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INTERNATIONAL TRENDS IN COMPANY TAX COLLECTIVE INVESTMENT VEHICLES

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Joint Paper⁴

2017-06

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4 The views expressed in this paper are those of the authors and do not necessarily reflect those of The Australian Treasury or the Australian Government.

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EXECUTIVE SUMMARY

The world has become an increasingly integrated and global place, creating opportunities for businesses to expand their networks beyond physical borders. This presents both opportunities and challenges to the corporate tax system, as the rise of intangibles and the digital economy creates difficulties in assessing and taxing profits and capital.

This study aims to provide a cross-country comparison, drawing out the similarities and differences between corporate tax systems. Australia's corporate tax system was chosen as the centre of this study. The major North American (United States and Canada), European (United Kingdom, Germany, France, Netherlands and Ireland) and Asian (China, India, New Zealand, Japan, Korea, Hong Kong, Singapore and Indonesia) economies were selected, as they were identified as major players in the global economy and important trading partners to Australia. This is not an in-depth cross-country analysis, rather this study aims to provide a snapshot of key trends of corporate tax systems around the world.

Four common indicators have been chosen for this study. The ratio of company tax to GDP has been chosen as an indicator to assess a country's reliance on the company tax base. The statutory company tax rate and thin capitalisation rules have been chosen as levers available to governments in shaping the corporate tax system. Collective investment vehicles were also chosen as an interesting and alternate lever available to governments in attracting foreign investment.

KEY FINDINGS

As the world becomes increasingly connected and integrated, businesses are able to expand their networks beyond physical borders and are faced with an almost infinite number of choices regarding location and investments. In this environment, countries are increasingly competing for foreign capital. In the last decade, most countries have sought to cut the statutory company tax rate in an effort to attract foreign capital. This trend is likely to continue with the United Kingdom's corporate tax rate scheduled to fall further to 17 per cent by 2020. While Australia and the United States have not legislated headline corporate tax cuts, both have vocalised intentions to do so.

In addition, governments are encouraging the broader use of collective investment vehicles (CIVs) to attract a greater share of economic activity to their country and attract foreign private sector investment. Australia is introducing new regimes for CIVs, and many other countries are at various stages of introducing new arrangements.

While deeper global connections offer opportunities for greater economic activity and growth, the fluidity of capital creates greater opportunity for arbitrage. This creates increased risk of multinationals shifting profits to favourable tax jurisdictions.

Majority of the countries in this study have thin capitalisation rules as an anti-avoidance measure to limit the level of interest deductions available to multinationals to reduce their overall tax liability. Addressing profit shifting is a key priority for governments around the world, and it is expected that countries will continue to expand their thin capitalisation rules.

The globalisation of our world creates new and exciting opportunities for businesses, and corporate tax systems around the world are trying to strike the right balance between attracting foreign capital to promote economic growth and prosperity, and also having appropriate safe guards in place to ensure the sustainability of the corporate tax base.

