International Tax Competitiveness Index

by Kyle Pomerleau
Andrew Lundeen

Tallinn, Estonia

Since 1937
TAX FOUNDATION

PRINCIPLED
INSIGHTFUL
ENGAGED

Executive Summary

The Tax Foundation's International Tax Competitiveness Index (ITCI) measures the degree to which the 34 OECD countries' tax systems promote competitiveness through low tax burdens on business investment and neutrality through a well-structured tax code. The ITCI considers more than forty variables across five categories: Corporate Taxes, Consumption Taxes, Property Taxes, Individual Taxes, and International Tax Rules.

The ITCI attempts to display not only which countries provide the best tax environment for investment, but also the best tax environment in which to start and grow a business.

Key Findings

- The ITCI finds that Estonia has the most competitive tax system in the OECD. Estonia has a relatively low corporate tax rate at 21 percent, no double taxation on dividend income, a nearly flat 21 percent income tax rate, and a property tax that taxes only land (not buildings and structures).

- France has the least competitive tax system in the OECD. It has one of the highest corporate tax rates in the OECD at 34.4 percent, high property taxes that include an annual wealth tax, and high, progressive individual taxes that also apply to capital gains and dividend income.

- The ITCI finds that the United States has the 32nd most competitive tax system out of the 34 OECD member countries.

- The largest factors behind the United States' score are that the U.S. has the highest corporate tax rate in the developed world and that it is one of the six remaining countries in the OECD with a worldwide system of taxation.

- The United States also scores poorly on property taxes due to its estate tax and poorly structured state and local property taxes

- Other pitfalls for the United States are its individual taxes with a high top marginal tax rate and the double taxation of capital gains and dividend income.

Taxes are a crucial component of a country's international competitiveness. In today's globalized economy, the structure of a country's tax code is an important factor for businesses when they decide where to invest. No longer can a country tax business investment and activity at a high rate without adversely affecting its economic performance. In recent years, many countries have recognized this fact and have moved to reform their tax codes to be more competitive. However, others have failed to do so and are falling behind the global movement.

The United States provides a good example of an uncompetitive tax code. The last major change to the U.S. tax code occurred 28 years ago as part of the Tax Reform Act of 1986, when Congress reduced the top marginal corporate income tax rate from 46 percent to 34 percent in an attempt to make U.S. corporations more competitive overseas. Since then, the OECD countries have followed suit, reducing the OECD average corporate tax rate from 47.5 percent in the early 1980s to around 25 percent today. The result: the United States now has the highest corporate income tax rate in the industrialized world.

While the corporate income tax rate is a very important determinant of economic growth and economic competitiveness, it is not the only thing that matters. The competitiveness of a tax code is determined by several factors. The structure and rate of corporate taxes, property taxes, income taxes, cost recovery of business investment, and whether a country has a territorial system are some of the factors that determine whether a country's tax code is competitive.

Many countries have been working hard to improve their tax codes. New Zealand is a good example of one of those countries. In a 2010 presentation, the chief economist of the New Zealand Treasury stated, "Global trends in corporate and personal taxes are making New Zealand's system less internationally competitive."[1] In response to these global trends, New Zealand cut its top marginal income tax rate from 38 percent to 33 percent, shifted to a greater reliance on the goods and services tax, and cut their corporate tax rate to 28 percent from 30 percent. This followed a shift to a territorial tax system in 2009. New Zealand added these changes to a tax system that already had multiple competitive features, including no inheritance tax, no general capital gains tax, and no payroll taxes.[2]

In a world where businesses, people, and money can move with relative ease, having a competitive tax code has become even more important to economic success. The example set by New Zealand and other reformist countries shows the many ways countries can improve their uncompetitive tax codes.[3]

* The authors would like to thank Scott Eastman for his research assistance.

1 Norman Gemmell, *Tax Reform in New Zealand: Current Developments* (June 2010), http://www.victoria.ac.nz/sacl/about/cpf/publications/pdfs/4GemmellPostHenrypaper.pdf.

2 New Zealand has no general capital gains tax, though it does apply a tax on gains from foreign debt and equity investments. *See New Zealand Now, Taxes*, http://www.newzealandnow.govt.nz/living-in-nz/money-tax/nz-tax-system.

3 Every OECD country except the United States, Norway, and Chile have cut their corporate tax rate since 2000. *See Organization for Economic Cooperation and Development, Tax Reform Trends in OECD Countries* (June 30, 2011), http://www.oecd.org/ctp/48193734.pdf.

Our International Tax Competitiveness Index (ITCI) seeks to measure the business competitiveness of national tax systems. In order to do this, the ITCI looks at over 40 tax policy variables, including corporate income taxes, individual taxes, consumption taxes, property taxes, and the treatment of foreign earnings.

The ITCI scores the 34 member countries of the OECD on these five categories in order to rank the most competitive countries in the industrialized world.

2014 Rankings

Estonia currently has the most competitive tax code in the OECD. Its top score is driven by four positive features of its tax code. First, it has a 21 percent tax rate on corporate income that is only applied to distributed profits. Second, it has a flat 21 percent tax on individual income that does not apply to personal dividend income. Third, its property tax applies only to the value of land rather than taxing the value of real property or capital. Finally, it has a territorial tax system that exempts 100 percent of the foreign profit earned by domestic corporations from domestic taxation with few restrictions.

While Estonia's tax system is unique in the OECD, the other top countries' tax systems receive high scores due to excellence in one or more of the major tax categories. New Zealand has a relatively flat, low income tax that also exempts capital gains (combined top rate of 33 percent), a well-structured property tax, and a broad-based value-added tax. Switzerland has a relatively low corporate tax rate (21.1 percent), low, broad-based consumption taxes (an 8 percent value-added tax), and a relatively flat individual income tax that exempts capital gains from taxation (combined rate of 36 percent). Sweden has a lower than average corporate income tax rate of 22 percent and no estate or wealth taxes. Australia, like New Zealand, has well-structured property and income taxes. Additionally, every single country in the top five has a territorial tax system.

France has the least competitive tax system in the OECD. It has one of the highest corporate income tax rates in the OECD (34.4 percent), high property taxes that include an annual net wealth tax, a financial transaction tax, and an estate tax. France also has high, progressive individual income taxes that apply to both dividend and capital gains income.

The United States places 32nd out of the 34 OECD countries on the ITCI. There are three main drivers behind the U.S.'s low score. First, it has the highest corporate income tax rate in the OECD at 39.1 percent. Second, it is one of the only countries in the OECD that does not have a territorial tax system, which would exempt foreign profits earned by domestic corporations from domestic taxation. Finally, the United States loses points for having a relatively high, progressive individual income tax (combined top rate of 46.3 percent) that taxes both dividends and capital gains, albeit at a reduced rate.

In general, countries that rank poorly on the ITCI have high corporate income taxes. The five countries at the bottom of the rankings have corporate tax rates of 30 percent

Table 1. 2014 International Tax Competitiveness Index Rankings

Country	Overall Score	Overall Rank	Corporate Tax Rank	Consumption Taxes Rank	Property Taxes Rank	Individual Taxes Rank	International Tax Rules Rank
Estonia	100.0	1	1	9	1	2	11
New Zealand	87.8	2	22	6	3	1	21
Switzerland	82.2	3	7	1	32	5	9
Sweden	79.8	4	3	12	6	21	7
Australia	78.2	5	24	8	4	8	22
Luxembourg	77.1	6	31	4	17	16	2
Netherlands	76.6	7	18	11	21	6	1
Slovak Republic	74.2	8	16	32	2	7	6
Turkey	70.3	9	10	26	8	4	19
Slovenia	69.8	10	4	25	16	11	13
Finland	67.4	11	9	15	9	23	18
Austria	67.2	12	17	22	18	22	4
Norway	66.7	13	20	23	14	13	12
Korea	66.4	14	13	3	24	10	30
Ireland	65.7	15	2	24	7	20	26
Czech Republic	64.4	16	6	28	10	12	24
Denmark	63.7	17	14	14	11	28	20
Hungary	63.6	18	11	33	20	17	3
Mexico	63.2	19	32	21	5	3	32
Germany	62.7	20	25	13	15	32	10
United Kingdom	62.2	21	21	19	29	18	5
Belgium	59.6	22	28	29	22	9	8
Canada	59.0	23	19	7	23	24	27
Iceland	57.2	24	12	16	28	29	16
Japan	54.5	25	34	2	26	25	25
Poland	53.8	26	8	34	27	15	23
Greece	53.4	27	15	27	25	14	28
Israel	53.1	28	26	10	12	27	31
Chile	51.0	29	5	30	13	19	33
Spain	50.8	30	27	18	30	31	14
Italy	47.1	31	23	20	33	33	15
United States	44.3	32	33	5	31	26	34
Portugal	42.9	33	29	31	19	30	29
France	38.9	34	30	17	34	34	17

or higher, except for Italy with a rate of 27.5 percent. All five countries have high consumption taxes with rates of 20 percent or higher, except for the United States. They also levy relatively high property taxes on real property, have financial transaction taxes (except Spain), and have estate taxes. Finally, these bottom five countries have relatively high, progressive income taxes that apply to capital gains and dividends.

The International Tax Competitiveness Index

The International Tax Competitiveness Index seeks to measure the extent to which a country's tax system adheres to two important principles of tax policy: competitiveness and neutrality.[4]

A competitive tax code is a code that limits the taxation of businesses and investment. In today's globalized world, capital is highly mobile. Businesses can choose to invest in any number of countries throughout the world in order to find the highest rate of return. This means that businesses will look for countries with lower tax rates on investments in order to maximize their after-tax rate of return. If a country's tax rate is too high, it will drive investment elsewhere, leading to slower economic growth.

However, low rates are not the only component of a good tax code; a tax code must also be neutral. A neutral tax code is simply a tax code that seeks to raise the most revenue with the fewest economic distortions. This means that it doesn't favor consumption over saving, as happens with capital gains and dividends taxes, estate taxes, and high progressive income taxes. This also means no targeted tax breaks for businesses for specific business activities.

Another important aspect of neutrality is the proper definition of business income. For a business, profits are revenue minus costs. However, a country's tax code may use a different definition. This is especially true with regard to capital investments. Most countries do not allow a business to account for the full cost of many investments they make, artificially driving up a business's taxable income. This reduces the after-tax rate of return on investment, thus diminishing the incentive to invest. A neutral tax code would define business income the way that businesses see it: revenue minus costs.

A tax code that is competitive and neutral promotes sustainable economic growth and investment. In turn, this leads to more jobs, higher wages, more tax revenue, and a higher overall quality of life.

It is true that taxes are not all that matter. There are many factors unrelated to taxes which affect a country's economic performance and business competitiveness. Nevertheless, taxes affect the health of a country's economy.

4 For a discussion of the methodology and a list of data sources, please see the Appendix.

In order to measure whether a country's tax system is neutral and competitive, the ITCI looks at over 40 tax policy variables. These variables measure not only the specific burden of a tax, but also how a tax is structured. For instance, a 25 percent corporate tax that taxes true business income is much better than a 25 percent corporate tax that overstates a business's income through lengthy depreciation schedules.

The ITCI attempts to display not only which countries provide the best tax environment for investment, but also the best tax environment in which to start and grow a business.

Corporate Income Tax

The corporate income tax is a direct tax on the profits of a corporation. All OECD countries levy a tax on corporate profits, but the rates and bases vary widely from country to country. Corporate income taxes reduce the after-tax rate of return on corporate investment. This increases the cost of capital, which leads to lower levels of investment. In turn, economic growth declines, while investment is driven to countries with lower corporate tax burdens. Additionally, the corporate tax can lead to lower wages for workers, lower returns for investors, and higher prices for consumers.

Although the corporate income tax has a large effect on a country's economy, it raises a relatively low amount of tax revenue for governments. The ITCI breaks the corporate income tax category into three subcategories.

Table 2 displays the Corporate Tax category rank and score along with the ranks and scores of the subcategories.

Top Marginal Corporate Income Tax Rate

The top marginal corporate tax rate measures the rate at which the next dollar of profit is taxed. High marginal corporate tax rates tend to discourage capital formation and slow economic growth.[5] Countries with higher top marginal corporate income tax rates than the OECD average receive lower scores than those with lower, more competitive rates.

The United States has the highest top marginal corporate income tax rate at 39.1 percent. This is followed by Japan (37 percent), France (34.4 percent), and Portugal (31.5 percent). The lowest top marginal corporate income tax rate in the OECD is found in Ireland (12.5 percent). There are four other countries with rates below 20 percent: the Czech Republic (19 percent), Hungary (19 percent), Poland (19 percent), and Slovenia (17 percent). The OECD average is 25.4 percent.[6]

Cost Recovery

To a business, income is revenue (what a business makes in sales) minus costs (the cost of doing business). The corporate income tax is meant to be a tax on this income. Thus, it is important that a tax code properly define what constitutes taxable income. If a tax code does not allow businesses to account for all of the costs of doing business, it will inflate a business's taxable income and thus its tax bill. This increases the cost of capital, which reduces the demand for capital, leading to slower investment and economic growth.

5 Organization for Economic Cooperation and Development, *Tax Policy Reform and Economic Growth*, OECD Tax Policy Studies No. 20 (2010), http://www.oecd.org/ctp/tax-policy/46605695.pdf.

6 Organization for Economic Cooperation and Development, *OECD Tax Database, Table II.1 - Corporate income tax rates: basic/non-targeted (2000-2014)* (updated May 2014), http://www.oecd.org/tax/tax-policy/tax-database.htm.

