OUTBOUND ACQUISITIONS

A GUIDE TO HOLDING COMPANIES IN EUROPE

	AUSTRIA	BELGIUM	CYPRUS	DENMARK	FRANCE	GERMANY	IRELAND	ITALY	LUXEMBOURG	MALTA	NETHERLANDS	SPAIN	SWEDEN	SWITZERLAND	UNITED KINGDOM
CORPORATE TAX RATE	25%	33.99%	12.5%	22%	33.33% or 34.43%	~30%	12.5% or 25%	24%	27.08%	35%	25%	25%	22%	12.32% to 24.16%	19%
PARTICIPATION EXEMPTION *Dividends / Capital Gains*	Full / Varies	Partial / Varies	Full / Full	Full / Full	Partial / Partial	Partial / Partial	Full / Full	Partial / Partial	Full / Full	Full / Full	Full / Full	Full / Full	Full / Full	Partial / Partial	Full / Full
DIVIDENDS PAID *P.S.D. Rate / Regular Rate*	0% / 27.5% Treaty Rate	0% / 30% Treaty Rate	0%	0% / 22% Treaty Rate	0% / 30% Treaty Rate	0% / 25% Treaty Rate	0% / 20% Treaty Rate	0% / 26% Treaty Rate	0% / 15% Treaty Rate	0% / None Treaty Rate	0% / 15% Treaty Rate	0% / 19% Treaty Rate	0% / 30% Treaty Rate	n/a / 25% Treaty Rate	0% / None Treaty Rate
DIVIDENDS RECEIVED *P/E / Regular Rate*	Full / 25%	95% / 33%+	Generally exempt	Full / 16.5%	95% / 33.33%+	95% / ~30%	Full / 12.5% or 25%	95% / 24%	Full / 19%+	Full / 35%	Full / 25%	Full / 25%	Full / 30%	P/E / 12.32% to 24.16%	Full / 19%
CAPITAL GAINS *P/E / Regular Rate*	P/E / 25%	P/E / 25.75%	Full / 20%	Full / 22%	88% / 33.33%+	95% / ~30%	Full / 33%	95% / 24%	Full / 19%+	Full / 35%	Full / 25%	Full / 19%	Full / 22%	P/E / 12.32% to 24.16%	Full / 19%
DOUBLE TAXATION RELIEF	Treaty; Credit	Treaty; Credit	Treaty; Credit	Treaty; Credit	Treaty; Deduction	Treaty; Credit; Deduction	Treaty; Credit; Deduction	Treaty; Credit	Treaty; Credit; Deduction	Treaty; Credit	Treaty; Credit; Exemption	Treaty; Credit; Exemption	Treaty; Credit; Exemption; Deduction	Treaty; Exemption; Deduction	Treaty; Credit; Deduction
TAX TREATIES	90+	90+	50+	80	124	97	72	98	79	71	94	90+	80	109	131
V.A.T. RATE	20%	21%	19%	25%	20%	19%	23%	22%	17%	18%	21%	21%	25%	8%	20%
CAPITAL TAX	No	No	No	No	Yes	No	No	Yes	Yes	Yes	No	Yes	No	Yes	No
STAMP DUTY	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
TRANSFER TAX	Yes	Yes	Yes	No	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
DIVERTED PROFITS TAX	No	No	No	No	No	No	No	No	No	No	No	No	No	No	25%
C.F.C. RULES	No	No	No	Yes	Yes	Yes	No	Yes	No	No	No	Yes	Yes	No	Yes
DEBT VS. EQUITY	No thin cap.; General limit proposed	No thin cap.; General limit proposed	No thin capitalization rules	4:1 / Asset Basis / Tax E.B.I.T.	1.5:1 / General limit proposed	General limit on interest	No thin cap.; General limit proposed	General limit on interest	No thin capitalization rules	No thin capitalization rules	No thin cap.; General limit proposed	General limit on interest	No thin capitalization rules	Generally, 70-85% of debt	General limit on interest
TRANSFER PRICING	Based on O.E.C.D. rules	Based on O.E.C.D. rules	Based on O.E.C.D. rules	Based on O.E.C.D. rules	Based on O.E.C.D. rules	Based on O.E.C.D. rules	Limited	Based on O.E.C.D. rules	Based on O.E.C.D. rules	No	Based on O.E.C.D. rules	Based on O.E.C.D. rules	Based on O.E.C.D. rules	No	Based on O.E.C.D. rules
PATENT BOX REGIME	No	Yes	Yes	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
COMMON REPORTING STANDARDS	Adopted	Early Adopter	Early Adopter	Early Adopter	Early Adopter	Early Adopter	Early Adopter	Early Adopter	Early Adopter	Early Adopter	Early Adopter	Early Adopter	Early Adopter	Adopted	Early Adopter
B.E.P.S. ACTION PLAN	Active	Active	Planned	Active	Active	Active	Active	Active	Active	Active	Active	Active	Planned	Planned	Active
F.A.T.C.A. I.G.A.	Model 2	Model 1	Model 1	Model 1	Model 1	Model 1	Model 1	Model 1	Model 1	Model 1	Model 1	Model 1	Model 1	Model 2	Model 1