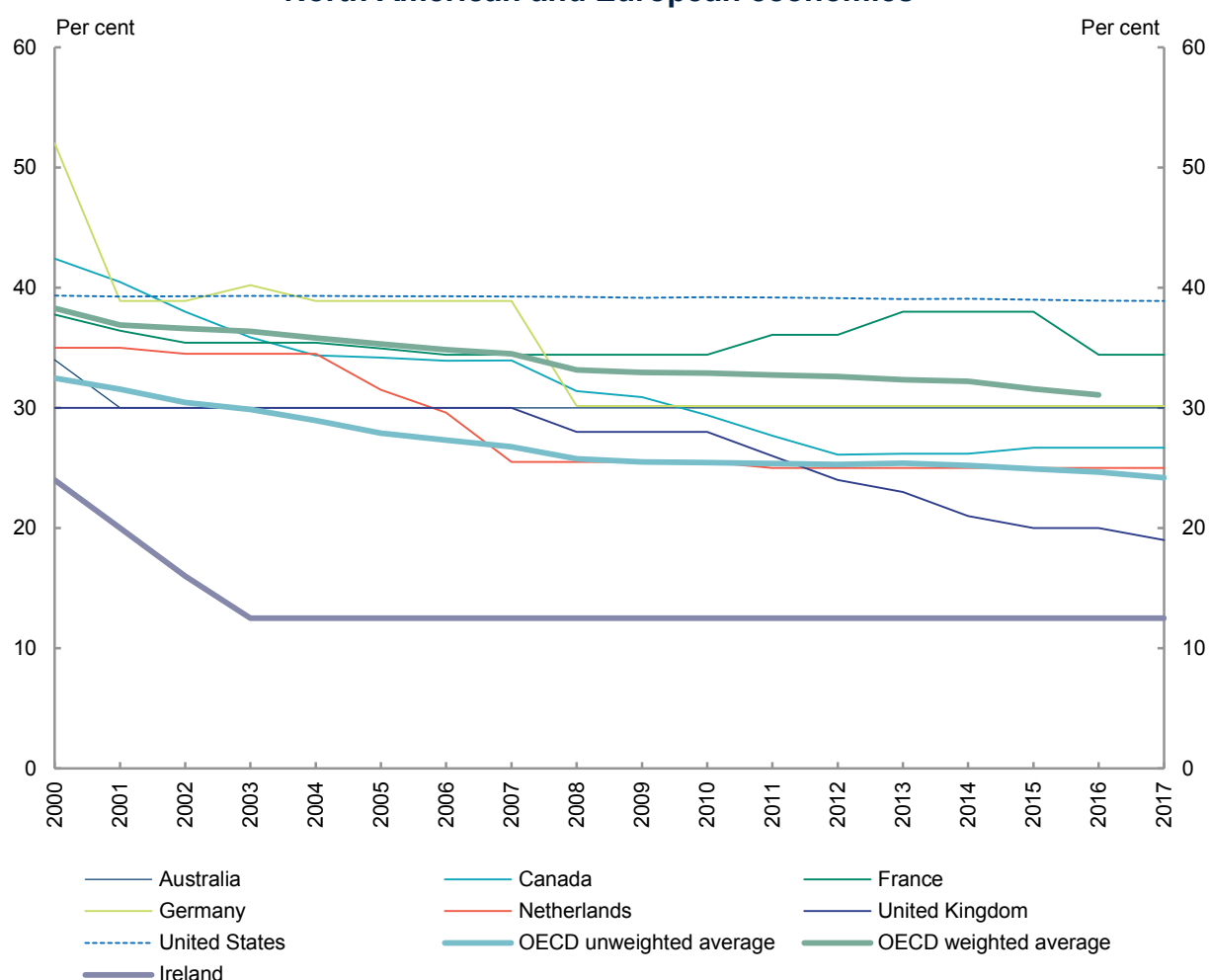
STATUTORY COMPANY TAX RATES

Corporate tax rates vary considerably over time and between countries

Corporate tax rates are varied, and many factors play a role in determining a country's system of taxation and corporate tax rate, at any given point of time.

Australia's corporate tax rate currently stands at 30 per cent and is legislated to fall to 25 per cent for small businesses. While Australia does not impose the highest tax rate, it has one of the highest tax rates globally. Other countries with high corporate tax rates include the United States (38.9 per cent)⁵ and France (34.43 per cent).⁶

Chart 1: Statutory combined corporate tax rates for Australia and selected North American and European economies



Note: The combined corporate tax rate includes federal, state/provincial taxes and surcharges.

Source: Organisation for Economic Co-operation and Development (OECD) 2017, *Revenue Statistics — OECD countries: Comparative tables*, viewed 22 September 2017: <https://stats.oecd.org/Index.aspx?DataSetCode=REV>

⁵ The corporate tax rate includes state taxes.

⁶ The corporate tax rate includes surcharge taxes.

In recent years, competition for foreign capital has intensified and many countries have sought to cut the headline corporate tax rate

In North America and Europe, corporate tax rates in 2000 varied from over 50 per cent to as low as 24 per cent. Germany had the highest combined company rate of 52.03 per cent⁷ and Ireland had the lowest corporate tax rate at 24 per cent. Since then every country, except the United States, has reduced its corporate tax rates, which left the United States claiming the highest combined tax rate of 38.9 per cent⁸ and Ireland with the lowest tax rate of 12.5 per cent.

During the mid-1990s, Ireland announced and implemented one of the sharpest reductions in the corporate tax rate, where the corporate rate fell from 24 per cent in 2000 to 12.5 per cent in 2003. As a result, Ireland has had one of the lowest tax rates amongst advanced economies and this has placed downward pressure on statutory corporate tax rates in the region.

Within the Asian region, company tax rates are not as varied compared to the North American and European statutory company tax rates. In the Asia-Pacific region, corporate tax rates in 2000 varied from over 40 per cent to as low as 16 per cent. Japan had the highest combined company rate 40.87 per cent⁹ and Hong Kong had the lowest company rate of 16 per cent.

Most of the economies in the Asia-Pacific region announced and implemented tax cuts, prior to the Global Financial Crisis (GFC)

New Zealand, China, Hong Kong and Singapore legislated reductions to the corporate tax rate commencing in the 2008 income year. In addition, South Korea and Indonesia legislated corporate tax cuts commencing in the 2009 income year. This has narrowed the differences in corporate tax rates in the Asia-Pacific region, leaving India with the highest tax rate (34.6 per cent)¹⁰ and Hong Kong with the lowest tax rate (16.5 per cent).

Compared to North American and European economies, the Asian region has had lower corporate tax rates throughout this period and this could be driven by Singapore and Hong Kong's low corporate tax rate. Both countries are seen as important business destinations, and their low corporate tax rates are one of the many reasons for this.