Table 2. Corporate Tax

Country	Overall Rank	Overall Score	Rate Rank	Rate Score	Cost Recovery Rank	Cost Recovery Score	Incentives/ Complexity Rank	Incentives/ Complexity Score
Australia	24	47.0	26	21.9	19	47.4	9	73.8
Austria	17	59.0	17	52.7	13	52.6	12	66.5
Belgium	28	41.3	31	7.4	2	75.6	28	50.9
Canada	19	54.0	20	43.9	26	39.5	8	76.4
Chile	5	72.5	6	82.4	33	29.4	3	96.4
Czech Republic	6	70.6	3	86.6	18	48.5	15	61.5
Denmark	14	60.4	16	56.0	23	43.1	6	78.0
Estonia	1	100.0	10	77.4	1	100.0	2	98.7
Finland	9	68.4	6	82.4	32	31.9	5	82.2
France	30	37.8	32	6.5	5	63.2	19	59.0
Germany	25	45.6	29	21.0	10	55.3	16	60.9
Greece	15	60.1	19	45.9	4	64.6	14	63.3
Hungary	11	67.0	3	86.6	25	41.4	21	57.7
Iceland	12	62.6	6	82.4	31	35.5	20	58.6
Ireland	2	83.4	1	100.0	17	48.7	22	55.9
Israel	26	41.8	21	42.6	6	60.8	33	18.9
Italy	23	48.2	23	36.1	9	56.0	29	47.2
Japan	34	16.7	33	2.6	29	36.6	32	25.6
Korea	13	61.2	15	58.0	8	58.8	18	59.8
Luxembourg	31	37.8	25	25.9	3	69.6	34	17.0
Mexico	32	37.4	26	21.9	24	42.6	30	46.8
Netherlands	18	55.0	17	52.7	11	53.9	25	52.0
New Zealand	22	49.0	24	33.0	28	37.0	7	76.8
Norway	20	53.9	22	39.3	30	35.5	4	85.8
Poland	8	69.0	3	86.6	27	38.4	10	68.4
Portugal	29	41.0	30	15.2	21	46.0	11	67.1
Slovak Republic	16	59.8	13	71.9	12	53.5	31	44.0
Slovenia	4	74.1	2	93.1	14	52.3	23	52.9
Spain	27	41.5	26	21.9	16	49.9	24	52.4
Sweden	3	77.0	13	71.9	15	51.0	1	100.0
Switzerland	7	69.2	12	76.6	7	59.7	17	60.6
Turkey	10	68.3	6	82.4	20	46.8	13	63.5
United Kingdom	21	53.4	10	77.4	34	25.1	27	51.3
United States	33	21.0	34	1.1	22	44.4	26	51.5

Capital Cost Recovery: Machines, Buildings, and Intangibles

Typically, when a business calculates its taxable income, it takes its revenue and subtracts its costs (such as wages and raw materials). However, with capital investments (buildings, machines, and other equipment) the calculation is more complicated. Businesses in most countries are generally not allowed to immediately deduct the cost of their capital investments. Instead, they are required to write off these costs over several years or even decades, depending on the type of asset.

Depreciation schedules establish the amounts businesses are legally allowed to write off, as well as how long assets need to be written off. For instance, a government may require a business to deduct an equal percent of the cost of a machine over a seven-year period. By the end of the depreciation period, the business would have deducted the total initial dollar cost of the asset. However, due to the time value of money (a normal real return plus inflation), write-offs in later years are not as valuable in real terms as write-offs in earlier years. As a result, businesses effectively lose the ability to deduct the full present value of their investment cost. This treatment of capital expenses understates true business costs and overstates taxable income in present value terms.[7]

A country's cost recovery score is determined by the capital allowances for three asset types: machinery, industrial buildings, and intangibles.[8] Capital allowances are expressed as a percent of the present value cost that corporations can write off over the life of an asset. A 100 percent capital allowance represents a business's ability to deduct the full cost of an investment over its life. Countries that provide faster write-offs for capital investments receive higher scores in the ITCI.

On average, business can write off 81 percent of the cost of machinery, 43.5 percent of the cost of industrial buildings, and 73 percent of the cost of intangibles.[9] Estonia, which has a corporate tax only on distributed profits, is coded as allowing 100 percent of the present value of a capital investment to be written off. This is done due to the fact that distributed profits are determined by actual accounting profits. The United States allows an average write-off of only 62 percent across all capital investments, ranking 29th in the OECD.

Inventories

In the same vein as capital investments, the costs of inventories are not written off in the year in which the purchases are made. Instead, the costs of inventories are deducted when the inventory is sold. As a result, it is necessary for governments to define the total cost of inventories sold. There are three methods governments allow businesses to use to calculate their inventories: Last In, First Out (LIFO); Average Cost; and First In, First Out (FIFO).

7 Kyle Pomerleau, *Cost Recovery across the OECD*, Tax Foundation Fiscal Fact No. 402 (Nov. 19, 2013), http://taxfoundation.org/article/capital-cost-recovery-across-oecd.

8 Intangible assets are typically amortized, but the write-off is similar to depreciation.

9 Oxford University Centre for Business Taxation, *CBT tax database*, http://www.sbs.ox.ac.uk/ideas-impact/tax/publications/data. Capital allowances are calculated assuming a fixed interest rate of 5 percent and fixed inflation rate of 2.5 percent.

Countries that allow businesses to choose the LIFO method receive the highest score, those that allow the Average Cost method receive an average score, and countries that only allow the FIFO method receive the lowest score. The United States, along with 14 other countries, allows companies to use the LIFO method of accounting.[10] Thirteen countries use the Average Cost method of accounting, and six countries limit companies to using the FIFO method of accounting.

Loss Offset Rules: Carryforwards and Carrybacks

In most countries, corporations are allowed to either deduct current year losses against future profits, or deduct current year losses against past profits, receiving a tax rebate for overpayments. Loss offset rules dictate the number of years a corporation is allowed to carry forward or carry back net operating losses.

The ability for a corporation to carry forward or carry back operating losses ensures that a corporation is taxed on its average profitability over many years. This more efficiently accounts for a business's true costs and profits rather than taxing a given year's profits, which are susceptible to the ups and downs of the economy. Restricting the carry forward or carry back of losses places a greater average tax burden on industries that are more susceptible to business cycles.

In 11 of the 34 OECD countries, corporations can carry forward losses indefinitely.[11] Of the countries with restrictions, the average loss carryforward period is 17.3 years. The United States allows a carryforward period of 20 years. The Slovak Republic has the most restrictive loss carryforward period at 4 years. The ITCI ranks countries that allow losses to be carried forward indefinitely higher than countries that restrict the number of years corporations are allowed to carry forward losses.

Countries are much more restrictive with loss carryback provisions than they are with carryforward provisions. Only two countries allow unlimited carrybacks of losses (Estonia and Chile). Of the ten countries that allow limited carrybacks, the average period is 1.35 years.[12] The ITCI penalizes the 22 countries that do not allow any loss carrybacks at all.

Tax Incentives and Complexity

Good tax policy treats economic decisions neutrally, neither encouraging nor discouraging one activity over another. A tax incentive provides a tax credit, deduction, or preferential tax rate for one type of economic activity but not others. Providing tax incentives or special provisions distorts economic decisions.

For instance, when an industry receives a tax credit for producing a specific product, it may choose to overinvest in that activity, which may otherwise not be profitable.

10 *Id.*
11 Deloitte, *International Tax Guides and Country Highlights*, https://dits.deloitte.com/#TaxGuides. These countries are coded as 100 years.
12 Korea only allows 50 percent of losses to be carried back one year. This is coded as 0.5.

Additionally, the cost of special provisions is often offset by shifting the burden onto other taxpayers in the form of higher tax rates.

In addition, the possibility of receiving incentives invites efforts to secure these tax preferences,[13] such as lobbying, which creates additional deadweight loss as firms focus resources on influencing the tax code in lieu of producing products. For instance, the deadweight losses in the United States attributed to tax compliance and lobbying were estimated to be between $215 and $987 billion in 2012. These expenditures for lobbying, along with compliance, have been shown to reduce economic growth by crowding out potential economic activity.[14]

The ITCI considers whether countries provide incentives such as research and development (R&D) credits and patent box provisions that apply lower tax rates on income earned from patented technologies or procedures housed within the country. Countries which provide such incentives are scored lower than those that do not.

Research and Development

In the absence of full expensing, an R&D tax credit provides a necessary offset for the costs of business investment. Unfortunately, R&D tax credits are rarely neutral—they usually define very specific activities that qualify—and are often complex in their implementation. A country's use of an R&D tax credit provides a useful insight into the country's willingness to provide other special tax provisions.

As with other incentives, R&D credits distort investment decisions and lead to the inefficient allocation of resources. Additionally, desire to secure R&D incentives encourages lobbying activities that consume resources and detract from investment and production. In Italy, for instance, firms can engage in a negotiation process for incentives, such as easy term loans and tax credits, as long as the incentives have EU approval.[15]

Countries could better use the revenue spent on special tax incentives to provide a lower business tax rate across the board or to improve the treatment of capital investment.

In the OECD, 28 countries provide incentives for research and development, including the United States. The type of incentive provided varies from country to country. For example, Hungary provides for a "double deduction" of qualifying R&D costs, and France provides cash payments to firms for R&D costs if the firm has not used those costs to offset its income tax liability within three years. The six countries that do not provide incentives include Chile, Denmark, Estonia, Poland, Sweden, and Switzerland. Countries that provide R&D incentives through the tax code receive a lower score on the ITCI.[16]

13 Christopher J. Coyne & Lotta Moberg, *The Political Economy of State-Provided Targeted Benefits* (George Mason University, Mercatus Center Working Paper No. 14-13, May 2014), http://mercatus.org/sites/default/files/Coyne_TargetedBenefits_v2.pdf.

14 Jason J. Fichtner & Jacob Feldman, *The Hidden Costs of Tax Compliance* (May 20, 2013), http://mercatus.org/sites/default/files/Fichtner_TaxCompliance_v3.pdf.

15 Deloitte, *International Tax Guides and Country Highlights*, https://dits.deloitte.com/#TaxGuides.

16 *Id.*

Patent Boxes

As globalization has increased, countries have searched for ways to prevent corporations from reincorporating elsewhere. One solution has been the creation of patent boxes.

Patent boxes provide corporations a lower rate on income earned from intellectual property. Intellectual property is extremely mobile, so a country can use the lower tax rate of a patent box to entice corporations to hold their intellectual property within its borders. This strategy provides countries with revenue they might not otherwise receive if those companies were to move their patents elsewhere.

Instead of providing patent boxes for intellectual property, countries should recognize that all capital is mobile and lower their corporate tax rate across the board. This would encourage investment of all kinds instead of merely incentivizing corporations to locate their patents in a specific country.

Only eight OECD countries—Belgium, France, Ireland, Hungary, Luxembourg, Netherlands, Spain, and the United Kingdom—have patent box legislation, with rates and exemptions varying between countries.[17] The United States has no patent box incentives. Countries with patent box regimes score lower than those without patent boxes.

Complexity

Corporate tax code complexity is quantified by measuring the compliance burden placed on firms in order to pay their taxes. These burdens are measured by the number of payments made for the corporate income tax as well as the time needed to comply with the tax (measured in hours of compliance time per year). Tax code compliance consumes resources that could otherwise be used for investment and business operations.

Countries that require higher numbers of tax payments and larger amounts of time for tax compliance receive lower scores on the ITCI. The results are based on data from PwC's Paying Taxes 2014 component of the Doing Business report from the World Bank.[18]

The nation with the highest number of tax payments levied on firms is Israel with 21. The Slovak Republic follows with 19, then Poland with 17. Sweden and Norway impose the fewest number of payments with 3, while Mexico imposes the second fewest with 4. The average across the OECD is 8.8 payments, and the U.S. requires 11 payments.

Complying with corporate income taxes takes the most time in Mexico, at 170 hours, followed by 155 hours in Japan and 110 hours in Israel. Tax compliance takes the least amount of time in Ireland, at 10 hours, followed by 15 hours in Switzerland and 19

17 *Id. See also* Robert D. Atkinson & Scott Andes, *Patent Boxes: Innovation in Tax Policy and Tax Policy for Innovation* (Oct. 2011), http://www.itif.org/files/2011-patent-box-final.pdf.

18 PricewaterhouseCoopers & The World Bank Group, *Paying Taxes 2014: The global picture*, http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Special-Reports/Paying-Taxes-2014.pdf.

hours in Luxembourg. The average across the OECD is 52 hours. In the United States, compliance time takes approximately 87 hours.

Consumption Taxes

Consumption taxes are levied on an individual's purchases of goods and services. Consumption taxes take various forms throughout the world. In the OECD, the value-added tax is the most common consumption tax. Most consumption taxes avoid taxing business inputs by either excluding them from the tax base or allowing for a credit. The exclusion of business inputs makes a consumption tax one of the most economically efficient means of raising tax revenue.

However, many countries fail to define their tax base properly. Countries often exempt too many goods and services from taxation, which requires them to levy high rates to raise sufficient revenue. Some countries also fail to properly exempt business inputs. For example, states in the United States often levy sales taxes on machinery and equipment.[19]

A country's consumption tax score is broken down into three subcategories. Table 3 displays the ranks and scores for the Consumption Taxes category.

