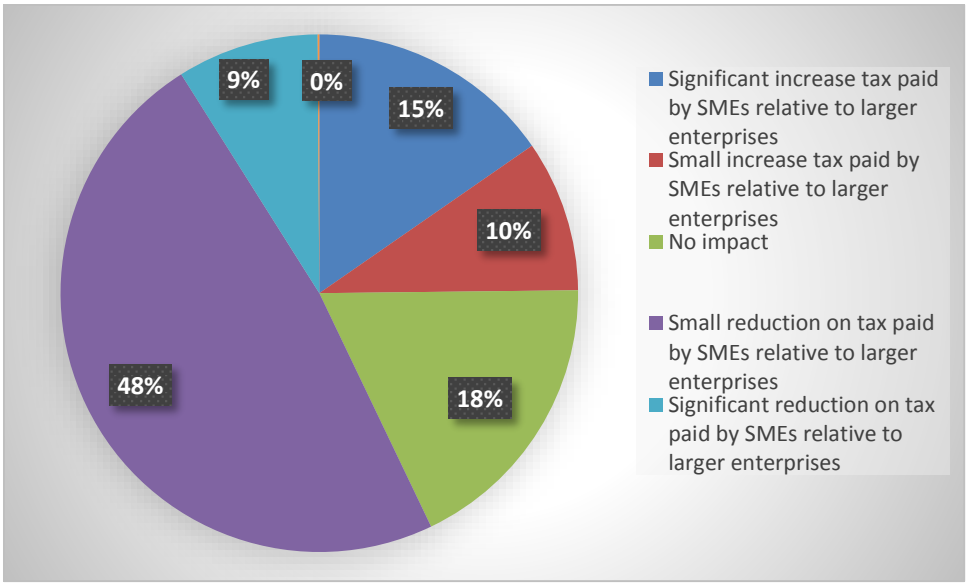


Figure 10.8.2.16 Does the fiscal system in your country include accelerated depreciation rates for particular assets?

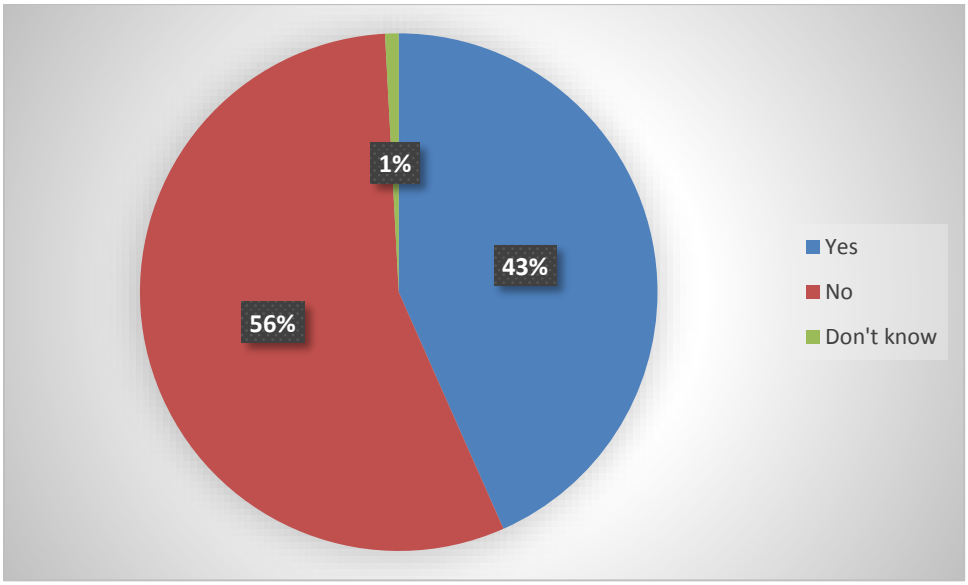


Figure 10.8.2.17 If yes, which are the enterprises that in your opinion are able to benefit more from these CIT provisions?