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AUSTRIA

• **Corporate Income Tax.** A minimum tax of 5% of the statutory minimum share capital is also levied. • **Participation Exemption.** Two exemption regimes apply: (i) a participation exemption for dividends received from E.E.A. countries and treaty countries; and (ii) a full participation exemption for capital gains and dividends received from qualifying international participations. • **Double Taxation Relief.** The credit method applies to all foreign-source income that is neither exempt from taxation nor subject to a tax treaty.

BELGIUM

• **Corporate Income Tax.** The 33.99% rate includes a 3% austerity surcharge and is obtained by multiplying the basic corporate tax rate of 33% by 3%. • **Participation Exemption.** Dividends received are taxable income, but a deduction of 95% of dividends applies if qualified for the dividend received deduction. Capital gains are fully exempt for S.M.E.'s and partially exempt for other corporate recipients. • **Capital Gains.** A special tax of 0.412% applies if the seller is not a qualifying S.M.E. A minimum holding period of one year of full ownership must be met, otherwise capital gains are taxed at 25.75%. • **Double Taxation Relief.** A credit may be available for foreign withholding tax levied on foreign-source interest, in which case the foreign tax credit may be reduced based on a debt-funding ration, and royalties. • **C.F.C. Rules.** There are no C.F.C. rules in place yet, but domestic law has extensive anti-abuse rules with similar effects. • **Debt vs. Equity.** Under proposals, no deduction for net interest in excess of 30% of E.B.I.T.D.A.

CYPRUS

• **Participation Exemption.** The participation exemption does not apply to capital gains from real estate transactions involving real estate situated in Cyprus. • **Dividends Received.** A 17% special defense contribution applies to Cypriot individuals. • **Capital Gains.** A 20% tax rate applies for real estate situated in Cyprus. • **Double Taxation Relief.** A unilateral tax credit is allowed in Cyprus for taxes withheld or paid in other countries where there is no bilateral agreement or double tax treaty in force. • **Capital Tax, Stamp Duty, & Transfer Tax.** Capital tax is only applied on issue of share capital 0.6% on authorized share capital. Stamp duty does not apply to transactions that are effected abroad or assets outside of Cyprus. • **Diverted Profits Tax.** • **C.F.C. Rules.** • **Transfer Pricing.** Implementation is under discussion. • **Patent Box.** Benefits under the current Cypriot Paten Box regime phase out by 2021. Cyprus intends to align its regime with the B.E.P.S. Action Plan to reach full compliance. • **B.E.P.S. Action Plan.** Implementation of the B.E.P.S. Action Plan is under discussion, and all transactions in Cyprus now undergo stricter scrutiny.