Consumption Tax Rate

If levied at the same rate and properly structured, a value-added tax (VAT) and a retail sales tax will each raise the same amount of revenue. Ideally, either a VAT or a sales tax should be levied on all final consumption (although they are implemented in slightly different ways). With a sufficiently broad consumption tax base, the rate at which the tax is levied does not need to be high. A VAT or retail sales tax with a low rate and neutral structure limits economic distortions while raising sufficient revenue.

However, many countries have consumption taxes that exempt goods and services that should be taxed. This requires a country (or states, in the case of the United States) to have a higher rate than would otherwise be necessary in order to raise sufficient revenue. If not neutrally structured, high tax rates create economic distortions by discouraging the purchase of highly taxed goods and services in favor of untaxed or self-provided goods and services.

Countries with lower consumption tax rates score better than those with high tax rates. This is because lower rates do less to discourage economic activity and allow for more future consumption and investment.

19 Patrick Fleenor & Andrew Chamberlain, *Tax Pyramiding: The Economic Consequences of Gross Receipts Taxes*, Tax Foundation Special Report No. 147 (Dec. 4, 2006), http://taxfoundation.org/article/tax-pyramiding-economic-consequences-gross-receipts-taxes.

Table 3. Consumption Taxes

Country	Overall Rank	Overall Score	Rate Rank	Rate Score	Base Rank	Base Score	Complexity Rank	Complexity Score
Australia	8	74.8	4	96.4	28	37.2	19	62.0
Austria	22	46.0	14	43.3	19	50.6	23	39.3
Belgium	29	29.4	19	36.3	21	49.6	29	8.9
Canada	7	75.5	6	95.1	22	44.0	19	62.0
Chile	30	28.5	12	50.7	11	63.5	34	1.7
Czech Republic	28	32.3	19	36.3	12	62.4	32	7.9
Denmark	14	59.5	30	13.9	3	88.1	14	74.6
Estonia	9	69.7	14	43.3	9	66.8	7	88.0
Finland	15	57.1	29	18.4	16	56.0	3	90.5
France	17	51.8	14	43.3	33	17.6	6	88.8
Germany	13	60.0	12	50.7	17	51.5	16	71.0
Greece	27	34.0	25	23.6	27	39.1	24	36.8
Hungary	33	19.4	34	7.4	18	51.1	26	11.1
Iceland	16	54.3	33	12.0	6	79.5	14	74.6
Ireland	24	42.8	25	23.6	31	18.8	8	85.3
Israel	10	67.4	10	58.0	2	90.2	22	41.9
Italy	20	48.9	23	29.6	29	28.7	9	83.3
Japan	2	91.1	2	99.3	10	63.6	12	80.2
Korea	3	89.6	4	96.4	14	58.8	4	89.7
Luxembourg	4	88.8	7	77.8	5	86.3	2	92.0
Mexico	21	47.6	9	71.8	8	68.9	29	8.9
Netherlands	11	61.5	19	36.3	13	59.1	11	81.3
New Zealand	6	82.9	7	77.8	1	100.0	21	49.9
Norway	23	45.5	30	13.9	15	56.7	17	69.7
Poland	34	17.7	25	23.6	30	21.5	29	8.9
Portugal	31	24.8	25	23.6	24	42.9	26	11.1
Slovak Republic	32	20.9	14	43.3	32	18.3	33	7.4
Slovenia	25	37.6	23	29.6	20	49.7	25	30.8
Spain	18	50.4	19	36.3	25	40.3	17	69.7
Sweden	12	61.2	30	13.9	4	87.7	13	79.1
Switzerland	1	100.0	2	99.3	7	77.4	1	100.0
Turkey	26	34.6	10	58.0	25	40.3	28	10.5
United Kingdom	19	50.2	14	43.3	34	14.1	4	89.7
United States	5	88.7	1	100.0	23	43.9	10	82.3

The average consumption tax rate in the OECD is 19.1 percent. Hungary has the highest tax rate at 27 percent, while the United States with an average of 7.2 percent across all states and localities.[20]

Consumption Tax Base

Ideally, either a VAT or a sales tax should be levied on all final consumption. In other words, government collections should be equal to the amount of consumption in the economy times the rate of the sales tax or VAT. However, many countries' consumption tax bases are far from this ideal. They either exempt too many goods and services, requiring a higher rate than would otherwise be necessary, or apply the tax to business inputs, increasing the cost of capital.

Consumption Tax Base as a Percent of Total Consumption

A country's VAT or sales tax base score is measured as a ratio of the revenue collected by the VAT or sales tax compared to the potential tax revenue under a VAT or sales tax that is levied on all final goods and services.[21]

For example, if final consumption is $100 and a country levies a 10 percent VAT on all goods, a pure base would raise $10. Revenue collection below $10 reflects either a high number of exemptions built in to the tax code or low levels of compliance (or both).[22] The base is measured as a ratio of the pure base collections to the actual collections. Countries with tax base ratios near 1, signifying a pure tax base, score higher.

Under this measure, no country has a perfect VAT or sales tax base. New Zealand has the broadest base with a ratio of 0.99, and Mexico has the worst with a ratio of 0.31.[23] The OECD average tax base ratio is 0.54. The United States' tax base ratio of 0.38 is below the OECD average due mainly to states exempting many services that would be taxable under a pure sales tax.

Deduction Limitations

When a business is calculating the VAT it owes, it is able to credit the VAT it previously paid on an input. For example, a woodworking business may purchase lumber from a mill for $110. $100 for the price plus $10 for the VAT. The woodworking business then makes a chair and sells it for $132. It charges $120 plus $12 for the VAT. Before it

20 Scott Drenkard, *State and Local Sales Tax Rates in 2014*, Tax Foundation Fiscal Fact No. 420 (Mar. 18, 2014), http://taxfoundation.org/article/state-and-local-sales-tax-rates-2014.

21 Organization for Economic Cooperation and Development, *Consumption Tax Trends 2012* (Nov. 13, 2012), http://www.oecd-ilibrary.org/taxation/consumption-tax-trends-2012_ctt-2012-en. This paper does not provide the measure for the United States. The U.S. measure was calculated by the author.

22 It is also possible that the number is biased by VAT/sales tax evasion. If this is caused by a very high rate, it is still appropriate that a lower base score should penalize a country.

23 Organization for Economic Cooperation and Development, *Consumption Tax Trends 2012* (Nov. 13, 2012), http://www.oecd-ilibrary.org/taxation/consumption-tax-trends-2012_ctt-2012-en.

submits the VAT payment to the government, it deducts the $10 in VAT it paid on the lumber. Thus it only pays $2 in VAT. Between the mill and the woodworking business, the $12 VAT on the $120 value of the chair is paid. As long as each business is able to deduct the VAT paid on its inputs, the tax base will remain neutral.

However, some countries restrict deductions for VAT paid on certain goods and services purchased by businesses. These restrictions are meant to prevent businesses from sheltering consumption by classifying it as the cost of business inputs. The most common examples are restaurant meals or cars. While these restrictions prevent some hidden consumption, purchases of restricted goods are often truly business inputs. These restrictions cause tax pyramiding, which creates uneven tax burdens across industries, distorts companies' structures, and harms economic performance.[24]

Countries score higher if they do not restrict the ability for a business to deduct VAT or sales taxes paid.

Deduction limitations are found in 25 countries. The six countries that allow businesses to deduct all VAT costs are the Czech Republic, Denmark, Iceland, Israel, Mexico, and Switzerland.

Although the United States does not have a VAT, its sales tax suffers from an issue similar to that caused by deduction limitations. A few U.S. states apply retail sales taxes to business inputs,[25] which also creates tax pyramiding.

The VAT Threshold

Most OECD countries set thresholds for their VATs. This means that a business's sales of taxable items must reach a certain value before they are required to register and pay the VAT on its products. Although it may be the case that exempting very small businesses from the VAT saves time and money in compliance, unnecessarily large VAT thresholds create a distortion by favoring smaller businesses over larger ones.[26]

Countries receive better scores for lower VAT thresholds. The United Kingdom receives the worst VAT threshold score with a threshold of $110,744. Four countries receive the best scores for having no general VAT/sales tax threshold (Chile, Mexico, Spain, and Turkey). The average threshold across the OECD is approximately $34,000.

24 Patrick Fleenor & Andrew Chamberlain, *Tax Pyramiding: The Economic Consequences of Gross Receipts Taxes*, Tax Foundation Special Report No. 147 (Dec. 4, 2006), http://taxfoundation.org/article/tax-pyramiding-economic-consequences-gross-receipts-taxes.

25 This is also the case for some Canadian provinces. *See* Duanjie Chen & Jack Mintz, *2013 Annual Global Tax Competitiveness Ranking: Corporate Tax Policy at a Crossroads* (Nov. 2013), http://www.policyschool.ucalgary.ca/sites/default/files/research/mintz-2013-globtax.pdf.

26 Organization for Economic Cooperation and Development, *Consumption Tax Trends 2012* (Nov. 13, 2012), http://www.oecd-ilibrary.org/taxation/consumption-tax-trends-2012_ctt-2012-en.

Complexity

Although consumption taxes are generally more neutral than other taxes, they can be complex in their implementation. Complex VATs and sales taxes create significant compliance costs for businesses that need to remit payment to the government. This adds to the total cost of paying taxes by reallocating resources from productive activities to complying with tax laws. The complexity of a country's consumption tax is measured by the number of hours a business uses to comply with the tax, as measured by PwC's *Paying Taxes 2014* component of the *Doing Business* report from the World Bank.[27]

Countries receive higher scores if compliance with their consumption taxes takes fewer hours. Chile receives the worst score with a 124 hour compliance time. Switzerland receives the best score by requiring only 8 hours a year to comply with its consumption tax. The United State has a relatively less complex consumption tax that only takes 33 hours to comply with. The average number of compliance hours across the OECD is 56.4 hours.

Individual Taxes

Individual taxes are one of the most prevalent means of raising taxes to fund government. Individual income taxes are levied on an individual's income (wages and, often, capital gains and dividends) in order to fund general government operations. These taxes are typically progressive, meaning that the rate at which an individual's income is taxed increases as the individual earns more income.

In addition, countries have payroll taxes. These typically flat-rate taxes are levied on wage income in addition to a country's general individual income tax. However, revenue from these taxes is typically allocated specifically toward social insurance programs such as unemployment insurance, government pension programs, and health insurance.[28]

Individual taxes have the benefit of being one of the more transparent taxes. Taxpayers are made aware of their total amount of taxes paid at some point in the process, unlike consumption taxes, which are collected and remitted by a business.

However, most individual taxes have the effect of discouraging work due to a highly progressive structure and discouraging saving and investment by being applied to capital gains and dividend income, which causes double taxation of corporate income.[29]

A country's score for their individual income tax is determined by three subcategories: The rate and progressivity of wage taxation, the extent to which the income tax double

27 PricewaterhouseCoopers & The World Bank Group, *Paying Taxes 2014: The global picture*, http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Special-Reports/Paying-Taxes-2014.pdf.

28 Kyle Pomerleau, *A Comparison of the Tax Burden on Labor in the OECD*, Tax Foundation Fiscal Fact No. 434 (June 19, 2014), http://taxfoundation.org/article/comparison-tax-burden-labor-oecd.

29 Kyle Pomerleau, *High Burden of Capital Gains Tax Rates*, Tax Foundation Fiscal Fact No. 414 (Feb. 11, 2014), http://taxfoundation.org/article/high-burden-state-and-federal-capital-gains-tax-rates.

Table 4. Individual Taxes

Country	Overall Rank	Overall Score	Capital Gains/ Dividends Rank	Capital Gains/ Dividends Score	Income Tax Rank	Income Tax Score	Complexity Rank	Complexity Score
Australia	8	76.5	12	67.5	11	71.3	9	80.7
Austria	22	52.1	23	34.4	23	46.1	17	71.5
Belgium	9	74.9	6	87.2	28	38.4	7	84.2
Canada	24	47.0	27	26.7	29	34.3	12	79.2
Chile	19	56.7	22	39.7	10	73.2	25	49.9
Czech Republic	12	70.6	2	95.3	4	90.7	33	11.2
Denmark	28	39.8	34	7.9	22	46.6	11	79.5
Estonia	2	92.1	11	71.7	2	93.2	2	98.6
Finland	23	48.5	29	25.3	24	45.5	14	73.5
France	34	20.2	33	8.5	34	6.9	19	65.0
Germany	32	37.1	24	32.8	30	29.2	27	45.6
Greece	14	68.0	14	65.3	26	41.5	5	88.1
Hungary	17	63.5	15	56.1	6	89.1	29	33.5
Iceland	29	39.7	19	46.2	14	68.7	34	10.1
Ireland	20	54.1	32	8.6	9	74.7	4	90.6
Israel	27	43.3	16	56.1	16	62.5	32	13.2
Italy	33	29.2	19	46.2	31	20.1	31	19.9
Japan	25	46.7	21	45.8	20	51.8	28	36.1
Korea	10	74.1	10	76.2	12	69.3	19	65.0
Luxembourg	16	65.0	5	91.6	18	59.3	30	27.1
Mexico	3	88.5	9	86.7	5	90.1	15	72.9
Netherlands	6	79.8	6	87.2	19	57.2	10	80.0
New Zealand	1	100.0	1	100.0	1	100.0	13	75.3
Norway	13	69.2	25	30.1	13	69.0	1	100.0
Poland	15	68.0	18	48.7	3	91.8	24	50.4
Portugal	30	38.7	17	55.4	33	11.4	23	54.4
Slovak Republic	7	79.7	13	67.4	8	80.3	8	80.9
Slovenia	11	72.6	6	87.2	21	50.4	21	64.4
Spain	31	38.0	25	30.1	32	18.7	18	67.4
Sweden	21	52.2	31	24.1	27	38.7	3	92.2
Switzerland	5	82.8	4	91.6	7	87.5	26	48.0
Turkey	4	84.0	3	93.5	15	67.2	16	72.3
United Kingdom	18	58.9	28	25.3	17	61.3	6	87.2
United States	26	44.7	30	24.9	25	44.9	22	62.6

taxes corporate income, and complexity. Table 4 shows the ranks and scores for the entire Individual Taxes category as well as the rank and score for each subcategory.