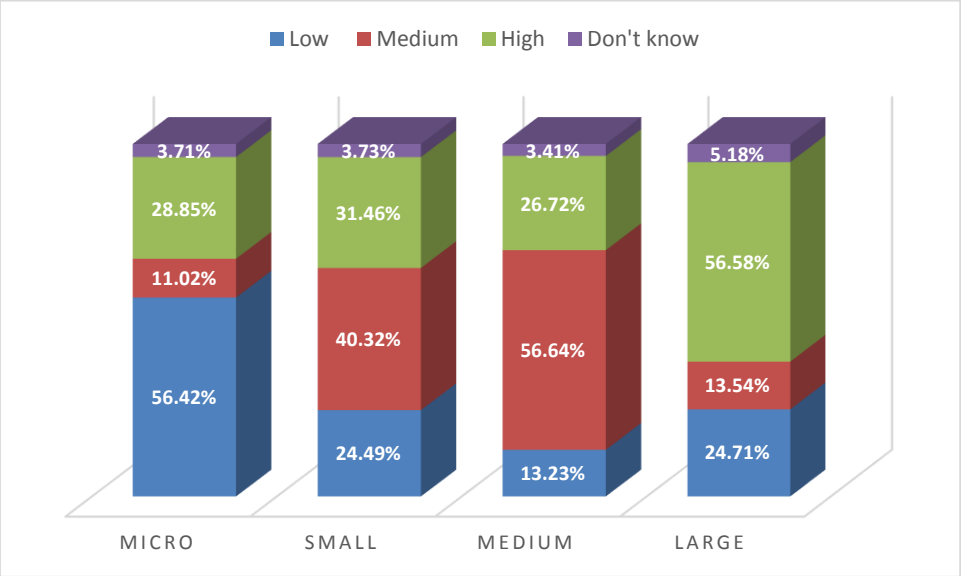


Figure 10.8.2.18 What is your perception of the impact of accelerated depreciation on the effective tax rate for SMEs?

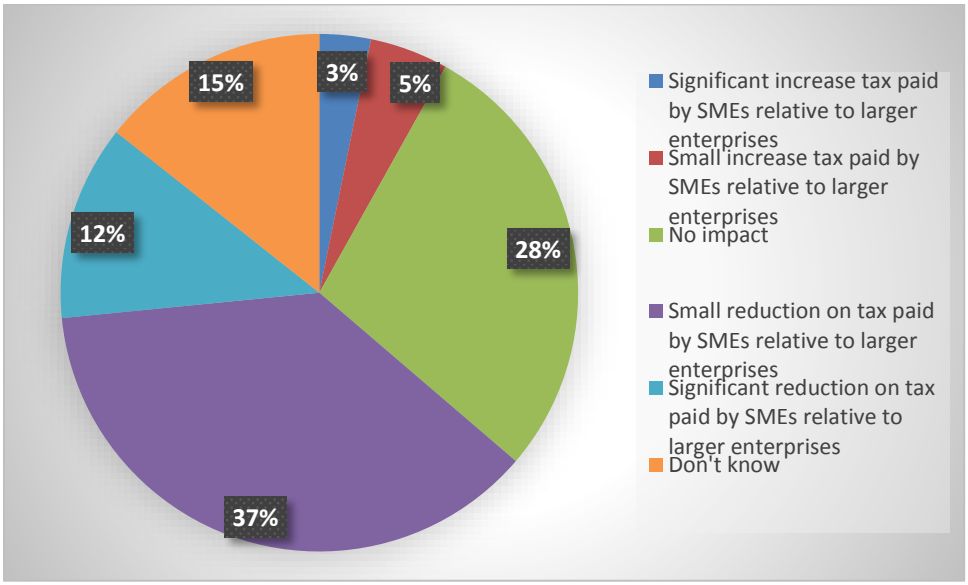


Figure 10.8.2.19 Does the fiscal system in your country include carry forward/backward provisions?