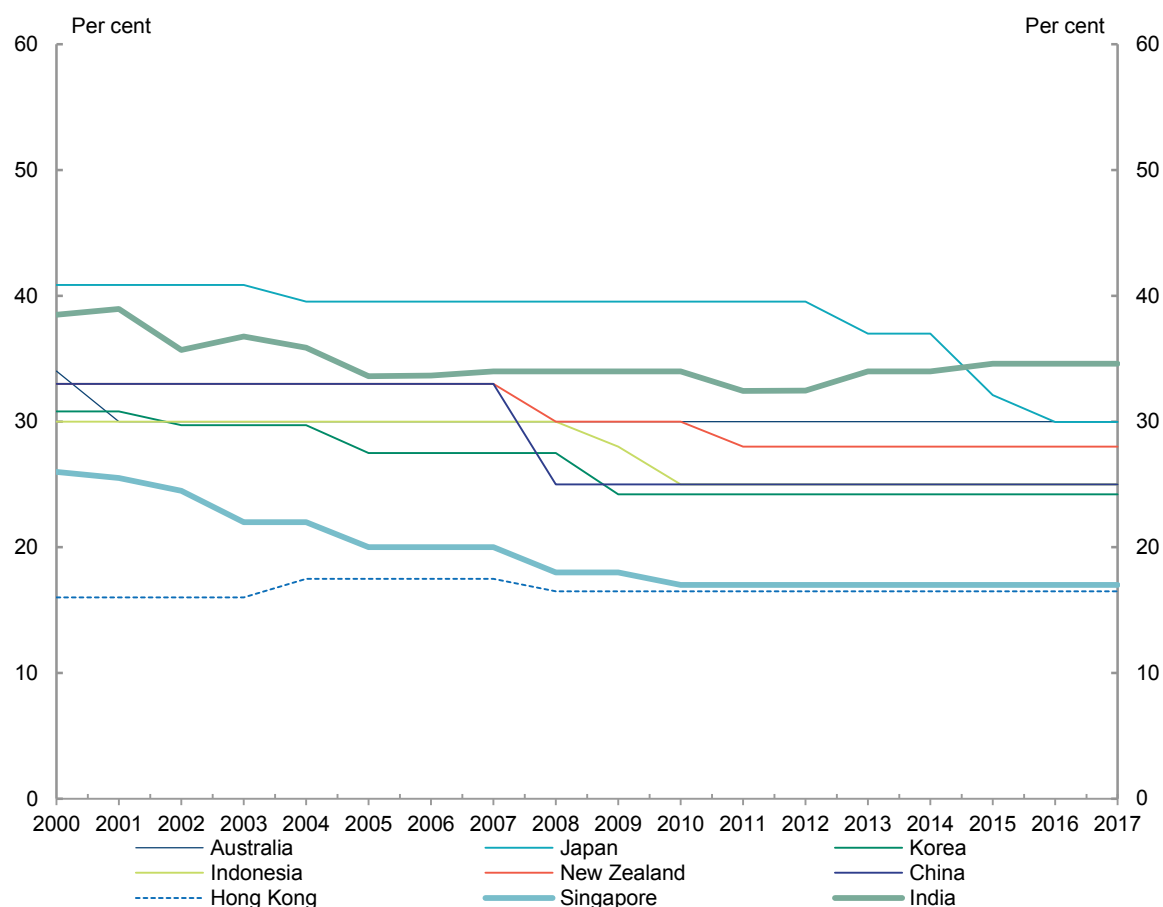
7 The corporate tax rate includes state taxes.

8 The corporate tax rate includes state taxes.

9 The corporate tax rate includes local taxes.

10 The corporate tax rate includes surcharges and educational cess.

Chart 2: Statutory combined corporate tax rates for Australia and selected Asian-Pacific economies



Source: Organisation for Economic Co-operation and Development (OECD) 2017, *Revenue Statistics — OECD countries: Comparative tables*, viewed 22 September 2017: <https://stats.oecd.org/Index.aspx?DataSetCode=REV>; Organisation for Economic Co-operation and Development (OECD) 2017, *Revenue Statistics — Asian countries: Comparative tables*, viewed 22 September 2017: <https://stats.oecd.org/Index.aspx?DataSetCode=REV> ; KPMG 2017, *Corporate tax rates tables*, viewed 5 October 2017 : <https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html>

The United Kingdom and Netherlands also announced and reduced the headline corporate tax rate prior to the GFC, and continued this trend into the early 2010s

Prior to the GFC, the Netherlands reduced its combined headline rate from 29.6 per cent to 25.5 per cent commencing from the 2007 income year. The United Kingdom announced in its 2007 Budget that it would reduce the corporate tax rate from 30 per cent to 28 per cent in 2008, and implemented further reductions to the company tax rate, over the intervening years such that it currently stands at 19 per cent today. Canada has also gradually dropped its combined corporate tax rate from over 40 per cent in the early 2000s, to 26.7 per cent in 2017.

Cuts to the headline company tax rate likely to continue into the future

The United Kingdom's corporate tax rate is scheduled to fall further to 17 per cent by 2020 in an effort to create a more competitive corporate tax system.¹¹ In France, the corporate tax rate is also legislated to fall to 28 per cent by 2020 and President Macron has indicated intentions to reduce it further to 25 per cent.

While Australia's and the United States' headline corporate tax rates have remained largely unchanged, both have vocalised intentions to cut the corporate tax rate. Australia's corporate tax rate is scheduled to fall to 25 per cent by 2026-27. President Trump and the congressional Republicans have stated that they would like the United States' tax rate come down to 20 per cent, however the timing of this move is unclear.

Should France and the United States formally announce and legislate tax cuts as described, this would narrow the differences in the corporate rates in the region and would be more akin to the corporate tax rates in the Asian region.

Comparing headline corporate tax rates is useful in assessing the competitiveness of the corporate tax system in attracting foreign capital. However the headline rate is not the only factor in determining this. The overall environment for investment such as the quality of government institutions and regulations, are equally important for businesses when faced a choice of where to invest. Nevertheless the quest for globally competitive corporate tax rates is set to remain and likely to continue.