Taxes on Ordinary Income

Individual incomes taxes are a tax levied on the wage income of individuals. Countries use individual income taxes as a significant source of revenue. They are used to raise revenue for both general government operations and for specific programs such as social insurance and government-provided health insurance.

A country's taxes on ordinary income are measured according to three variables: the top rate at which ordinary income is taxed, the progressivity of the income tax system, and the total tax burden on an average laborer.

Top Marginal Income Tax Rate

Most income tax systems have a progressive tax structure. This means that as an individual earns more income, they move into new tax brackets with higher tax rates. The top marginal tax rate is the top tax rate on all income over a certain level. For example, the United States has seven tax brackets with the seventh (top) bracket taxing each additional dollar of income over $406,751 at a rate of 39.6 percent.

Individuals consider the marginal tax rate when deciding whether or not to work an additional hour. High top marginal tax rates make additional work more expensive, which lowers the relative cost of not working. This makes it more likely that an individual will choose leisure over work. When high tax rates increase the cost of labor, this has the effect of decreasing hours worked, which decreases the amount of production in the economy.

Countries with high marginal tax rates receive a lower score on the ITCI than countries with low marginal tax rates. Sweden has the highest top combined marginal income tax rate at nearly 57 percent.[30] Hungary has the lowest at 16 percent. When including state and local taxes, the U.S. has a top marginal income tax rate of over 46 percent, which is 5 percentage points above the OECD average of 41 percent.

Income Level at Which Top Rate Applies/Progressivity

The level at which the top marginal rate begins to apply is also important. If a country has a top rate of 20 percent, but almost everyone pays that rate because it applies to any income over $10,000, that country essentially has a flat income tax. A tax system that has a top rate that applies to all income over $1,000,000 is highly progressive, because it targets a small number of people that earn a high level of income.

30 Organization for Economic Cooperation and Development, *OECD Tax Database, Table I.7 - Top statutory personal income tax rate and top marginal tax rates for employees, 2000-2013* (updated Apr. 2014), http://www.oecd.org/tax/tax-policy/tax-database.htm. The total tax burden on individuals earning enough to be taxed at the top marginal rate may face an effective tax rate even higher due to social insurance taxes. These taxes are captured in the "tax wedge on labor" variable.

Countries with top rates that apply at lower levels score better on the ITCI. The ITCI bases its measure on the income level at which the top rate begins as compared to the country's average income.[31] Portugal has the highest level of income tax progressivity (the top marginal income tax rate applies at 16.2 times the average Portuguese income), whereas Hungary has the least progressive tax system with a 16 percent flat tax that applies to the first dollar of Hungarian income. According to this measure, the U.S. has the 8th most progressive tax system in the OECD, with a top rate that applies at 8.5 times the average American income.

Tax Burden on Labor

The total tax burden faced by a worker in a country or the total tax cost of labor for the average worker in a country is called the tax wedge. The tax wedge includes income taxes and payroll taxes (both the employee-side and employer-side).

A high tax burden on labor increases the cost of labor relative to leisure. This discourages work and increases the cost to hire labor. Fewer hours worked damages economic growth and leads to lower levels of total output.

The ITCI gives countries with high tax wedges a low score due to the higher labor costs associated with high tax burdens on workers. Workers in Belgium face the highest tax burden at 55.8 percent, while workers in Chile face the lowest tax burden at 7 percent. The average across the OECD is 35.8 percent. The U.S. has the 25th highest tax burden in the OECD at 31.3 percent.

Capital Gains and Dividends Taxes

In addition to wage income, many countries' individual income tax systems tax investment income. They do this by levying taxes on income from capital gains and dividends.

A capital gain occurs when an individual purchases an asset (usually corporate stock) in one period and sells it in another for a profit. A dividend is a payment made to an individual from after-tax corporate profits.

Capital gains and personal dividend taxes are a form of double taxation of corporate profits that contributes to the tax burden on capital. When a corporation makes a profit, it must pay the corporate income tax. It can then generally do one of two things. The corporation can retain the after-tax profits, which boost the value of the business and thus its stock price. Stockholders then sell the stock and realize a capital gain, which requires them to pay tax on that income. Alternatively, the corporation can distribute the after-tax profits to shareholders in the form of dividends. Stockholders who receive dividends then pay tax on that income.

31 *Id.*

Dividends taxes and capital gains taxes create a bias against saving and investment, reduce capital formation, and slow economic growth.[32]

In the ITCI, a country receives a higher score for lower capital gains and dividends taxes.

Capital Gains Tax Rate

Countries generally tax capital gains at a lower rate than ordinary income, provided that specific requirements are met. For example, the United States taxes capital gains at a reduced rate if the taxpayer holds the asset for at least one year before selling it (these are called long-term capital gains). The ITCI gives countries with higher capital gains rates a lower score than those with lower rates.

Some countries use additional provisions to help mitigate the double taxation of income due to the capital gains tax. For instance, the United Kingdom provides annual exemption of £10,900 and Canada excludes half of all capital gains income from taxation.[33]

The average top marginal capital gains tax rate (given that requirements are met) is 16.6 percent across the OECD. Denmark has the highest top marginal capital gains tax rate at 42 percent, while the U.S. has a top marginal capital gains tax rate of 28.7 percent. Eleven countries exempt capital gains from taxation.

Inflation Indexing

Indexing capital gains for inflation ensures that investors are only taxed on the real return on their investment, as opposed to any returns due simply to inflation.[34] Countries that index capital gains taxes for inflation receive a higher score. Only four countries allow taxpayers to adjust the basis of their taxable capital gains for inflation: Australia, Israel, Mexico, and Portugal. The U.S does not index capital gains taxes for inflation.

Dividend Tax Rates

Dividend taxes can adversely impact capital formation in a country. High dividend tax rates increase the cost of capital, which deters investment and slows economic growth.

Countries' rates are expressed as the total top marginal personal dividend tax rate after any imputation or credit system.

Countries with lower overall dividend tax rates score higher on the ITCI due to the dividend tax rate's effect on the cost of investment (i.e., the cost of capital) and the more

32 Kyle Pomerleau, *The United States' High Tax Burden on Personal Dividend Income*, Tax Foundation Fiscal Fact No. 416 (Mar. 5, 2014), http://taxfoundation.org/article/united-states-high-tax-burden-personal-dividend-income.
33 Deloitte, *International Tax Guides and Country Highlights*, https://dits.deloitte.com/#TaxGuides.
34 Kyle Pomerleau & John Aldridge, *Inflation Can Cause an Infinite Effective Tax Rate on Capital Gains*, Tax Foundation Fiscal Fact No. 406 (Dec. 17, 2013), http://taxfoundation.org/article/inflation-can-cause-infinite-effective-tax-rate-capital-gains.

neutral treatment between saving and consumption. Ireland has the highest dividend tax rate in the OECD at 48 percent.[35] Both Estonia and the Slovak Republic have a dividend tax rate of 0 percent. The United States has the 13th highest dividend tax rate at 30.3 percent.

Complexity

On top of the direct costs of paying income taxes, there are indirect costs associated with complying with the tax code. These compliance costs are directly related to the complexity of the tax code. The more complex an individual income tax code, the more time and money it requires for individuals and businesses to comply with it.

Complexity is measured as the number of hours it take a business to comply with wage tax laws in each country. This measure is from the PwC and World Bank *Doing Business* report.[36] The Czech Republic receives the lowest score with a compliance time of 217 hours. Luxembourg receives the best score with a compliance time of 14 hours. The United States' income tax code requires 55 hour for compliance, compared to the OECD average of 75.9 hours.

35 Organization for Economic Cooperation and Development, *OECD Tax Database, Table II.4 - Overall Statutory Tax Rates on Dividend Income, 2000-2014* (updated May 2014), http://www.oecd.org/tax/tax-policy/tax-database.htm.

36 PricewaterhouseCoopers & The World Bank Group, *Paying Taxes 2014: The global picture*, http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Special-Reports/Paying-Taxes-2014.pdf.

International Tax System

In an increasingly globalized economy, businesses often expand beyond the borders of their home countries to reach customers around the world. As a result, countries need to define rules determining how, or if, income earned in foreign countries is taxed. International tax rules deal with the systems and regulations that countries apply to those business activities.

The United States has what is called a worldwide tax system. This means that a U.S. corporation operating in a foreign country must still pay taxes to the United States up to the rate of 35 percent on foreign earned income.

There has been a growing trend of moving away from worldwide taxation toward a system of territorial taxation, in which a country's corporate tax is limited to profits earned within its borders. In a territorial tax system, corporations only pay taxes to the country in which they earn income. Since the 1990s, the number of OECD countries with worldwide tax systems has fallen from 20 to 6.[37]

The type of tax system is not the only consideration for the competiveness of a country's international tax system. Countries often subject their multinational corporations to regulations that are arbitrary, expensive, and result from efforts to correct for underlying issues that make their tax system uncompetitive.

Table 5 displays the overall rank and score for the International Rules category as well as the ranks and scores for the subcategories.

Territoriality

Under a territorial tax system, international businesses pay taxes to the countries in which they earn their income. This means that territorial tax regimes do not tax the income companies earn in foreign countries. A worldwide tax system—such as the system employed by the United States—requires companies to pay tax on every dollar of worldwide income no matter where it is earned.

Companies based in countries with worldwide tax systems are at a competitive disadvantage, because they face potentially higher levels of taxation than their competitors in countries with territorial tax systems. Additionally, the second tax on repatriated corporate income increases complexity and discourages investment and production.[38]

The territoriality of a tax system is measured by the degree to which a country exempts foreign earned income through dividend and capital gain exemptions.

37 PricewaterhouseCoopers, *Evolution of Territorial Tax Systems in the OECD* (Apr. 2, 2013), http://www.techceocouncil.org/clientuploads/reports/Report%20on%20Territorial%20Tax%20Systems_20130402b.pdf.

38 William McBride, *Twelve Steps toward a Simpler, Pro-Growth Tax Code*, Tax Foundation Fiscal Fact No. 400 (Oct. 30, 2013), http://taxfoundation.org/article/twelve-steps-toward-simpler-pro-growth-tax-code.

Table 5. International Tax System

Country	Overall Rank	Overall Score	Div/Cap Gains Exemption Rank	Div/Cap Gains Exemption Score	Withholding Taxes Rank	Withholding Taxes Score	Regulations Rank	Regulations Score
Australia	22	62.8	1	100.0	29	27.3	13	54.0
Austria	4	93.0	1	100.0	21	46.1	1	100.0
Belgium	8	84.5	16	97.0	17	53.8	3	82.9
Canada	27	42.5	22	47.7	22	45.3	25	26.4
Chile	33	18.3	29	6.2	34	7.4	13	54.0
Czech Republic	24	57.4	1	100.0	33	17.4	13	54.0
Denmark	20	66.4	1	100.0	26	35.0	13	54.0
Estonia	11	82.4	22	47.7	6	85.9	3	82.9
Finland	18	67.8	1	100.0	11	67.5	25	26.4
France	17	67.8	16	97.0	9	70.2	25	26.4
Germany	10	82.5	16	97.0	8	78.3	13	54.0
Greece	28	40.5	22	47.7	25	39.9	25	26.4
Hungary	3	93.5	1	100.0	2	97.6	13	54.0
Iceland	16	70.0	1	100.0	24	42.2	9	55.4
Ireland	26	45.5	29	6.2	18	49.2	3	82.9
Israel	31	26.4	29	6.2	30	23.6	9	55.4
Italy	15	71.4	16	97.0	19	48.6	9	55.4
Japan	25	52.4	28	44.5	23	45.1	13	54.0
Korea	30	27.1	29	6.2	16	54.3	25	26.4
Luxembourg	2	97.4	1	100.0	5	86.5	3	82.9
Mexico	32	24.0	29	6.2	32	18.6	13	54.0
Netherlands	1	100.0	1	100.0	3	93.2	7	81.7
New Zealand	21	66.0	1	100.0	27	34.1	13	54.0
Norway	12	74.9	15	98.2	7	85.1	25	26.4
Poland	23	57.4	22	47.7	14	55.4	13	54.0
Portugal	29	37.3	22	47.7	28	31.5	25	26.4
Slovak Republic	6	86.1	22	47.7	10	69.3	1	100.0
Slovenia	13	73.8	16	97.0	13	56.4	13	54.0
Spain	14	72.1	1	100.0	20	47.7	9	55.4
Sweden	7	85.3	1	100.0	1	100.0	25	26.4
Switzerland	9	84.2	16	97.0	15	54.6	7	81.7
Turkey	19	67.4	1	100.0	12	66.5	25	26.4
United Kingdom	5	89.3	1	100.0	4	90.7	13	54.0
United States	34	18.2	29	6.2	31	22.5	25	26.4

Dividends Received Exemption

When a foreign subsidiary of a parent company earns income, it pays income tax to the country in which it does business. After paying the tax, the subsidiary can either reinvest its profits into ongoing activities (by purchasing equipment or hiring more workers, for example) or it can distribute its profits back to the parent company in the form of dividends.