DENMARK

• **Dividends Paid.** If a dividend is not covered by the P.S.D., it is subject to 22% withholding. However, a refund will be provided if this rate is then reduced by a treaty. • **Dividends Received.** Dividends may be exempt even if below the 10% participation exemption ownership requirement for consolidated groups. • **Capital Gains.** Exemptions also apply to consolidated groups and unlisted companies that are not part of a consolidated group and not covered by the participation exemption. • **Debt vs. Equity.** Under the Asset Limitation Rule, net financing expenses exceeding DKK 21,300,000 are capped at 3.2% of the tax basis of operating assets. Under the E.B.I.T. Limitation Rule, net financing expenses exceeding DKK 21,300,000 are capped at 80% of E.B.I.T.

FRANCE

• **Corporate Income Tax.** The 34.43% rate is obtained by multiplying the regular corporate tax rate of 33.33% by a 3.3% additional social contribution. • **Dividends Paid.** • **Capital Gains.** Most tax treaties entered into by France provide for a reduced rate of dividend withholding tax, generally ranging from 25% to 5%, and in some cases allow for zero withholding. The rate of withholding is 75% for payments made to persons resident in countries on France's list of non-cooperative countries and territories. • **Dividends Received.** Interest on a debt-financed acquisition of shareholdings is deductible. • **Double Taxation Relief.** Treaty relief generally includes exemptions or a foreign tax credit. Unilateral relief is available under the territoriality principle or a deduction. • **C.F.C. Rules.** Trusts are among the targeted foreign structures. • **Debt vs. Equity.** Under proposals, no deduction for net interest in excess of 20% of E.B.I.T.D.A. • **Patent Box.** There is a 15% tax on patent income.

GERMANY

• **Corporate Income Tax.** The approximate 30% rate is obtained by multiplying the regular corporate tax rate of 15% by a 5.5% solidarity surcharge and by adding a municipal trade tax that may vary from 7% to 17%. • **Dividends Paid.** The statutory rate of withholding tax is 25% (plus a solidarity surcharge of 5.5%). Foreign corporations may claim a refund of two-fifths of the withholding tax (effective withholding tax rate is 15% plus solidarity surcharge). Germany has also enacted anti-treaty shopping and anti-directive-shopping rules regarding the use of intermediate holding companies. These anti-abuse rules may deny reduced withholding tax rates under certain circumstances.• **V.A.T.** A reduced rate of 7% applies in some areas. • **Capital Tax, Stamp Duty, & Transfer Tax.** No capital tax or transfer tax as such are levied. Registration fees may however apply. Stamp duties are mainly related to real estate transactions. • **Debt vs. Equity.** No deduction applies for interest payments in excess of 30% of E.B.I.T.D.A. In Germany, this is also known as the "interest deduction ceiling." • **Patent Box.** New legislation imposes a license barrier rule, to become effective as of the end of 2017. The new legislation restricts the deduction of royalties and similar payments made to related parties if, in the other country, the payments are (i) subject to a preferential tax regime (*i.e.*, patent box) that is not compliant with the O.E.C.D. nexus approach, and (ii) effectively taxed at a rate below 25%.

IRELAND

• **Dividends Received.** Dividend distributions received from another Irish company are generally exempt. However, dividends received from foreign subsidiaries do not qualify for a participation exemption. Instead, Ireland operates a system of both treaty credit relief and unilateral credit relief, whereby credit for foreign tax is available against Irish tax on dividends received from certain foreign shareholdings. The tax rate on dividends received from a non-Irish corporation is either 12.5% (for dividends paid out of trading profits by certain companies) or 25%. • **Debt vs. Equity.** Under proposals, no deduction for net interest in excess of 30% of E.B.I.T.D.A. deferred until January 1, 2024. • **Transfer Pricing.** Irish transfer pricing legislation does not apply to S.M.E's. It is based on O.E.C.D. recommendations. • **Patent Box.** The Knowledge Development Box ("K.D.B.") was introduced in Ireland in 2015. Qualifying income is taxed at an effective reduced corporate tax rate of 6.25%. The K.D.B. is in line with the B.E.P.S. Action Plan.