11 HM Revenue and Customs, *Corporation Tax to 17% in 2020*, viewed 6 October 2017: <https://www.gov.uk/government/publications/corporation-tax-to-17-in-2020/corporation-tax-to-17-in-2020>

COMPANY TAX COLLECTIONS

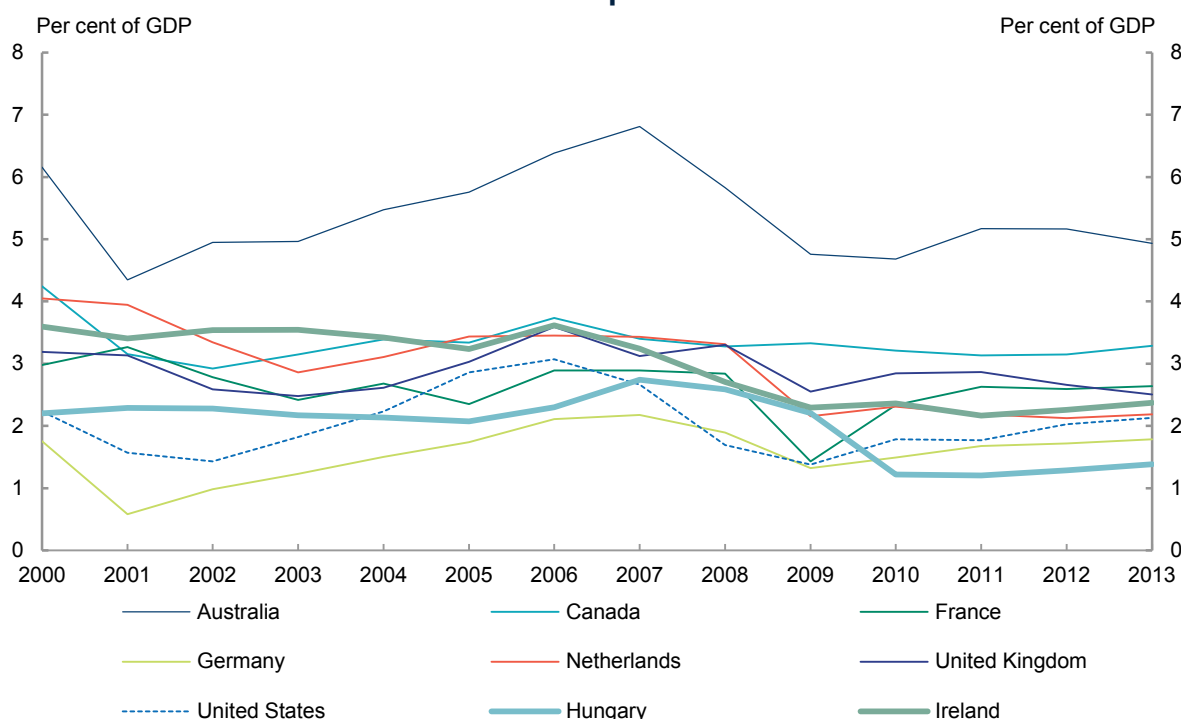
Corporate income tax is a volatile source of Government revenue

Corporate income tax is an unpredictable source of income as movements in the economy can drive business conditions, confidence and profitability. As a result it can be difficult to forecast the level of profit, capital gains and carried forward losses realised.

During the GFC, the economic weakness felt across the globe led to the decline in corporate tax collections across the world. Since most countries allow businesses to carry forward losses, the accumulation and utilisation of losses during this period slowed the recovery of the corporate tax base.

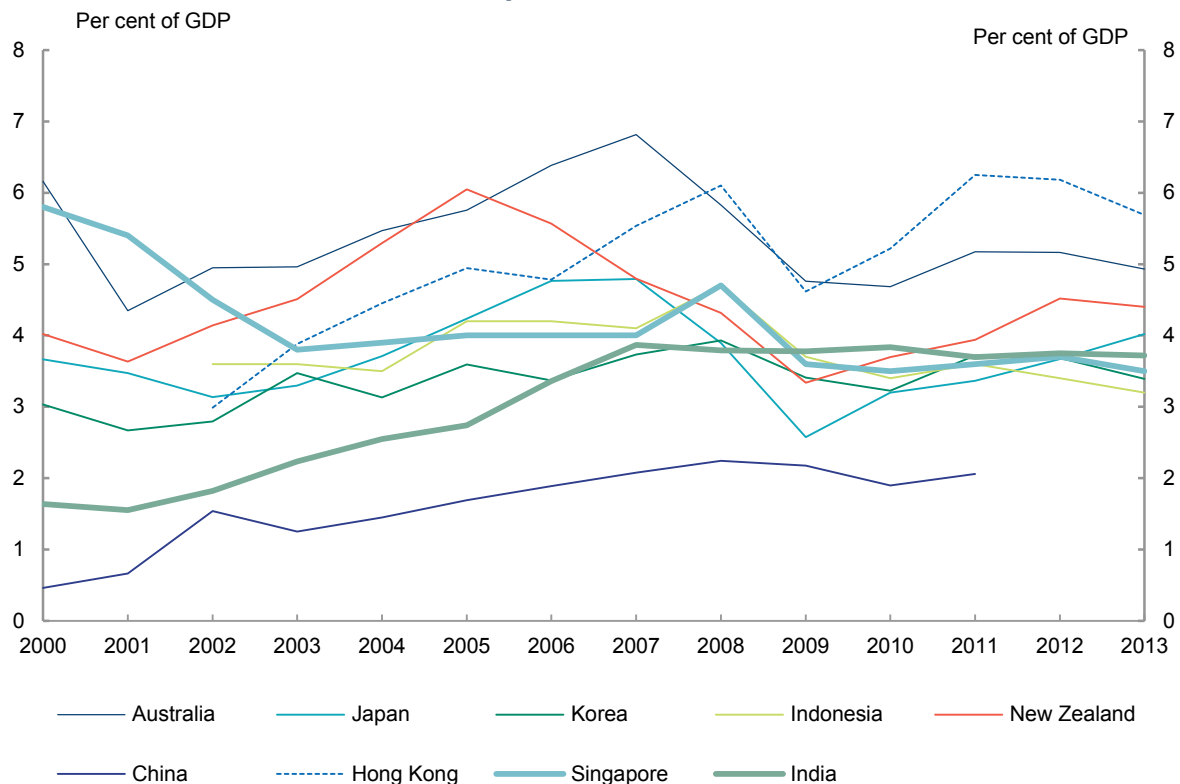
The Asia-Pacific region collects more company tax as a per cent of GDP compared to its North American and European counterparts. In Asia, at the beginning of this period Australia had the highest level of company tax as a per cent of GDP (6.1 per cent) and China had the lowest level of company tax as a per cent of GDP (0.4 per cent). While Australia's proportion of corporate tax as a per cent of GDP has remained high, in 2013, Hong Kong had the highest level of corporate tax collected as a per cent of GDP (5.7 per cent).