Under a worldwide tax system, the dividends received by a parent company are taxed again by the parent company's home country, minus a tax credit for taxes already paid on that income. Under a pure territorial system, those dividends are exempt from taxation in the parent's country.

Countries receive a score based on the level of dividend exemption they provide. Countries with no dividend exemption (worldwide tax systems) receive the lowest score.

Twenty OECD countries exempt all dividends received by parent companies from taxation.[39] Eight countries allow 95 percent or 97 percent of dividends to be exempt from taxation. The United States, along with five other OECD countries, has a worldwide tax system that does not exempt foreign dividends from taxation.

Branch or Subsidiary Capital Gains Exclusion

Another feature of an international tax system is its treatment of capital gains from foreign investments. When a parent company invests in a foreign subsidiary (i.e., purchases shares in a foreign subsidiary), it can realize a capital gain on that investment if it later divests the asset. A territorial tax system would exempt these gains from taxation due to the fact that they are derived from overseas activity.

Taxing foreign-sourced capital gains income at domestic rates results in double taxation and discourages saving and investment.

Countries that exempt foreign-sourced capital gains from taxation receive a higher score on the ITCI. Foreign-sourced capital gains are excluded from taxation by 21 OECD countries. The United States is among the 13 countries that do not exclude foreign-sourced capital gains income from domestic taxation.[40]

39 Deloitte, *International Tax Guides and Country Highlights*, https://dits.deloitte.com/#TaxGuides. *See also* PricewaterhouseCoopers, *Evolution of Territorial Tax Systems in the OECD* (Apr. 2, 2013), http://www.techceocouncil.org/clientuploads/reports/Report%20on%20Territorial%20Tax%20Systems_20130402b.pdf.

40 Deloitte, *International Tax Guides and Country Highlights*, https://dits.deloitte.com/#TaxGuides. *See also* PricewaterhouseCoopers, *Evolution of Territorial Tax Systems in the OECD* (Apr. 2, 2013), http://www.techceocouncil.org/clientuploads/reports/Report%20on%20Territorial%20Tax%20Systems_20130402b.pdf.

Withholding Taxes and Tax Treaties

When firms pay dividends, interest, and royalties to foreign investors or businesses, governments often require those firms to withhold a certain portion to pay as a tax. For example, the United States requires businesses to withhold a maximum 30 percent tax on payments to foreign individuals.

These taxes make investment more costly both for investors who will receive a lower return on dividends and for firms that must pay a higher amount in interest or royalty payments to compensate for the cost of the withholding taxes. These taxes also reduce funds available for investment and production and increase the cost of capital.

Withholding Tax Rates

Countries with higher withholding tax rates on dividends, interest, and royalties score lower in the ITCI. Dividends, interest, and royalties rarely face the same tax rate within a nation. The Czech Republic, Chile, and Switzerland levy the highest dividend and interest withholding rates, requiring firms to withhold 35 percent of a dividend or interest payment paid to foreign entities. Meanwhile, Estonia, Hungary, and Sweden do not levy withholding taxes on dividends or interest payments.

For royalties, Mexico requires firms to retain the highest amount at 40 percent, followed by the Czech Republic at 35 percent and France at 33.3 percent. Hungary, Luxembourg, Netherlands, Norway, Sweden, and Switzerland do not require companies to retain any amount of royalties for withholding tax purposes. The United States levies a 30 percent withholding tax on dividends, interest, and royalties and is one of ten countries to levy the same tax rate on all three classes.[41]

Treaty Network

Withholding taxes can be reduced through tax treaties. These treaties align many tax laws between two countries, particularly with regard to withholding taxes, and attempt to reduce double taxation. Countries with a greater number of countries in their tax treaty network have more attractive tax regimes for foreign investment and receive a higher score than countries with fewer treaties.

France has the broadest network of tax treaties (127 countries) and so receives the highest score. Iceland receives the lowest score with a treaty network of only 30 countries. The United States has a treaty network of 67 countries, which is just below average. Across the OECD, the average size of a tax treaty network is 71 countries.[42]

41 Deloitte, *International Tax Guides and Country Highlights*, https://dits.deloitte.com/#TaxGuides.
42 *Id.*

International Tax Regulations

International tax regulations seek to prevent corporations from minimizing their tax liability through aggressive tax planning. These regulations can take several forms, such as rules for controlled foreign corporations (CFC) and thin capitalization rules.

International tax regulations often have the effect of making countries with uncompetitive tax structures even less competitive. These regulations place substantial burdens on companies and require them to shift valuable resources away from production and toward accountants and tax lawyers.

Controlled Foreign Corporation Rules

CFC rules are intended to prevent corporations from shifting their pre-tax profits from a high tax country to a low tax country by using highly liquid forms of income. These regulations define what a controlled foreign corporation is for tax purposes. If a foreign entity is deemed "controlled," these regulations subject the foreign corporation's passive income (rent, royalties, interest) to the tax rate of the home country of the subsidiary's parent corporation. In the U.S., these are called Subpart F rules. These rules subject all passive income to taxation in the year in which it is earned.[43]

CFC rules vary widely between countries. The definition of what constitutes "control" is a somewhat arbitrary decision that often increases tax code complexity. For instance, the U.S. considers a subsidiary with 50 percent U.S. ownership to be controlled and subject to U.S. tax rates, while Australia considers a foreign company that is 50 percent owned by five or fewer Australian residents, or 40 percent owned by one Australian resident, to be controlled.

Countries with CFC regulations are given a lower score than countries without them. CFC rules exist in 24 of the 34 OECD countries, including the United States.[44] Countries without established CFC rules include Austria, Belgium, and Chile.

Restrictions on Eligible Countries

An ideal territorial system would only concern itself with the profits earned within its borders. However, many counties have restrictions on their territorial systems that determine when a business's dividends received from overseas subsidiaries are exempt from tax.

Some countries treat foreign corporate income differently depending on the country in which the foreign income was earned. For example, many countries restrict their territorial systems based on the OECD "black list" of countries. The OECD deems these

43 U.S.-held corporations are able to defer taxes on active, or reinvested, income until that income is repatriated to the United States.

44 Deloitte, *International Tax Guides and Country Highlights*, https://dits.deloitte.com/#TaxGuides.

countries as having "harmful tax practices," such as low or no taxes, a lack of transparency characterized by "inadequate regulatory supervision or financial disclosure," and a lack of information exchange with OECD governments.[45] For some countries, income earned in restricted countries by domestic corporations is not exempt from domestic taxation.

The eligibility rules create additional complexity for companies and are often established in an arbitrary manner. Portugal, for instance, limits exemptions for dividends and capital gains earned abroad to those earned in countries that have an income tax equal to at least 60 percent of its corporate tax rate. Italy, which normally allows a 95 percent tax exemption for foreign sourced dividends paid to Italian shareholders, does not allow the exemption if the income was earned in a subsidiary located in a blacklisted country.[46]

In the OECD, 15 of 34 countries place restrictions on whether they exempt foreign-source income from domestic taxation based on the source of the income. Countries that have these restrictions on their territorial tax system receive a lower score on the ITCI.[47]

Thin Capitalization Rules

Thin capitalization rules limit the amount of interest a multinational corporation, or one of its subsidiaries, can deduct for tax purposes. Low-tax countries create an incentive for companies to equity finance their investments, while high-tax countries create an incentive for companies to finance investments with debt and use interest deductions to reduce their tax liabilities. Thin capitalization rules limit the amount of deductible interest by capping the amount of debt a firm is allowed to bear based on a company's ratio of debt to assets. These rules are one-size-fits-all, so they limit the financing options of companies, even those companies that use debt finance for non-tax reasons.

Thin capitalization rules vary widely between countries, and there is much discretion available to governments in enforcing these laws.[48] Thin capitalization rules have been shown to reduce the value of firms and distort firm decisions about how to invest in capital.[49]

Due to their complexity and their distortion of investment decisions, the ITCI ranks countries with thin capitalization rules lower than countries without them. Thin capitalization rules are found in 24 of the 34 countries measured in the ITCI. For instance, Denmark limits interest deductions if a firm's debt-to-equity ratio reaches 4 to 1, while Japan limits deductions at a 3 to 1 ratio.[50] The United States restricts the ability

45 Organization for Economic Cooperation and Development, *Towards Global Tax Co-operation* (2000), http://www.oecd.org/tax/harmful/2090192.pdf.
46 Deloitte, *International Tax Guides and Country Highlights*, https://dits.deloitte.com/#TaxGuides.
47 PricewaterhouseCoopers, *Evolution of Territorial Tax Systems in the OECD* (Apr. 2, 2013), http://www.techceocouncil.org/clientuploads/reports/Report%20on%20Territorial%20Tax%20Systems_20130402b.pdf.
48 Jennifer Blouin, Harry Huizinga, Luc Laeven, & Gaëtan Nicodème, *Thin Capitalization Rules and Multinational Firm Capital Structure* (International Monetary Fund, Working Paper WP/14/12, Jan. 2014), https://www.imf.org/external/pubs/ft/wp/2014/wp1412.pdf.
49 *Id.* This paper finds a 10 percent rise results in a 2 percent rise in debt-to-assets ratio.
50 Japan has a complex clause that sets the limit at 3 to 1 unless a firm can point to comparable Japanese firms with higher debt-to-equity ratios, at which point Japan will allow the firm to reach the higher ratio before limiting deductions.

to claim an interest deduction on debt owed to foreign entities with debt-to-equity ratios of 1.5 to 1 and net interest expenses that surpass 50 percent of the firm's adjusted taxable income for the year.[51] Countries such as Iceland, Estonia, and the Slovak Republic have no established rules for thin capitalization.

Property Taxes

Property taxes are government levies on the assets of an individual or business. The methods and intervals of collection vary widely between the types of property taxes. Estate and inheritance taxes, for example, are due upon the death of an individual and the passing of his or her estate to an heir. Taxes on real property, on the other hand, are paid at set intervals—often annually—on the value of taxable property such as land and houses.

Many property taxes are highly distortive and add significant complexity to the life of a taxpayer or business. Estate and inheritance taxes create heavy disincentives against additional work and saving, which damages productivity and output. Financial transaction taxes increase the cost of capital, which limits the flow of investment to its most efficient allocation. Taxes on wealth limit the capital available in the economy, which damages long-term economic growth and innovation.

Sound tax policy minimizes economic distortions. With the exception of taxes on land, most property taxes maximize economic distortions and have long-term negative effects on an economy and its productivity.

Table 6 shows the ranks and scores for the Property Taxes category and each of its subcategories.

Real Property Taxes

Real property taxes are levied on a recurrent basis on taxable property, such as real estate or business capital. For example, in most states or municipalities in the United States, businesses and individuals pay a property tax based on the value of their real property.

Structure of Property Taxes

Although taxes on real property are generally an efficient way to raise revenue, some property taxes can become direct taxes on capital. This occurs when a tax applies to more than just the value of the land itself, such as the buildings or structures on the land. This increases the cost of capital, discourages the formation of capital (such as the building of new structures), and can negatively impact business location decisions.

51 Deloitte, *International Tax Guides and Country Highlights*, https://dits.deloitte.com/#TaxGuides.

Table 6. Property Taxes

Country	Overall Rank	Overall Score	Real Property Taxes Rank	Real Property Taxes Score	Wealth/ Estate Taxes Rank	Wealth/ Estate Taxes Score	Capital/ Transaction Taxes Rank	Capital/ Transaction Taxes Score
Australia	4	89.1	2	88.3	1	100.0	8	78.7
Austria	18	56.7	15	57.1	1	100.0	29	16.2
Belgium	22	47.2	25	32.9	10	56.0	17	55.9
Canada	23	46.3	28	29.1	1	100.0	29	16.2
Chile	13	61.9	21	49.0	10	56.0	5	82.1
Czech Republic	10	63.3	16	56.6	10	56.0	8	78.7
Denmark	11	63.3	26	31.7	10	56.0	1	100.0
Estonia	1	100.0	1	100.0	1	100.0	1	100.0
Finland	9	63.7	6	77.6	10	56.0	17	55.9
France	34	13.1	34	12.1	29	11.8	29	16.2
Germany	15	61.6	19	51.9	10	56.0	8	78.7
Greece	25	41.8	13	60.1	10	56.0	29	16.2
Hungary	20	54.1	18	51.9	10	56.0	17	55.9
Iceland	28	35.2	30	25.4	29	11.8	5	82.1
Ireland	7	69.3	11	73.2	10	56.0	8	78.7
Israel	12	62.3	33	15.2	1	100.0	8	78.7
Italy	33	23.2	29	28.6	29	11.8	24	33.6
Japan	26	41.0	32	19.0	10	56.0	20	55.6
Korea	24	43.7	22	43.5	10	56.0	24	33.6
Luxembourg	17	56.9	12	60.8	10	56.0	23	54.7
Mexico	5	88.1	3	85.8	1	100.0	8	78.7
Netherlands	21	52.5	8	76.6	29	11.8	8	78.7
New Zealand	3	91.7	7	76.8	1	100.0	1	100.0
Norway	14	61.7	17	54.5	28	49.6	5	82.1
Poland	27	41.0	24	35.8	10	56.0	24	33.6
Portugal	19	55.4	9	75.9	10	56.0	24	33.6
Slovak Republic	2	93.1	5	81.7	1	100.0	1	100.0
Slovenia	16	60.9	20	49.9	10	56.0	8	78.7
Spain	30	32.3	23	38.8	29	11.8	20	55.6
Sweden	6	84.3	10	74.7	1	100.0	8	78.7
Switzerland	32	25.6	14	58.6	29	11.8	29	16.2
Turkey	8	66.9	4	85.0	10	56.0	20	55.6
United Kingdom	29	34.3	31	19.8	10	56.0	28	32.8
United States	31	31.8	27	30.1	10	56.0	29	16.2

Countries that tax the value of capital as well as land receive the lowest score on the ITCI. Some countries mitigate this treatment with a deduction for property taxes paid against corporate taxable income. These countries receive a slightly better score. Countries receive the best possible score if they have either no property tax or only have a tax on land.