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ITALY

• **Participation Exemption.** Classified as financial fixed assets, the subsidiary must be resident in a country which is not considered as black listed and must be engaged in an active business. • **Dividends Paid.** E.U. companies not covered by the P.S.D. are subject to a withholding rate of 1.20%. • **Double Taxation Relief.** Excess credits may be carried back and carried forward over an eight-year period. • **V.A.T.** The rate may be increased to 25% in 2018, to 25.4% in 2019, to 24.9% in 2020, and to 25% from 2021 onward. Such an increase may be avoided by the implementation of alternative measures capable of guaranteeing the same tax revenue. • **Debt vs. Equity.** The general limitation applies on the amount of the payment in excess of earned interest, if any. The excess amount is only deductible up to 30% of E.B.I.T.D.A. • **Patent Box.** A 50% exemption is granted (reduced to 30% for 2015 and 40% for 2016) from corporation income tax on income derived from certain intangible assets. I.P. income is determined using a ratio of qualifying expenses to overall expenses. An exemption also exists for capital gains arising from the disposal of such assets if certain qualifications are met. The Patent Box regime is aligned with the B.E.P.S. Action Plan.

LUXEMBOURG

• **Corporate Income Tax.** This the rate applicable in Luxembourg City. The general corporate rate is 19%. A 7% surcharge applies, which results in an overall rate of 20.33%. Luxembourg City adds a 6.75% municipal business tax, which results in a 27.08% Luxembourg City rate. As of January 1, 2018, the global rate will be reduced to 26.01%. • **Dividends Received.** There is a 50% exemption for certain dividends not qualifying under the participation exemption which then is subject to tax under general corporate rates. • **Capital Gains.** Capital gains are taxable up to the amount of previously deductible expenses that are linked to the exempt participation. Such taxable amount can be offset against available losses (carried forward). • **Double Taxation Relief.** Treaties supersede domestic law, unless domestic law is more favorable. • **Debt vs. Equity.** In practice, a ratio of 85:15 is applied to the financing of qualifying subsidiaries. • **Patent Box.** The former Patent Box regime has been abolished as of July 1, 2016. The benefits under the former regime will phase out by 2021. A new I.P. regime is expected to be introduced.

MALTA

• **V.A.T.** Reduced rates of 7% and 5% may apply. • **Patent Box.** No determinations under the current Patent Box regime will be issued after June 30, 2016, and benefits will phase out by June 30, 2021.

NETHERLANDS

• **Dividends Paid.** Under certain conditions, the dividend withholding tax may be reduced by 3% to compensate for foreign withholding taxes that cannot be claimed as a credit by the holding company by virtue of the participation exemption. • **Double Taxation Relief.** Tax treaties take priority over domestic law. Foreign taxes may be deductible as expenses if no other method applies. • **Debt vs. Equity.** Base erosion loans are nondeductible. Adoption of a limitation based on E.B.I.T.D.A. is expected. • **Patent Box.** A 5% effective tax rate may apply to income generated by qualifying intangibles. As of January 1, 2017, legislation became effective bringing the existing Dutch Patent Box regime in line with the B.E.P.S. Action Plan.

SPAIN

• **Dividends Paid.** Dividends distributed out of qualified exempt income (*i.e.*, dividends and capital gains that were exempt from tax at the level of the Spanish holding company) are not subject to withholding tax unless the recipient is resident in a country or territory that is considered a tax haven by Spain. • **Double Taxation Relief.** Foreign tax credits on non-exempt foreign-source income may be credited against the 25% corporation income tax, limited to the Spanish corporation income tax payable on the foreign-source income. • **Debt vs. Equity.** No deduction applies for net interest expense in excess of 30% of E.B.I.T.D.A. • **Patent Box.** 60% of income derived from the use of a qualified intangible asset is exempt from corporation income tax, provided that several conditions are met. The patent box regime is aligned with the B.E.P.S. Action Plan.