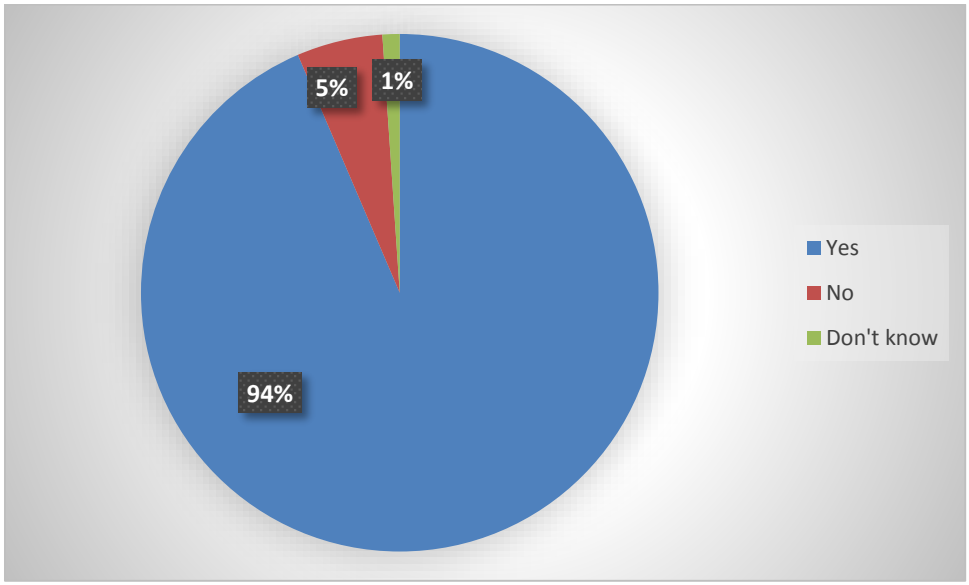


Figure 10.8.2.20 If yes, to what extent do enterprises make use of carry forward/backward provisions in practice?

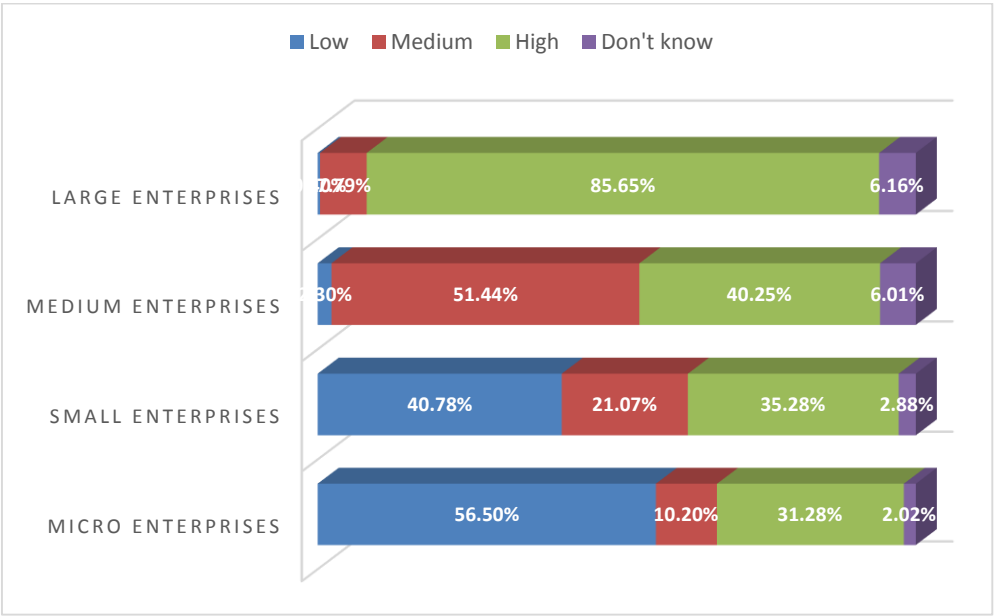


Figure 10.8.2.21 What is your perception of the impact of carry forward/back provisions on the effective tax rate for SMEs?