Every OECD country except Australia, New Zealand, and Estonia applies its property tax to capital.[52] These countries only tax the value of land, which excludes the value of any buildings or structures on the land.[53] Of the 31 OECD countries with taxes on real property, 8 allow for a deduction against corporate taxable income, including the United States.

Real Property Tax Collections

Property tax collections measure the burden of property taxes as a percent of a country's gross domestic product. Higher tax burdens, specifically when on capital, tend to slow investment, which damages productivity and economic growth.

Countries with a high level of collection place a larger tax burden on taxpayers and receive a lower score on the ITCI. Canada relies on property taxes most heavily at 2.9 percent of GDP, with the United States closely behind at 2.8 percent of GDP. Greece has the lowest property tax burden at 0.1 percent of GDP.[54]

Wealth and Estate Taxes

Many countries also levy property taxes on an individual's wealth. These taxes can take the form of estate or inheritance taxes that are levied either upon an individual's estate at their death or upon the assets transferred from the decedent's estate to their heirs. These taxes can also take the form of a recurring tax on an individual's net wealth. The effect of the estate tax is to limit resources available for investment or production and to reduce the incentive to save and invest.[55] This reduction in investment adversely affects economic growth. Moreover, these taxes, the estate and inheritance tax especially, can be avoided with certain planning techniques, which makes the tax an inefficient and unnecessarily complex source of revenue.

Estate, Inheritance, and Gift Taxes

Estate taxes are levied on the value of an individual's taxable estate at the time of her death and are paid by the estate itself, while inheritance taxes are levied on the value of

52 PricewaterhouseCoopers, *Worldwide Tax Summaries—Corporate Taxes 2013/14*, http://www.pwc.com/gx/en/tax/corporate-tax/worldwide-tax-summaries/downloads.jhtml.

53 In New Zealand, local authorities have the option to set their tax base. Most choose to tax land value. *See* William McCluskey, Arthur Grimes, & Jason Timmins, *Property Taxation in New Zealand*, http://www.motu.org.nz/files/docs/MEL0276.pdf. *See also* PricewaterhouseCoopers, *Worldwide Tax Summaries—Corporate Taxes 2013/14*, http://www.pwc.com/gx/en/tax/corporate-tax/worldwide-tax-summaries/downloads.jhtml.

54 Organization for Economic Cooperation and Development, *OECD.StatExtracts, Revenue Statistics – OECD Member Countries*, http://stats.oecd.org/.

55 William McBride, *Twelve Steps toward a Simpler, Pro-Growth Tax Code*, Tax Foundation Fiscal Fact No. 400 (Oct. 30, 2013), http://taxfoundation.org/article/twelve-steps-toward-simpler-pro-growth-tax-code.

assets transferred to an individual's heirs upon her death and are paid by the heirs (not the estate of the deceased individual). Gift taxes are taxes on the transfer of property (cash, stocks, and other property) that are typically used to prevent individuals from circumventing estate and inheritance taxes by gifting away their assets before death. Rates, exemption levels, and rules vary substantially between countries. For example, the United States levies a top rate of 40 percent on estates but has an exemption level of $5.34 million. Belgium, on the other hand, has an inheritance tax with an exemption of €15,000 and a variety of top rates depending on who receives assets from the estate, what the assets are, and in which region they reside.[56]

Estate, inheritance, and gift taxes create significant compliance costs for taxpayers while raising insignificant amounts of revenue. According to most recent OECD data, estate taxes across the OECD raised an average of 0.1 percent of GDP in tax revenue, with the highest amount raised being only 0.6 percent of GDP in Belgium, despite Belgium's top estate tax rate of up to 80 percent in some cases.[57]

Countries without these taxes score better than countries that have them. Eight countries in the OECD have no estate or inheritance taxes, including Australia, Canada, Estonia, Israel, Mexico, New Zealand, Slovakia, and Sweden. All others levy an estate or inheritance tax.

Net Wealth Taxes

In addition to estate and inheritance taxes, some countries levy net wealth taxes. Net wealth taxes are often low-rate, progressive taxes on an individual or family's net assets or the net assets of a corporation. Unlike estate taxes, net wealth taxes are levied on an annual basis.

Five countries levy net wealth taxes on individuals. Italy levies three different wealth taxes based on the type and location of the asset. Spain taxes residents at progressive rates from 0.2 percent to 2.5 percent on worldwide net wealth over €700,000 with an exclusion for primary residences. Other countries with net wealth taxes include France, Norway, and Switzerland (at the canton level). The United States does not have a net wealth tax.[58]

Capital, Wealth, and Property Taxes on Businesses

Countries have a number of taxes they levy on the assets and fixed capital of businesses. These include taxes on the transfer of real property, taxes on the net assets of businesses, taxes on raising capital, and taxes on financial transactions. These taxes contribute directly to the cost of capital for businesses and reduce the after-tax rate of return on investment.

56 Ernst & Young, *International Estate and Inheritance Tax Guide 2013*, http://www.ey.com/Publication/vwLUAssets/2013-international-estate-and-inheritance-tax-guide/$FILE/2013-international-estate-and-inheritance-tax-guide.pdf.
57 Organization for Economic Cooperation and Development, *OECD.StatExtracts*, *Revenue Statistics – OECD Member Countries*, http://stats.oecd.org/.
58 Deloitte, *International Tax Guides and Country Highlights*, https://dits.deloitte.com/#TaxGuides.

Property Transfer Taxes

Property transfer taxes are taxes on the transfer of real property (real estate, land improvements, machinery) from one person or firm to another. A common example in the United States is the real estate transfer tax, which is commonly levied at the state level on the value of homes that are purchased by individuals.[59] Property transfer taxes often represent a direct tax on capital and increase the cost of purchasing property.

Countries receive a lower score if they have property transfer taxes. Eight OECD countries do not have property transfer taxes, including Chile, Estonia, New Zealand, and Sweden. As previously mentioned, many U.S. states have real property transfer taxes.

Corporate Asset Taxes

Similar to a net wealth tax, asset taxes are levied on the wealth, or assets, of a business. For instance, Luxembourg levies a 0.5 percent tax on the worldwide net wealth of Luxembourg-based companies every year.[60] Similarly, cantons in Switzerland levy taxes on the net assets of corporations that vary from 0.001 percent to 0.5 percent of corporate net assets. Other countries levy these taxes exclusively on bank assets.

Eleven countries have some type of corporate wealth or asset tax. Luxembourg, France, and Switzerland have net wealth taxes on corporations. Six countries have bank taxes of some type. The United States does not have any net wealth taxes, though some U.S. states impose intangible personal property taxes on the assets of businesses.

Capital Duties

Capital duties are taxes on the issuance of shares of stock. Typically, countries either levy these taxes at very low rates or require a small, flat fee. For example, Switzerland requires resident companies to pay a 1 percent tax on the issuance of shares of stock. These types of taxes increase the cost of capital, limit funds available for investment, and make it more difficult to form businesses.[61]

Countries with capital duties score lower than countries without them. Sixteen countries in the OECD, along with some states in the U.S., levy some type of capital duty.

Financial Transaction Taxes

A financial transaction tax is a levy on the sale or transfer of a financial asset. Financial transaction taxes take different forms in different countries. Finland levies a tax of 1.6

59 National Conference of State Legislatures, *Real Estate Transfer Taxes*, http://www.ncsl.org/research/fiscal-policy/real-estate-transfer-taxes.aspx.

60 It levies this tax on non-Luxembourg companies as well, but only on wealth held within Luxembourg. *See* Government of the Grand Duchy of Luxembourg, *Net Wealth Tax*, http://www.guichet.public.lu/entreprises/en/fiscalite/impots-benefices/impots-divers/impot-fortune/index.html.

61 Council Directive 2008/7/EC, Concerning Indirect Taxes on the Raising of Capital, 2008 O.J. (L 46) 11, http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32008L0007.

percent on stock transactions. On the other hand, Portugal levies a stamp duty on the deeds and documents associated with financial transactions. The United States levies a small financial transaction tax of $0.0042 on stock transactions.[62]

Financial transaction taxes impose an additional layer of taxation on the purchase or sale of stocks. Markets run on efficiency and capital needs to flow quickly to its most economically productive use. A financial transaction tax impedes this process.

The ITCI ranks countries with financial transaction taxes lower than the countries without them. Fourteen countries in the OECD have financial transaction taxes, including the United Kingdom, Portugal, France, and Belgium, while 21 countries do not impose financial transaction taxes.

62 U.S. Securities and Exchange Commission, *"SEC Fee" — Section 31 Transaction Fees*, https://www.sec.gov/answers/sec31.htm.

Appendix

Methodology

The ITCI is a relative ranking of the competitiveness and neutrality of the tax code in each of the 34 OECD countries. It utilizes over 40 variables across five categories: corporate tax, consumption taxes, property taxes, individual taxes, and international tax rules. Each category has multiple subcategories, and each subcategory holds a number of the 40 variables. For example, the consumption tax category contains three subcategories: rate, base, and complexity. The consumption tax base subcategory then has three variables: consumption tax as a percentage of total consumption, deduction limitations, and VAT threshold.

The ITCI is designed to measure a country's tax code on its relative competitiveness rather than on an absolute measurement. This means that a score of 100 does not signify the absolute best possible tax code but the best tax code among the 34 OECD countries. Each country's score on the ITCI represents its relative distance from the best country's score.

The Calculation of the Variable, Subcategory, and Category Scores

First, the standard deviation and average of each variable is calculated. The standard deviation measures the average distance of a country's tax variables from the mean among all 34 countries.[63] For example, the average corporate income tax rate across the 34 OECD countries is 25.3 percent with a standard deviation of 6 percentage points. This means that on average, an OECD country's corporate tax rate is 6 percentage points away from the mean rate of 25.3 percent.

In order to compare each variable, it is necessary to standardize them, because each variable has a different mean and standard deviation. To standardize the variables, each observation is given a normalized score. This sets every variable's mean to 0 with a standard deviation of 1. Each country's score for each variable is a measure of its distance from the mean across all countries for that variable. A score of 0 means a country's score is equal to the average, a score of -1 means it is one standard deviation below average, and a score of 1 is one standard deviation above average.

The score for the corporate tax rate demonstrates this process. Of the 34 OECD countries, the average corporate income tax rate is 25.3 percent, and the standard deviation is 6 percentage points. The United States' corporate tax rate normalized score is -2.32,[64] or 2.32 standard deviations less competitive than the average OECD country. In

63 To calculate the standard deviation we find the mean of a data set (corporate tax rates, for example) and the distance of each country's tax rate from the mean tax rate among the 34 countries. We then take each country's distance from the mean and find the average distance for the group.

64 The true normal score is 2.32. The score is a negative value to reflect the fact that being higher than the OECD average is less ideal.

contrast, Ireland's tax rate of 12.5 percent is 2.20 standard deviations more competitive than the average OECD country.

The next step is to combine variable scores in order to calculate subcategory scores. Within subcategories, each individual variable's score is equally weighted and added together. For instance, the subcategory of cost recovery includes six variables: loss carryback, loss carryforward, the present discounted value of depreciation schedules for machines, industrial buildings, and intangibles, and inventory accounting method. The scores for each of these six variables are multiplied by 1/6, or 16.6 percent, to give them equal weight and then added together. The result is the cost recovery subcategory score.

From here, each category's score is constructed by combining the scores of each contained subcategory. This is computed by multiplying each subcategory by a weight (all weights are equal) and adding the result together. For example, the score for the corporate rate category is calculated by multiplying the scores of the rate, cost recovery, incentives/complexity subcategories by 33.3 percent and adding them together. This is done for all five categories.

The overall normalized score for each country is calculated by taking each category's normalized score, multiplying each by 20 percent (equal weight for the five categories), and adding them together.

Calculating the Final Score

From here, two transformations occur on the category scores and the overall score. First, in order to eliminate any negative values, each category's score and the overall score is converted to its cumulative distribution value, or p-value. These p-values represent the likelihood that a random country's score is worse than a given country. For example, the United States' normalized overall score is -0.423. After converting it, the United States receives a p-value of 33.5 percent. This means that there is a 33.5 percent percent chance that the United States has a better tax system than a random OECD country.