Chart 3: Company tax as a per cent of GDP for Australia and selected North American and European economies



Source: Organisation for Economic Co-operation and Development (OECD) 2017, *Revenue Statistics — OECD countries: Comparative tables*, viewed 14 September 2017: <https://stats.oecd.org/Index.aspx?DataSetCode=REV>;

Chart 4: Company tax as a per cent of GDP for Australia and selected Asian-Pacific economies



Note: Company tax-to-GDP statistics for China, Hong Kong and India have been prepared using the IMF's Government Financial Statistics and are not directly comparable to OECD statistics. Unlike the OECD, the IMF does not classify social security contributions as a tax. To improve comparability with OECD statistic, tax-to-GDP ratios for China, Hong Kong and India are calculated using IMF data but inclusive of security contributions.

Source: Organisation for Economic Co-operation and Development (OECD) 2017, *Revenue Statistics — OECD countries: Comparative tables*, viewed 14 September 2017: <https://stats.oecd.org/Index.aspx?DataSetCode=REV>; Organisation for Economic Co-operation and Development (OECD) 2017, *Revenue Statistics — Asian Countries: Comparative tables*, viewed 14 September 2017: <https://stats.oecd.org/Index.aspx?DataSetCode=REV>; International Monetary Fund (IMF) 2017, *Government Finance Statistics (GFS)*, viewed 18 September 2017:

Australia is highly reliant on company income tax

Throughout this period Australia has consistently been relatively more reliant on corporate tax compared to other countries. In 2013, Australia's corporate tax to GDP ratio was 4.9 per cent. Australia's company tax base is very volatile and this can be partially attributed to its reliance on the mining sector.

While Australia has one of the highest company statutory tax rates (30 per cent) and one of the highest levels of company tax revenue collected (4.9 per cent of GDP in 2013), the headline rate is not a perfect indicator for the expected amount of company tax collected. For example the United States in 2013 had a combined company tax rate of 38.9 per cent, however company tax made up 2.1 per cent of GDP.

Australia's relatively high reliance on corporate taxation

Australia's high ratio of corporate tax to GDP partly reflects a high proportion of tax generated by resource extraction. Other countries, such as Norway, with a comparable reliance on the resources sector have a similarly high ratio of corporate tax. This effect is also reflected in Canada's higher than average reliance on corporate tax.

The data on corporate taxation may also be affected by differing levels of incorporation between countries. For instance, S corporations in the United States are not taxed at the company level, shareholders are taxed on their share of profits instead.

High reliance on corporate tax is partially offset via recognition for shareholders of tax paid at the company level, such as Australia's imputation system. Australia is one of a few countries that offer a full dividend imputation system. However, most countries such as the United States, United Kingdom, Japan, Korea and France offer partial relief from double taxation, but Australia's imputation system can provide more complete relief in the case of superannuation funds and individuals on low tax rates. The reduction in tax collections at the shareholder level due to imputation partially offsets the high level of collections at the company entity level. It should also be noted that some of the collections at the shareholder level in Australia, those levied on superannuation funds, are included in OECD statistics as company taxes, further raising Australia's measured company tax ratio.

Dividend imputation was introduced to Australia in 1987 to relieve double taxation, and was later reformed to make imputation credits refundable. When corporate entities distribute dividends and tax has been paid on profits, shareholders can receive an imputation credit as a tax offset. To the extent the final shareholder is a superannuation fund or a resident individual who faces a marginal tax rate less than the statutory corporate tax rate, the imputation credit levied at the corporate rate will more than offset the tax liability levied by other taxes.

THIN CAPITALISATION RULES

Thin capitalisation rules are designed to limit the amount of debt deductions an entity can claim to reduce their taxable income

The fluidity of capital and opportunity for arbitrage created by the tax deductibility of interest, provide an incentive for multinationals to shift profits by placing higher levels of debt in high tax jurisdictions to claim excessive debt deductions, reducing their overall tax liability. Thin capitalisation rules are in place as an anti-avoidance measure to deter multinationals from engaging in this behaviour.

Interest payments also attract withholding tax, however most jurisdictions also provide relief from interest withholding tax under domestic law and/or tax treaties, for example for widely offered notes.

Table 1: Thin capitalisation rules for general entities

Type of test	Countries
Asset based test (safe harbour limit, debt: equity)	Australia (1.5:1), Canada (1.5:1), Korea (2:1), Indonesia (4:1), New Zealand (1.5:1 for inbound investment and 3:1 for outbound investment), China (2:1)
Earnings-based test (EBITDA limit)	United Kingdom (30 per cent of EBITDA), Germany (30 per cent of EBITDA), India (30 per cent of EBITDA)
Dual systems	United States (safe harbour limit of 1.5:1 and an earnings based test of 50 per cent of EBITDA), Japan (safe harbour limit of 3:1 and an earnings based test of 50 per cent of adjusted income), France (safe harbour limit of 1.5:1 and an earnings based test of 25 per cent of EBITDA).