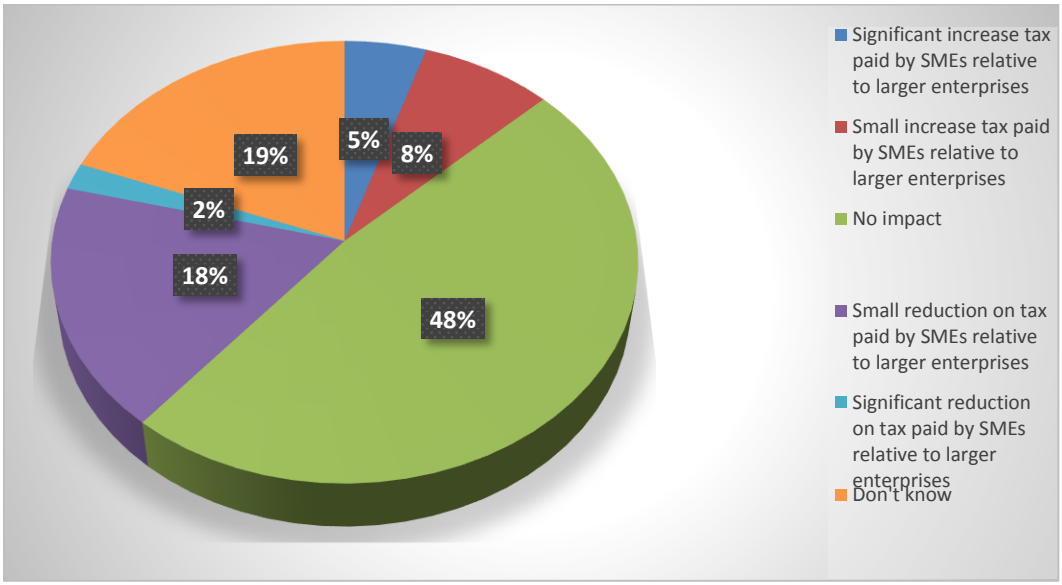


Figure 10.8.2.22 What is your perception of the extent to which SMEs use the following tax planning opportunities?

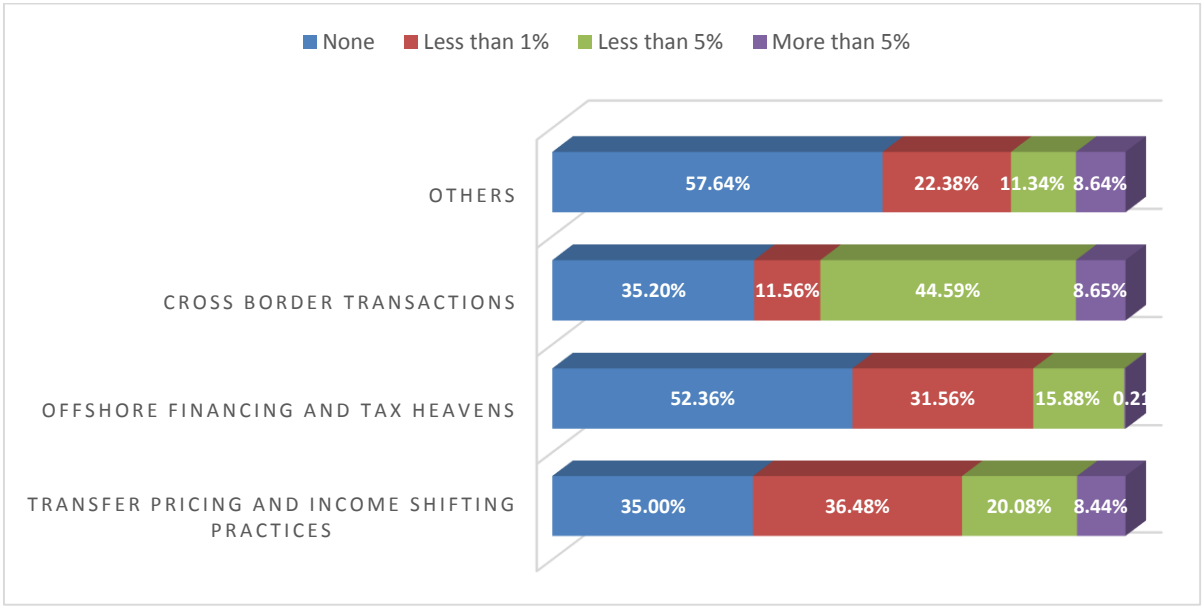


Figure 10.8.2.23 What is your perception of the impact of tax planning opportunities on the effective tax rate for SMEs?