Second, the p-value of the overall and category scores for each country is scaled to 100, relative to the country with the highest p-value overall and in each category. This is done by taking each country's p-value and dividing it by the highest p-value in each category. For example, Estonia, which has the highest overall p-value of 77.9 percent, receives a final overall score of 100.[65] The United States, which has an overall p-value of 33.5 percent, receives a final overall score of 43.1.[66]

65 (77.9/77.9)*100 = 100
66 (33.5/77.9)*100 = 43.1

Data Sources

The ITCI includes data from numerous sources including:
PricewaterhouseCoopers Worldwide Tax Summaries
Ernst & Young International Tax Guide
Deloitte International Tax Source
The Organization for Economic Cooperation and Development
The Oxford University Said School of Business Corporate Tax Database
The Tax Foundation
The ITCI uses the most up-to-date data available as of July 2014. See footnotes for specific data citations.

Corporate Taxes

Appendix Table A. Corporate Rate

	Top Marginal Corporate Tax Rate
Australia	30.0%
Austria	25.0%
Belgium	34.0%
Canada	26.3%
Chile	20.0%
Czech Republic	19.0%
Denmark	24.5%
Estonia	21.0%
Finland	20.0%
France	34.4%
Germany	30.2%
Greece	26.0%
Hungary	19.0%
Iceland	20.0%
Ireland	12.5%
Israel	26.5%
Italy	27.5%
Japan	37.0%
Korea	24.2%
Luxembourg	29.2%
Mexico	30.0%
Netherlands	25.0%
New Zealand	28.0%
Norway	27.0%
Poland	19.0%
Portugal	31.5%
Slovak Republic	22.0%
Slovenia	17.0%
Spain	30.0%
Sweden	22.0%
Switzerland	21.1%
Turkey	20.0%
United Kingdom	21.0%
United States	39.1%

Appendix Table B. Tax Incentives and Complexity

	Patent Box	Research and Development Credit	Corporate Complexity (Time)	Corporate Complexity (Yearly Profit Payments)	Corporate Complexity (Other Yearly Payments)
Australia	No	Yes	37	1	6
Austria	No	Yes	47	1	8
Belgium	Yes	Yes	20	1	8
Canada	No	Yes	45	1	4
Chile	No	No	42	1	5
Czech Republic	No	Yes	94	1	5
Denmark	No	No	25	3	6
Estonia	No	No	20	1	6
Finland	No	Yes	21	1	4
France	Yes	Yes	26	1	4
Germany	No	Yes	41	2	6
Greece	No	Yes	78	1	6
Hungary	No	Yes	35	2	8
Iceland	No	Yes	40	1	12
Ireland	Yes	Yes	10	1	7
Israel	No	Yes	110	2	19
Italy	No	Yes	39	2	12
Japan	No	Yes	155	2	10
Korea	No	Yes	82	1	7
Luxembourg	Yes	Yes	19	5	6
Mexico	No	Yes	170	1	3
Netherlands	Yes	Yes	25	1	7
New Zealand	No	Yes	34	1	5
Norway	No	Yes	24	1	2
Poland	No	No	62	1	16
Portugal	No	Yes	63	1	6
Slovak Republic	No	Yes	42	1	18
Slovenia	No	Yes	90	1	9
Spain	Yes	Yes	33	1	6
Sweden	No	No	50	1	2
Switzerland	Yes	No	15	2	10
Turkey	No	Yes	49	1	9
United Kingdom	Yes	Yes	37	1	6
United States	No	Yes	87	2	5

Appendix Table C.
Cost Recovery

	Loss Carryback (Number of Years)	Loss Carryforward (Number of Years)	Machinery	Industrial Buildings	Intangibles	Inventory (Best Available)
Australia	2	100	85.1%	47.9%	54.8%	Average Cost
Austria	0	75	81.4%	39.1%	73.8%	LIFO
Belgium	0	100	88.2%	62.2%	87.0%	LIFO
Canada	3	20	96.5%	36.1%	51.9%	Average Cost
Chile	100	100	63.3%	33.8%	0.0%	Average Cost
Czech Republic	0	5	87.2%	54.2%	84.3%	Average Cost
Denmark	0	100	82.7%	47.9%	73.2%	FIFO
Estonia	100	100	100.0%	100.0%	100.0%	N/A
Finland	0	10	82.7%	51.9%	73.8%	FIFO
France	1	100	85.8%	54.8%	87.0%	Average Cost
Germany	1	100	73.8%	39.1%	87.0%	LIFO
Greece	0	5	93.7%	68.2%	73.8%	LIFO
Hungary	0	50	82.6%	27.9%	87.0%	Average Cost
Iceland	0	10	86.0%	47.8%	80.9%	FIFO
Ireland	0	100	78.7%	47.9%	73.8%	Average Cost
Israel	0	100	87.0%	54.8%	78.7%	Average Cost
Italy	0	50	76.0%	46.3%	96.5%	LIFO
Japan	1	10	77.0%	27.9%	78.7%	LIFO
Korea	0.5	10	92.2%	54.8%	73.8%	LIFO
Luxembourg	0	100	87.1%	47.9%	87.0%	LIFO
Mexico	0	10	73.8%	54.8%	73.8%	LIFO
Netherlands	1	9	96.5%	33.8%	73.8%	LIFO
New Zealand	0	100	73.2%	30.7%	73.8%	Average Cost
Norway	1	100	78.2%	37.4%	73.8%	FIFO
Poland	0	5	73.8%	33.8%	87.0%	LIFO
Portugal	0	5	88.8%	54.8%	73.8%	Average Cost
Slovak Republic	0	4	86.8%	64.9%	87.0%	Average Cost
Slovenia	0	100	87.0%	39.1%	73.8%	Average Cost
Spain	0	18	86.4%	55.5%	83.2%	Average Cost
Sweden	0	100	86.0%	47.9%	86.0%	FIFO
Switzerland	0	7	86.0%	55.5%	90.5%	LIFO
Turkey	0	5	87.6%	47.9%	63.2%	LIFO
United Kingdom	1	100	78.2%	0.0%	82.7%	FIFO
United States	2	20	87.7%	35.0%	63.3%	LIFO

Consumption Taxes

Appendix Table D. Consumption Tax Rate

Country	VAT/Sales Tax Rate
Australia	10.0%
Austria	20.0%
Belgium	21.0%
Canada	15.6% (1)
Chile	19.0%
Czech Republic	21.0%
Denmark	25.0%
Estonia	20.0%
Finland	24.0%
France	20.0%
Germany	19.0%
Greece	23.0%
Hungary	27.0%
Iceland	25.5%
Ireland	23.0%
Israel	18.0%
Italy	22.0%
Japan	8.0%
Korea	10.0%
Luxembourg	15.0%
Mexico	16.0%
Netherlands	21.0%
New Zealand	15.0%
Norway	25.0%
Poland	23.0%
Portugal	23.0%
Slovak Republic	20.0%
Slovenia	22.0%
Spain	21.0%
Sweden	25.0%
Switzerland	8.0%
Turkey	18.0%
United Kingdom	20.0%
United States	7.2% (2)

Notes:
(1) The Canadian rate is the federal VAT plus the average of the provincial rates.
(2) The United States' rate is the combined weighted average state and local sales tax rate.

Appendix Table E. VAT Base

	VAT Threshold (1)	VAT Base as a Percent of Total Consumption	Deduction Limitations
Australia	$48,123.00	52%	Entertainment, meals, certain travel
Austria	$35,309.00	61%	Restaurants, entertainment, and vehicles
Belgium	$6,443.00	47%	Entertainment, meals, vehicles
Canada	$24,402.00	49%	Entertainment, meals, vehicles, home office, some capital inputs(2)
Chile	$0.00	59%	Vehicles
Czech Republic	$71,840.00	56%	None
Denmark	$6,399.00	59%	None
Estonia	$30,075.00	76%	Entertainment, meals (except on business trips)
Finland	$8,983.00	55%	Entertainment, vehicles, some travelling costs
France	$94,006.00	46%	Vehicles, certain gifts, gas and oil
Germany	$21,927.00	56%	Entertainment
Greece	$14,133.00	39%	Entertainment, meals, vehicles, tobacco, alcholic beverages
Hungary	$38,494.00	63%	Entertainment, meals, vehicles, motor fuels, taxi services
Iceland	$7,263.00	47%	None
Ireland	$89,579.00	46%	Entertainment, food, drink, hire of passenger vehicles, gas
Israel	$19,042.00	68%	None
Italy	$37,575.00	37%	Vehicles
Japan	$93,566.00	67%	None
Korea	$29,170.00	67%	Entertainment, vehicles
Luxembourg	$10,719.00	92%	Entertainment, tobacco
Mexico	$0.00	31%	None
Netherlands	$1,616.00	55%	Entertainment
New Zealand	$39,388.00	99%	None
Norway	$5,196.00	54%	Entertainment, meals, vehicles, works of art, gifts
Poland	$80,014.00	46%	Entertainment, meals, fuels
Portugal	$15,826.00	44%	Entertainment, transport, meals, vehicles, fuel
Slovak Republic	$95,833.00	48%	Entertainment
Slovenia	$39,685.00	62%	Entertainment, meals (except for direct business expenses), vehicles, fuels
Spain	$0.00	34%	Entertainment, jewellery, food, tobacco
Sweden	$3,366.00	57%	None
Switzerland	$66,832.00	71%	None
Turkey	$0.00	34%	Vehicles
United Kingdom	$110,744.00	47%	Entertainment, meals, vehicles
United States	N/A	38%	N/A. Sales tax levied on certain capital inputs(2)

Notes:
(1) In U.S. dollars (purchasing power parity).
(2) In the U.S. and Canada, some states and provinces levy sales taxes on capital inputs.

Appendix Table F. VAT Complexity

	Complexity (Hours to Comply)
Australia	50
Austria	67
Belgium	100
Canada	50
Chile	124
Czech Republic	102
Denmark	40
Estonia	27
Finland	24
France	26
Germany	43
Greece	69
Hungary	96
Iceland	40
Ireland	30
Israel	65
Italy	32
Japan	35
Korea	25
Luxembourg	22
Mexico	100
Netherlands	34
New Zealand	59
Norway	44
Poland	100
Portugal	96
Slovak Republic	103
Slovenia	74
Spain	44
Sweden	36
Switzerland	8
Turkey	97
United Kingdom	25
United States	33

Property Taxes

Appendix Table G. Real Property Taxes

Country	Property Taxes, Real Property/Land Tax	Property Taxes, Deductable	Real Property Tax Collections as % of GDP
Australia	Land Tax (1)	No	1.41%
Austria	Tax on Real Property	No	.23%
Belgium	Tax on Real Property (2)	No	1.3%
Canada	Tax on Real Property	Yes	2.86%
Chile	Tax on Real Property	No	.57%
Czech Republic	Tax on Real Property	No	.25%
Denmark	Building Tax	No	1.36%
Estonia	Land Tax	No	.34%
Finland	Tax on Real Property	Yes	.66%
France	Tax on Real Property	No	2.58%
Germany	Tax on Real Property	No	.45%
Greece	Tax on Real Property	No	.1%
Hungary	Building Tax	No	.45%
Iceland	Tax on Real Property	No	1.68%
Ireland	Tax on Real Property	Yes	.88%
Israel	Tax on Sale of Real Property (3)	No	2.33%
Italy	Tax on Real Property	No	1.51%
Japan	Tax on Real Property	No	2.07%
Korea	Tax on Real Property	No	.81%
Luxembourg	Tax on Real Property	No	.07%
Mexico	Tax on Real Property	Yes	.2%
Netherlands	Tax on Real Property	Yes	.71%
New Zealand	Land Value Tax (4)	No	2.07%
Norway	Tax on Real Property	No	.34%
Poland	Tax on Real Property	No	1.16%
Portugal	Tax on Real Property	Yes	.75%
Slovak Republic	Tax on Real Property	Yes	.44%
Slovenia	Tax on Real Property	No	.53%
Spain	Tax on Real Property	No	1.02%
Sweden	Tax on Real Property	Yes	.8%
Switzerland	Tax on Real Property	No	.16%
Turkey	Tax on Real Property	Yes	.25%
United Kingdom	Tax on Real Property	Yes	3.38%
United States	Tax on Real Property	Yes	2.81%

Notes:
(1) Applies to some real estate (vacation homes).
(2) Tax on the imputed rent of properties. Applies to machinery.
(3) The Property Betterment Tax is levied like a capital gains tax on the sale of property.
(4) Levied by local governments. A few cities tax capital improvements.