Thin capitalisation rules vary in design and application, often imposing different debt thresholds on different types of debt

Most countries employ an assets based limit, otherwise known as a safe harbour limit, which is often expressed as a ratio of debt to equity or debt to assets. Deductions can be claimed for debt up to the safe harbour limit to reduce an entity's tax liability. If a company's debt level exceeds the threshold, then the deductions on the excess debt cannot be deducted.

Australia's safe harbour limit is 1.5:1 (debt:equity). While the safe harbour test is most commonly used by taxpayers, Australia also has two other tests to calculate the maximum allowable debt limit: the arm's length debt test and the world-wide gearing debt test. The arm's length debt test allows an entity to determine the maximum allowable debt limit to be the amount of debt that is commercially justifiable. The worldwide gearing debt test allows entities to gear up to 100 per cent of the gearing ratio of their worldwide group.

Australia is not the only country that imposes a safe harbour limit. Other countries that have an assets based thin capitalisation rule include Canada, Korea, Indonesia, New Zealand and China. Most countries have a safe harbour limit of 1.5:1, with Indonesia as the notable exception, offering a more generous safe harbour threshold.

Table 2: Thin capitalisation rules for general entities

Type of debt	Countries
Generally related-party debt only	Canada, China, Korea, Japan, United States, India, France
Related-party debt and third party debt	Australia, New Zealand, Indonesia, Germany, United Kingdom

Thin capitalisation rules can apply to related-party debt or both related-party and third party debt. Increasingly, countries are moving towards applying thin capitalisation rules to both related-party and third party debt

Australia, New Zealand and Indonesia apply the safe harbour limit to all debt. While Canada and France have similar safe harbour limits to Australia, their limits are less strict, as the rules apply to related-party debt only. Similarly, Korea also applies the safe harbour limits to related-party debt only.

The OECD's recommended approach is to limit deductions to between 10 and 30 per cent of earnings before interest, taxes, depreciation and amortisation (although an assets-based test is considered an acceptable alternative). The OECD's recommendation has seen some countries move towards an earnings based rule

The United Kingdom recently introduced new limitations on interest deductibility, where interest deductions are allowed up to 30 per cent of taxable EBITDA, or up to the group ratio. The group ratio is based on the net interest expense to EBITDA for the worldwide group, based on its consolidated accounts. The group ratio can be used as a substitute for the EBITDA rule. Germany does not have formal 'thin capitalisation rules', however similar to the United Kingdom, interest expenses are deductible up to 30 per cent of EBITDA. India has taken a similar approach, recently introducing rules to limit deductibility of interest to 30 per cent of EBITDA. A few countries such as United States, France and Japan have both an earnings based and an assets based rule.

While most jurisdictions have some form of thin capitalisation rules, Singapore, the Netherlands and Hong Kong are the notable exceptions

Singapore allows all interest deductions regardless of the entity's gearing ratio. In the Netherlands, anti-abuse provisions are in place for interest paid on intra-group debts relating to certain transactions. In contrast, in Hong Kong, interest expenses are generally not deductible where interest is paid to non-residents who are not subject to Hong Kong corporate tax.

Overall, more countries are expected to adopt and expand rules to curb interest deductions

The OECD has issued the *Limiting Base Erosion Involving Interest Deductions and Other Financial Payments, Action 4 — 2016 Update*, recommending a common approach to interest limitation rules to curb international tax avoidance. The European Union has issued a directive to implement interest limitation rules to member states. Addressing profit shifting is a key priority for governments around the world, and it is expected that more countries will implement and expand their interest limitation rules into the future.

COLLECTIVE INVESTMENT VEHICLES

Our study has compared the taxation environment for CIVs, setting Australia against a European / North American comparator group, and against a separate Asia-Pacific group. CIVs are entities which allow investors to pool their funds and have them managed by a professional funds manager. The investment of combined funds creates a large, well-diversified portfolio. This is in contrast to investing directly as an individual.

In the first group, Luxembourg has been added to the countries used in the corporate income tax study, as it is a significant location for the funds management industry.

The comparison tables at Appendix A highlight the following features of the CIV environment, across three investment sectors — real estate, infrastructure and portfolio equities:

- Countries where there have been recently enacted or proposed legislative developments which are supportive of the expansion of the use of CIVs.
- The cases where income or gains derived outside the CIV's country of domicile can be passed to investors without incurring tax in that country.
- The existence of 'tax-transparent' vehicles, that is, where the investors are taxed directly on their share of the income and gains of the CIV, and the CIV is not itself a taxpayer.
- Instances where the income derived through the CIV is taxed at a more favourable rate than if the investors had directly acquired the assets, and the amount of the favourable rate.
- Tax rates of less than 20 per cent (disregarding bilateral tax treaties) that can apply to the income or gains derived via the CIV.

Our findings from the study include:

Overall, the fiscal and regulatory environment for collective investment vehicles (CIVs) is encouraging their broader use

As investors increasingly look to diversify their portfolios, there is recognition from governments that providing a streamlined collective investment framework can attract a greater share of the economic action to their country. To this end, countries often adopt policy settings to provide a range of CIV types tailored to the needs of different kinds of investors.