SWITZERLAND

• **Corporate Income Tax.** The general federal corporate tax rate is 8.5%. Considering that this tax is deductible, the effective federal corporate rate is brought down to 7.8%. However, cantonal and communal taxes also apply at the local level. Lucerne has an overall 12.32% rate; Appenzell Ausserrhoden, Obwalden, and Nidwalden have a 12.74% rate; Zug has a 14.6% rate; Zürich has a 21.15% rate; and Geneva has a 24.16% rate. • **Participation Exemption.** Corporate tax is reduced proportionally to dividend over total income. • **Dividends Paid.** In many cases, a full or partial refund of Swiss withholding tax is available by following notification procedures. The Swiss tax authorities must be notified in advance of the distribution and grant permission for relief. Under the Swiss-E.U. Savings Tax Agreement, dividends paid to any E.U. parent company may follow the notification procedures and receive a full refund of withholding tax if the parent controls at least 20% of the Swiss subsidiary (or a lesser percentage, as provided by an applicable tax treaty). For shareholders resident in other countries, dividend distributions may be subject to reduced Swiss withholding tax. The notification procedures should be available if the requirements of the relevant double tax treaty are met and permission for partial relief at the source has been obtained prior to distribution. • **V.A.T.** A Swiss holding company may be subject to V.A.T. at the standard rate if it provides services and receives management fees from affiliates or other service income in excess of CHF 100,000 per year. V.A.T. may be recovered by the payer if it is a supplier of taxable goods and services. In addition, the holding company may be entitled to recover V.A.T. on payments made to others, such as consultants and auditors. • **Patent Box.** A patent box regime has been introduced at the cantonal level (not the federal level) by some cantons. The regime is in line with the B.E.P.S. Action Plan.

SWEDEN

• **Dividends Paid.** If the shares in the distributing company are deemed business-related shares under the participation exemption regime and the dividend (or capital gains at disposal of the shares) would have been tax exempt if the entity holding the shares had been a Swedish company, the dividend is exempt from withholding tax. • **V.A.T.** A lower V.A.T. rate may apply depending on the type of goods or service. • **Capital Tax, Stamp Duty, & Transfer Tax.** Stamp duty applies only to real estate. • **Debt vs. Equity.** There is an intercompany interest deduction limitation based on commercial justification for borrowing. • **B.E.P.S. Action Plan.** B.E.P.S. Action 13 has been implemented.

UNITED KINGDOM

• **Corporate Income Tax.** The rate is due to be reduced to 17% in April 2020. • **Participation Exemption.** Known as the "Substantial Shareholding Exemption." • **Dividends Paid.** The U.K. does not impose withholding tax on dividends to nonresident shareholders as a matter of domestic law. However, a 20% withholding tax applies to property income distributions paid in relation to certain qualifying activities by R.E.I.T.'s that are resident in the U.K. This may be reduced by an applicable U.K. income tax treaty. A company will not be able to qualify as a R.E.I.T. if it has corporate shareholders with a 10% or greater participation. In those circumstances, tax will be withheld at the rate applicable to portfolio dividends. • **Dividends Received.** In principle, dividends received by U.K. holding companies are subject to tax unless specifically exempt. However, the exemptions available are broad, and in practice most distributions received will fall under one of them. • **Capital Gains.** This rate is higher (28%) for capital gains realized on disposals of high value (over £500,000) residential real estate assets. • **Debt vs. Equity.** No deduction applies for net interest expense in excess of 30% of E.B.I.T.D.A. • **Patent Box.** The prior Patent Box regime is being phased out. As of July 1, 2016, a new Patent Box became available that is aligned with the B.E.P.S. Action Plan.

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