Appendix Table H. Wealth/Estate Taxes

Country	Net Wealth Tax	Estate/ Inheritance Tax
Australia	No	None
Austria	No	None
Belgium	No	Inheritance and Gift Tax
Canada	No	None, Real Estate Transfer Tax Can Apply
Chile	No	Inheritance and Gift Tax
Czech Republic	No	Inheritance and Gift Tax
Denmark	No	Inheritance and Gift Tax
Estonia	No	None
Finland	No	Inheritance and Gift Tax
France	Yes	Inheritance and Gift Tax
Germany	No	Inheritance and Gift Tax
Greece	No	Inheritance and Gift Tax
Hungary	No	Inheritance and Gift Tax
Iceland	Yes	Inheritance and Gift Tax
Ireland	No	Inheritance and Gift Tax
Israel	No	None
Italy	Yes	Inheritance and Gift Tax
Japan	No	Inheritance and Gift Tax
Korea	No	Inheritance and Gift Tax
Luxembourg	No	Inheritance and Gift Tax
Mexico	No	Income Tax Can Apply, Some Gifts Can Be Taxed, Real Estate Transfer Tax Can Apply
Netherlands	Yes	Inheritance and Gift Tax
New Zealand	No	None
Norway	Yes	None
Poland	No	Inheritance and Gift Tax
Portugal	No	Stamp Tax Applies to Inheritance and Gifts
Slovak Republic	No	None
Slovenia	No	Inheritance and Gift Tax
Spain	Yes	Inheritance and Gift Tax
Sweden	No	None
Switzerland	Yes	Many Cantons Levy both Estate and Gift Taxes
Turkey	No	Inheritance and Gift Tax
United Kingdom	No	Inheritance and Gift Tax
United States	No	Inheritance and Gift Tax

Appendix Table I.
Real Property Taxes

	Transfer Taxes	Asset Taxes	Capital Duties	Financial Transaction Tax
Australia	Stamp Duty on Transfer of Real Property	No	No	No
Austria	Real Estate Transfer Tax	Bank Tax	Yes	Tax on certain derivatives
Belgium	Real Estate Transfer Tax	No	No	Yes
Canada	Real Estate and Real Property Transfer Tax	Bank Tax in certain provinces	Yes, in certain provinces	No
Chile	No	Yearly fee on tax equity	No	No
Czech Republic	Real Estate Transfer Tax	No	No	No
Denmark	No	No	No	No
Estonia	No	No	No	No
Finland	Real Property Transfer Tax	No	No	Yes
France	Real Property Transfer Tax	Bank Tax	Yes	Yes
Germany	Real Estate Transfer Tax	No	No	No
Greece	Real Estate Transfer Tax and Stamp Tax	Yes (1)	Yes	No
Hungary	Real Estate Transfer Tax	No	No	No
Iceland	No	Bank Tax	No	No
Ireland	Stamp Duty on Transfer of Real Property	No	No	No
Israel	Real Estate Transfer Tax (2)	No	No	No
Italy	Real Property Transfer Tax	No	Yes	Yes
Japan	Real Property Transfer Tax	No	Yes	No
Korea	Real Property Transfer Tax	No	Yes	Yes
Luxembourg	Real Property Transfer Tax	Tax on Corporate Net Assets	No	No
Mexico	Real Estate Transfer Tax	No	No	No
Netherlands	Real Estate Transfer Tax	No (3)	No	No
New Zealand	No	No	No	No
Norway	No	Bank Tax	No	No
Poland	Real Estate Transfer Tax	No	Yes	Yes
Portugal	Real Estate Transfer Tax	No	No	Yes
Slovak Republic	No	No	No	No
Slovenia	Real Estate Transfer Tax	No	No	No
Spain	Real Estate Transfer Tax	No	Yes	No
Sweden	Real Estate Transfer Tax, Stamp Duty	No	No	No
Switzerland	Real Property Transfer Tax	Yes	Yes	Yes
Turkey	Real Estate Transfer Tax	No	Yes	No
United Kingdom	Real Property Transfer Tax	Bank Tax	No	Yes
United States	Real Property Transfer Tax	Intangible Property Taxes	Yes	Yes

Notes:
(1) Greece levies a 0.5 percent tax on the value of all of a company's properties (except those occupied by the company itself)
(2) The purchaser of real property is subject to a purchase tax.
(3) The Netherland levied a temporary bank tax from February 2014 to July 2014.

Income Taxes

Appendix Table J. Ordinary Income Taxes

	Top Marginal Ordinary Income Tax Rate	Income Tax Progressivity (1)	Tax Wedge on Average Wage Income
Australia	46.5%	2.3	27.4%
Austria	43.7%	2	49.1%
Belgium	45.3%	1	55.8%
Canada	49.5%	10.6	31.1%
Chile	39.5%	12.8	7.0%
Czech Republic	20.1%	0.4	42.4%
Denmark	56.2%	1.2	38.2%
Estonia	20.6%	0.2	39.9%
Finland	48.9%	2.5	43.1%
France	54.1% (2)	15.1	48.9%
Germany	47.5%	5.8	49.3%
Greece	46.0%	5.5	41.6%
Hungary	16.0%	0	49.0%
Iceland	44.4%	1.5	33.4%
Ireland	48.0%	1	26.6%
Israel	50.0%	6.2	20.7%
Italy	47.3%	10.1	47.8%
Japan	50.6%	4.6	31.6%
Korea	38.1%	8.7	21.4%
Luxembourg	43.6%	3.1	37.0%
Mexico	35.0%	4	19.2%
Netherlands	49.9%	1.2	36.9%
New Zealand	33.0%	1.3	16.9%
Norway	40.0%	1.6	37.3%
Poland	20.9%	2.4	35.6%
Portugal	50.3%	16.2	41.1%
Slovak Republic	21.7%	4	41.1%
Slovenia	39.0%	5.4	42.3%
Spain	52.0%	11.7	40.7%
Sweden	56.7%	1.5	42.9%
Switzerland	36.1%	3.4	22.0%
Turkey	35.8%	3.3	38.6%
United Kingdom	45.0%	4.2	31.5%
United States	46.3%	8.5	31.3%

Notes:
(1) Multiple of the average income at which the highest tax bracket applies, in U.S. dollars (PPP).
(2) France levies a 50% payroll tax on employers for incomes paid to employees in excess of €1 million.

Appendix Table K. Income Tax Complexity

	Income Tax Complexity (Payments)	Income Tax Complexity (Time)
Australia	4	18
Austria	3	52
Belgium	2	40
Canada	3	36
Chile	1	125
Czech Republic	2	217
Denmark	1	65
Estonia	0	34
Finland	3	48
France	2	80
Germany	1	134
Greece	1	46
Hungary	2	146
Iceland	13	60
Ireland	1	40
Israel	12	60
Italy	1	198
Japan	2	140
Korea	2	80
Luxembourg	12	14
Mexico	2	64
Netherlands	1	64
New Zealand	2	59
Norway	1	15
Poland	1	124
Portugal	1	116
Slovak Republic	1	62
Slovenia	1	96
Spain	1	90
Sweden	1	36
Switzerland	7	40
Turkey	1	80
United Kingdom	1	48
United States	4	55

Appendix Table L.
Capital Gains/Dividends

	Top Marginal Capital Gains Tax Rate (1)	Capital Gains Inflation Indexing	Top Marginal Dividends Tax Rate (1)
Australia	22.5%	Yes	23.5%
Austria	25.0%	No	25.0%
Belgium	0.0%	No	25.0%
Canada	22.5%	No	33.8%
Chile	20.0%	No	25.0%
Czech Republic	0.0%	No	15.0%
Denmark	42.0%	No	42.0%
Estonia	21.0%	No	0.0%
Finland	32.0%	No	27.2%
France	38.0%	No	44.0%
Germany	25.0%	No	26.4%
Greece	15.0%	No	10.0%
Hungary	16.0%	No	16.0%
Iceland	20.0%	No	20.0%
Ireland	33.0%	No	48.0%
Israel	25.0%	Yes	30.0%
Italy	20.0%	No	20.0%
Japan	20.0%	No	20.3%
Korea	0.0%	No	35.4%
Luxembourg	0.0%	No	20.0%
Mexico	10.0%	Yes	17.1%
Netherlands	0.0%	No	25.0%
New Zealand	0.0%	No	6.9%
Norway	27.0%	No	27.0%
Poland	19.0%	No	19.0%
Portugal	28.0%	Yes	28.0%
Slovak Republic	25.0%	No	0.0%
Slovenia	0.0%	No	25.0%
Spain	27.0%	No	27.0%
Sweden	30.0%	No	30.0%
Switzerland	0.0%	No	20.0%
Turkey	0.0%	No	17.5%
United Kingdom	28.0%	Yes	30.6%
United States	28.7%	No	30.3%

Notes:
(1) After any imputation, credit, or offset.

International Tax Rules

Appendix Table M. Participation Exemption

	Dividend Exemption	Capital Gains Exemption
Australia	100%	Yes
Austria	100%	Yes
Belgium	95%	Yes
Canada	100%	No
Chile	0%	No
Czech Republic	100%	Yes
Denmark	100%	Yes
Estonia	100%	No
Finland	100%	Yes
France	95%	Yes
Germany	95%	Yes
Greece	100%	No
Hungary	100%	Yes
Iceland	100%	Yes
Ireland	0%	No
Israel	0%	No
Italy	95%	Yes
Japan	95%	No
Korea	0%	No
Luxembourg	100%	Yes
Mexico	0%	No
Netherlands	100%	Yes
New Zealand	100%	Yes
Norway	97%	Yes
Poland	100%	No
Portugal	100%	No
Slovak Republic	100%	No
Slovenia	95%	Yes
Spain	100%	Yes
Sweden	100%	Yes
Switzerland	95%	Yes
Turkey	100%	Yes
United Kingdom	100%	Yes
United States	0%	No

Appendix Table N. Withholding Taxes

	Dividend Withholding Tax	Interest Withholding Tax	Royalties Withholding Tax	Number of Tax Treaties
Australia	30%	10%	30%	42
Austria	25%	25%	20%	83
Belgium	25%	15%	25%	91
Canada	25%	25%	25%	92
Chile	35%	35%	30%	25
Czech Republic	35%	35%	35%	82
Denmark	27%	25%	25%	73
Estonia	0%	0%	10%	50
Finland	20%	0%	20%	70
France	30%	0%	33%	127
Germany	25%	0%	15%	96
Greece	25%	15%	20%	50
Hungary	0%	0%	0%	71
Iceland	18%	10%	20%	30
Ireland	20%	20%	20%	69
Israel	30%	25%	25%	50
Italy	20%	20%	30%	89
Japan	20%	20%	20%	60
Korea	20%	20%	20%	80
Luxembourg	15%	0%	0%	64
Mexico	10%	40%	40%	51
Netherlands	15%	0%	0%	86
New Zealand	30%	15%	15%	37
Norway	25%	0%	0%	82
Poland	19%	20%	20%	80
Portugal	25%	25%	25%	60
Slovak Republic	0%	19%	19%	64
Slovenia	15%	15%	15%	53
Spain	21%	21%	25%	80
Sweden	0%	0%	0%	83
Switzerland	35%	35%	0%	100
Turkey	15%	10%	20%	76
United Kingdom	0%	20%	20%	125
United States	30%	30%	30%	67

Appendix Table O.
International Tax Rules

Country	Controlled Foreign Corporation Rules	Country Limitations	Thin Capitalization Rules
Australia	Yes	No	Yes
Austria	No, but general anti-abuse rules can apply to foreign passive income in some cases	No	No, but certain interest payments can be deemed a dividend
Belgium	No	Only countries with corporate tax systems similar to Belgium	No, but interest deduction limits exist for some transactions
Canada	Yes	Only countries that have signed information exchange agreements with Canada	Yes
Chile	No	N/A	Yes
Czech Republic	No	Only EU member countries, treaty countries, and countries with a tax rate of at least 12 percent	Yes
Denmark	Yes	No	Yes
Estonia	No	All countries with a corporate tax of at least 7 percent	No
Finland	Yes	EU countries and treaty countries	Yes
France	Yes	Non-OECD "blacklist" countries	Yes
Germany	Yes	No	Yes. Excess interest can be carried forward
Greece	Yes	EU countries	Yes
Hungary	Yes	No	Yes
Iceland	Yes	Any country that has a corporate rate as high as the general rate in any OECD, EFTA, or EU country	No
Ireland	No	N/A	No, but certain interest payments can be deemed a dividend
Israel	Yes	N/A	No
Italy	Yes	Non-OECD "blacklist" countries	No, but there is an interest limit per year. Excess interest can be carried forward
Japan	Yes	No	Yes
Korea	Yes	N/A	Yes
Luxembourg	No	All countries with a corporate tax rate of at least 10.5 percent	No, but in practice Luxembourg limits to a 85:15 debt-to-equity ratio
Mexico	Yes	N/A	Yes
Netherlands	No	No	Yes
New Zealand	Yes	No	Yes
Norway	Yes	Non-OECD "blacklist" countries	Yes
Poland	No	EU countries and Switzerland	Yes
Portugal	Yes	EU/EEA member countries as well as Portuguese-speaking African countries and East Timor	Yes
Slovak Republic	No	No	No
Slovenia	No, but tax can be levied on some passive income in low-tax countries	Non-OECD "blacklist" and EU countries	Yes
Spain	Yes	All countries with similar corporate tax systems as Spain	No, but there are some restrictions
Sweden	Yes	EU countries	Yes
Switzerland	No	No	Yes
Turkey	Yes	All countries with an effective corporate tax rate of at least 15 percent	Yes
United Kingdom	Yes	No	No. Transfer pricing rules apply
United States	Yes	N/A	Yes, excess interest can be carried forward if certain requirements are met

The Tax Foundation's International Tax Competitiveness Index (ITCI) measures the degree to which the 34 OECD countries' tax systems promote competitiveness through low tax burdens on business investment and neutrality through a well-structured tax code. The ITCI considers more than forty variables across five categories: Corporate Taxes, Consumption Taxes, Property Taxes, Individual Taxes, and International Tax Rules.

The ITCI attempts to display not only which countries provide the best tax environment for investment, but also the best tax environment in which to start and grow a business.

TAX FOUNDATION

PRINCIPLED
INSIGHTFUL
ENGAGED

The Tax Foundation is a 501(c)(3) non-partisan, non-profit research institution founded in 1937 to educate the public on tax policy. Based in Washington, D.C., our economic and policy analysis is guided by the principles of sound tax policy: simplicity, neutrality, transparency, and stability.

Editor, Donnie Johnson
Designer, Dan Carvajal

Tax Foundation
National Press Building
529 14th Street, NW, Suite 420
Washington, DC
20045-1000

202.464.6200

taxfoundation.org