In this regard, Australia is introducing new regimes for corporate and limited partnership CIVs, and Singapore, Hong Kong, France and Germany are at various stages in the process of introducing their own new arrangements.

In addition, a number of Asia-Pacific countries are cooperating on the introduction of the Asia Region Funds Passport, an initiative similar to the European Union's UCITS framework, by allowing funds that meet common requirements to more easily offer their products in passport countries.

Countries face a choice about whether to make themselves attractive as 'conduit' locations

A country's treatment of foreign income received by a foreign investment via a domestic CIV is an important consideration for investors. This type of income is typically referred to as conduit foreign income. Countries that allow conduit foreign income to flow through to investors without imposing local tax will be more attractive to a fund that wants to attract international investors and to make investments outside its country of management.

Australia, and all of the Europe/North America comparator group allow an exemption for conduit foreign income in some or all of the asset categories. However in Asia-Pacific this feature is limited to Hong Kong, Singapore, Korea (for equities only) and New Zealand. This, in part, reflects the level of competition between these countries for funds management activity.

Common law trust structures are likely to decline in use

The investment vehicle structures offered by a country are often a legacy of their legal frameworks. Some foreign investors are more familiar with investments in corporate CIVs, for example, than through trust structures, which are often not well understood by investors from countries who do not have a 'common law' foundation to their legal system.

We have seen a number of countries whose legal system is based on 'common law' introducing additional CIV structures over the last two decades. These include the UK Open-ended Investment Company (OEIC), the proposed S-VACC in Singapore and the Corporate CIV in Australia.

The majority of surveyed countries have a 'tax-transparent' CIV in at least one investment category

Fourteen of the sixteen surveyed countries have a tax-transparent CIV for one or more investment categories.

The two exceptions are Hong Kong and Indonesia. Hong Kong mitigates its position by having no withholding taxes, an exemption for foreign-sourced income, and a relatively low tax rate on business and investment profits.

Tax-transparency of the CIV in the country of investment does not have to go hand-in-hand with a preferential tax rate in order to be an attractive structure. It enables the investor to incur the tax in their own right, and therefore have greater opportunity to receive credit for it against tax owed in their country of residence.

APPENDIX A

Table A1: Tax treatment of collective investment vehicles in Australia and selected North American and European economies

Feature	Australia			Canada			France			Germany			Luxembourg			Netherlands			UK			US		
	Real property	Infrastructure	Portfolio equity	Real property	Infrastructure	Portfolio equity	Real property	Infrastructure	Portfolio equity	Real property	Infrastructure	Portfolio equity	Real Property	Infrastructure	Portfolio equity	Real property	Infrastructure	Portfolio equity	Real property	Infrastructure	Portfolio equity	Real property	Infrastructure	Portfolio equity
	Trust	Staple	Trust	Trust	LP	Mutual	CCIV n7	LP	LP	CCIV n8	CCIV n8	CCIV n8	CCIV	CCIV	CCIV	CCIV n10	CCIV	CCIV n10	REIT	LP	CCIV n12	REIT	LP	LP
Tax transparent entity?	Y	Partial	Y	Y	Y	Y	Y	Partial	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y n11	Y	No	Y n11	Y	Y
Withholding tax rate vs tax on direct investment	Fav-n5	Part Fav	Fav-n5	Neutral	Neutral	Neutral	Fav	Neutral	Neutral	Fav	Fav	Fav	Fav n-9	Fav n-9	Fav-n9	Fav	Neutral	Fav	Neutral	Neutral	Fav	Fav	Neutral	Neutral
Tax on capital gains vs direct investment	Fav-n5	Part Fav	Fav-n5	Neutral	Neutral	Neutral	Fav	Neutral	Neutral	Fav	Fav	Fav	Fav n-9	Fav	Fav	Fav	Neutral	Fav	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Tax concessions linked to investment restrictions?	Y	N/A	Y	N/A	N/A	N/A	Y	N/A	N/A	Y	Y	Y	Y	Y	Y	Y	N/A	Y	Y	N/A	Y	Y	N/A	N/A
Exemption for conduit foreign income? n1	Y	Y	Y	No	No	No	Y	Y	Y	Treaty	Treaty	Treaty	Y	Y	Y	Treaty	Treaty	Treaty	Y	Y	No	No	Y	Y
Limitations on tax deductibility of interest	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	No	No	No	No	No	No	Y	Y	Y	Y	Y	Y
Tax rate on revenue profits - resident n2	30%	30%	30%	27%	27%	27%	34.4%	34.4%	34.4%	30%	30%	30%	Nil	Nil	Nil	25%	25%	25%	19%	19%	Nil	39%	39%	39%
Tax rate on revenue profits - non-resident n3	15%	15%/30%	15%	25%	25%	25%	30%	34.4%	30%	26%	26%	26%	Nil	Nil	Nil	15%	25%	15%	20%	19%	Nil	30%	35%	30%
Tax rate on capital profits - resident n2	30%	30%	30%	13.50%	13.50%	13.50%	34.4%	34.4%	34.4%	30%	30%	30%	Nil	Nil	Nil	25%	25%	25%	19%	19%	Nil	39%	39%	39%
Tax rate on capital profits - non-resident n3	15%	15%/30%	Nil	13.50%	13.50%	Nil	30%	34.4%	30%	26%	26%	26%	Nil	Nil	Nil	Nil	25%	Nil	20%	19%	Nil	35% n13	35% n13	Nil
General fiscal trend in relation to CIV n4																								

Notes:

- (1) Conduit foreign income refers to income sourced from outside the country of residence of the CIV, and distributed to a non-resident investor.
- (2) Assumes resident investor is a corporate. Tax rate may be an average that includes state and local taxes on company profits. Green shading denotes concessional rate, or rate of less than 20 per cent.
- (3) May be reduced by applicable double tax treaty. Green shading denotes concessional rate, or rate of less than 20 per cent.
- (4) Green shading denotes recent or proposed legislation, or developments in practice of revenue authorities, that are likely to encourage broader use of CIVs.
- (5) Reduced withholding rate of 15 per cent (which is a final tax) applies where investor resides in a country with an 'exchange of information' agreement with Australia.
- (6) Stapled security represents a share in a company and a unit in a trust which can only be traded together. Tax treatment is currently being reviewed by government.
- (7) Corporate collective investment vehicle. In France this is known as an 'OPCI'.
- (8) Information reflects the new German regime for Special Investment Funds applies from 1 January 2018.
- (9) Luxembourg vehicles including specialised investment fund (SIF) and SICAV are exempt from income tax and withholding tax, but must pay a 'subscription tax' on the net value of assets each quarter.
- (10) In Netherlands this is known as an 'FGR', and it is assumed that this qualifies for the fiscal investment institution ('FII') regime.
- (11) UK and US REITs are not taxed on income distributions to members, so are effectively tax transparent.
- (12) Typically an open-ended investment company (OEIC)
- (13) Includes branch profits tax which may be eligible for reduction under double tax treaty.

Table A2: Tax treatment of collective investment vehicles in selected Asian economies

Feature	New Zealand			China			Hong Kong			India			Indonesia			Japan			Korea			Singapore		
	Real property	Infrastructure	Portfolio equity	Real property	Infrastructure	Portfolio equity	Real property	Infrastructure	Portfolio equity	Real property	Infrastructure	Portfolio equity	Real property	Infrastructure	Portfolio equity	Real property	Infrastructure	Portfolio equity	Real property	Infrastructure	Portfolio equity	Real property	Infrastructure	Portfolio equity
	CCIV n14	LP	CCIV	LP	LP	LP	CCIV	CCIV	CCIV	Trust	Trust	Trust	REIT	Mutual	Mutual	REIT	REIT	Trust	Trust	Trust	LP	Trust	CCIV	CCIV
Tax transparent entity?	No	Y	No	Y n15	Y n15	Y n15	No	No	No	Y n16	Y n16	Y	No	No	No	Y	Y	Y	Y	Y	Y	Y	No	No
Withholding tax rate vs tax on direct investment	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Fav	Neutral	Neutral	Neutral	Neutral	Neutral	Fav	Fav	Fav	Fav	Fav	Neutral	Neutral	Neutral	Neutral	Fav	Neutral	Neutral
Tax on capital gains vs direct investment	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Fav	Fav	Fav	Fav	Fav	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Tax concessions linked to investment restrictions?	Y	N/A	N/A	N/A	N/A	N/A	Y	N/A	N/A	Y	N/A	N/A	Y	No	No	Y	Y	N/A	Y	N	N/A	Y	N/A	N/A
Exemption for conduit foreign income? n1	Y	Y	Y	No	No	No	Y	Y	Y	No	No	No	No	No	No	No	No	No	No	No	Y	Y	Y	Y
Limitations on tax deductibility of interest	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y n18	Y	Y	Y	Y	Y	No	No	No	No	No	No
Tax rate on revenue profits - resident n2	28%	28%	28%	25%	25%	25%	15%	16.50%	16.50%	34.61%	34.61%	Nil n17	25%	25%	25%	34%	34%	34%	24.2%	24.2%	24.2%	17%	17%	17%
Tax rate on revenue profits - non-resident n3	28%	28%	28%	10%	10%	10%	15%	16.50%	16.50%	34.61%	34.61%	Nil n17	25%	25%	25%	15.32%	15.32%	15.32%	22%	22%	22%	10%	17%	17%
Tax rate on capital profits - resident n2	Nil	Nil	Nil	25%	25%	25%	Nil	Nil	Nil	34.61%	34.61%	Nil	N/A n19	N/A n19	N/A n19	34%	34%	34%	24.2%	24.2%	24.2%	Nil	Nil	Nil
Tax rate on capital profits - non-resident n3	Nil	Nil	Nil	10%	10%	10%	Nil	Nil	Nil	34.61%	34.61%	Nil	N/A n19	N/A n19	N/A n19	15.32%	15.32%	Nil	22%	22%	22%	Nil	Nil	Nil
General fiscal trend in relation to CIV n4																								

Notes:

- (1) Conduit foreign income refers to income sourced from outside the country of residence of the CIV, and distributed to a non-resident investor.
- (2) Assumes resident investor is a corporate. Tax rate may be an average that includes state and local taxes on company profits. Green shading denotes concessional rate, or rate of less than 20 per cent.
- (3) May be reduced by applicable double tax treaty. Green shading denotes concessional rate, or rate of less than 20 per cent.
- (4) Green shading denotes recent or proposed legislation, or developments in practice of revenue authorities, that are likely to encourage broader use of CIVs.
- (5) Reduced withholding rate of 15 per cent (which is a final tax) applies where investor resides in a country with an 'exchange of information' agreement with Australia.
- (6) Stapled security represents a share in a company and a unit in a trust which can only be traded together. Tax treatment is currently being reviewed by government.
- (7) Corporate collective investment vehicle. In France this is known as an 'OPCI'.
- (8) Information reflects the new German regime for Special Investment Funds applies from 1 January 2018.
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