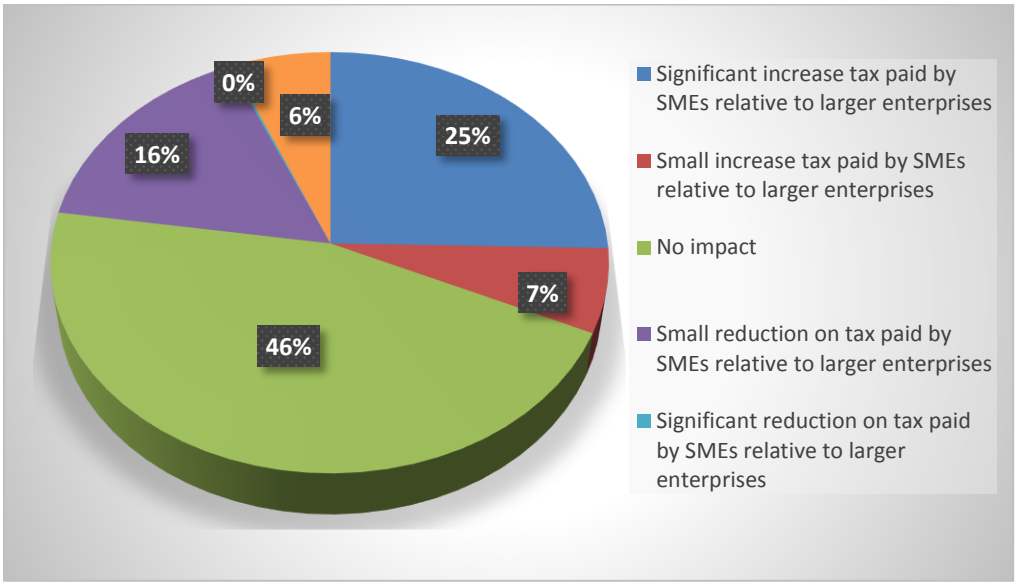


Figure 10.8.2.24 Does the fiscal system in your country have special CIT provisions for start-ups?

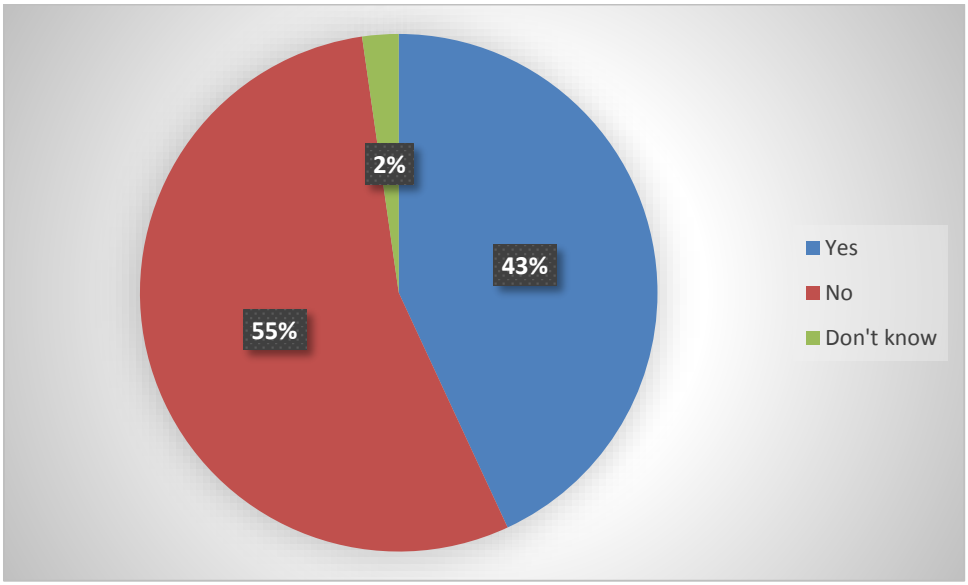


Figure 10.8.2.25 What is your perception of the impact of CIT provisions regarding investment in start-ups using different financing vehicles (venture capitals, mezzanine funding, equity investment, loan investment, others) on:

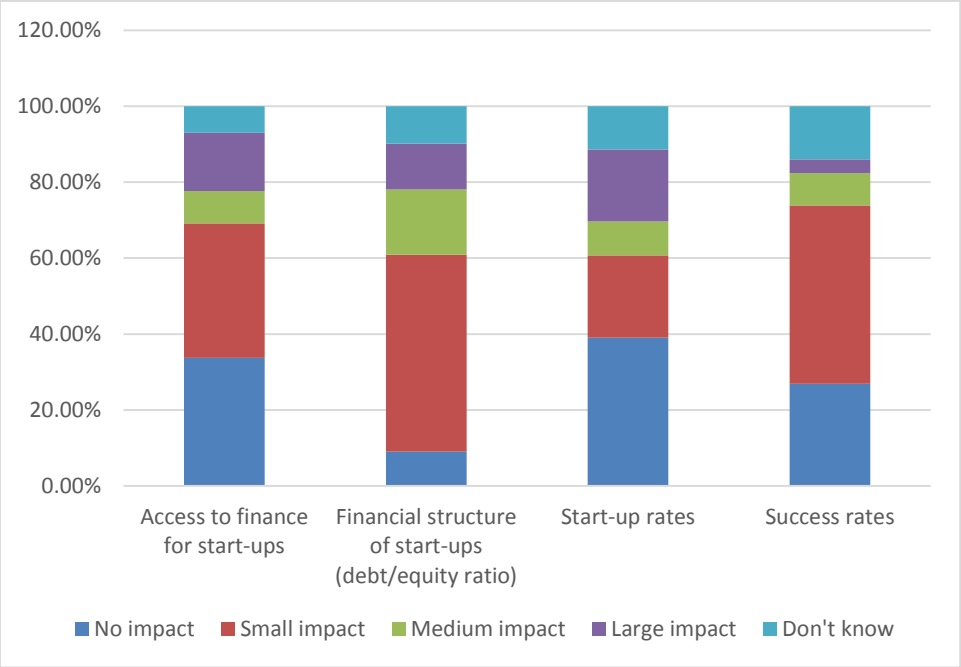
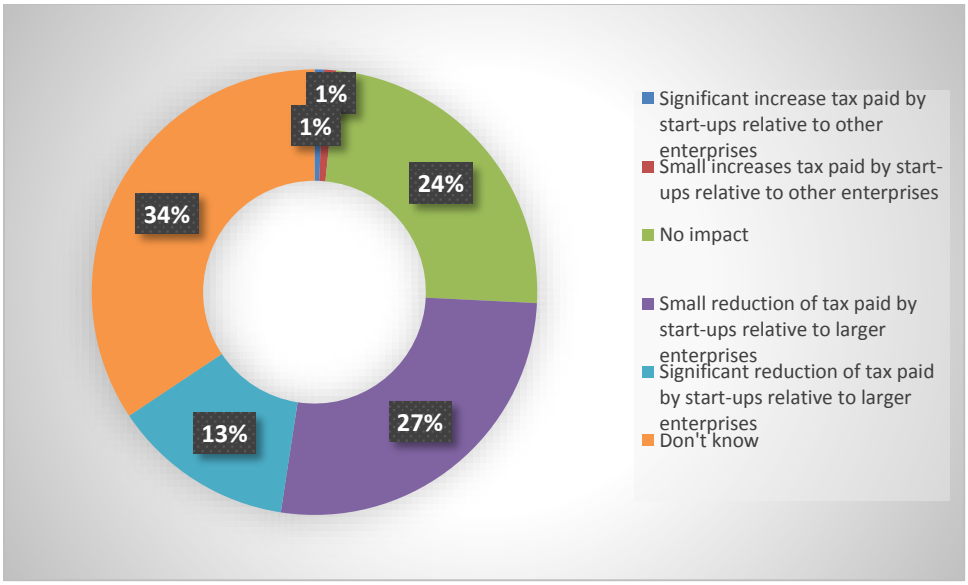


Figure 10.8.2.26 What is your perception of the impact of CIT provisions regarding investment in start-ups on the effective tax rate for start-ups?



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