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CENTRE FOR TAX POLICY AND ADMINISTRATION

SURVEY ON THE TAXATION OF SMALL AND MEDIUM-SIZED ENTERPRISES

DRAFT REPORT ON RESPONSES TO THE QUESTIONNAIRE

PREPARED BY

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1 INTRODUCTION AND SUMMARY

1. Taxation can have important effects on many parts of the economy, including impacts on firm creation and on the development of small and medium-sized enterprises (SMEs). Developing an environment conducive to SME growth whilst ensuring tax compliance is a challenge all countries face. The purpose of the current project is to compile information on national approaches to this challenge that allows OECD member countries to learn from the experience of others. To this aim, a questionnaire survey was conducted among OECD member countries to identify and compare tax policy and tax administrative arrangements in place. Initial drafts of the questionnaire were discussed at previous meetings of the Working Party on SMEs and Entrepreneurship (6-7 June 2006, Paris), the Working Party on Tax Policy Analysis and Tax Statistics (16-17 May 2006, Paris), and were piloted with five countries (Austria, Denmark, France, Japan and New Zealand). The efforts of these countries are gratefully acknowledged. An initial draft of this preliminary report that was based on the initial responses of seven countries was presented and discussed at the Working Party on SMEs and Entrepreneurship (21 March 2007, Paris).

2. This report presents an updated summary of questionnaire responses: as of 18 September 2007, 20 member countries have responded (Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Germany, Greece, Ireland, Italy, Japan, Mexico, New Zealand, Norway, Poland, Slovak Republic, Spain, Sweden, the UK, and the US).

3. To provide a more global picture of tax policy and administrative arrangements, a similar survey is conducted by the International Monetary Fund (IMF) on a broad selection of non-OECD countries. The World Bank is also active in this area. The IMF, OECD and World Bank are co-ordinating their efforts through the International Tax Dialogue (ITD) initiative which the three organisations created to facilitate discussion of tax matters among national tax officials and international organisations. The widespread interest in the taxation of SMEs has led the ITD to choose SME Taxation as the topic for its next Global Conference, to be held in October 2007. The results of the survey will form an important basis for discussion at that conference.

Compliance Cost

4. The taxation of SMEs faces several major policy challenges. A first one concerns compliance costs of taxation. Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses.[1] Given that small start-ups and research oriented SMEs are generally considered as important factors for economic growth, tax compliance cost may slow down the economy. At least two policy responses to the problem of compliance costs are conceivable. Governments could try to generally simplify tax administration for businesses. At the same time, special responses targeted at SMEs are conceivable. For example, a widely observed measure to reduce the cost for small businesses are exemption thresholds under value added taxation.

Revenue Cost

5. As it is evident from the example of VAT thresholds, which exempt small businesses from administrative and tax burdens, some measures targeted at SMEs will have costs in terms of tax revenue. The survey tries to gather any national estimates on the revenue losses from various measures.

[1] See, for example, SLEMROD AND VENKATESH (2002).

Tax Evasion

6. Another problem in taxing small and medium-sized enterprises is tax evasion. Particularly in developing countries the problems of taxing small businesses are well-documented, but at a smaller scale, problems of tax evasion of small businesses may also be disproportionate in developed economies.[2] Tax simplification may also be a solution here. Several middle income countries have embarked on legislating presumptive taxation. While a "real system" of business income taxation is based on actual income less expenses, presumptive tax regimes imply procedures under which the desired tax base is not itself measured but is inferred from some simple indicators (turnover, assets, farm size, shop size, etc.), which are more easily measured than the base itself. The survey on the taxation of small and medium-sized enterprises will provide evidence as to which extent such approaches also found their way into tax codes of OECD member countries. Indeed, the search for tax simplification and the fight against tax evasion have motivated presumptive schemes also among this set of countries.

Incorporated vs. Unincorporated Businesses

7. During recent years, the question of how to adapt national tax systems to international tax competition was certainly an important consideration for tax policy. If tax competition triggers tax policy reactions that mainly target large and internationally mobile corporations, then smaller unincorporated businesses may become disadvantaged. Therefore, the survey also highlights the different treatments of incorporated versus unincorporated businesses. It also asks about the extent to which unincorporated businesses may enjoy some of the benefits of incorporation.

Definition of SMEs

8. One obvious question to ask is what should be considered a SME. The European Union, for example, defines a SME as an enterprise with fewer than 250 persons and which has an annual turnover not exceeding EUR 50m, and/or an annual balance sheet total not exceeding EUR 43m.[3] While such a definition of SMEs is helpful to coordinate language, most of the special tax regulations that target smaller businesses will fail to coherently comply with any single definition of a SME, but definitions of benefiting businesses will strongly differ across countries, across different types of taxes and even within a single tax code.[4] Therefore this report will not put forward or adhere to a particular definition of a SME.[5]

Exchange Rates

[2] A survey of studies is presented in SCHUETZE AND BRUCE (2004).

[3] See Commission Recommendation of 06/05/2003, C(2003) 1422 final. Within the SME category, a small enterprise, by EU definition, employs fewer than 50 persons and has an annual turnover and/or annual balance sheet total not exceeding EUR 10m. A micro-enterprise is defined as an enterprise that employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2m.

[4] As a reaction, current legislation in Australia, for example, is trying to align the various definitions of what an SME is to reduce complexity (cf. Table 19)

[5] This follows OECD (1994).

9. Throughout this report, monetary values that have been reported in national currencies are also converted into US$. If there are no special notes, then exchange rates used are average exchange rates for January 2007. A list is provided in the appendix.

Structure of the Preliminary Report

10. Chapter 2 of this report gives an overview of the size distributions of businesses in reporting member countries. Chapter 3 illustrates differences in the national VAT systems and captures special relieves applied to smaller businesses. Chapter 4 highlights income taxation of incorporated and unincorporated businesses, the tax treatment of losses, and special measures explicitly targeted at SMEs. Chapter 5 considers concessions under other taxes and subsidies. Chapter 6 will survey administrative issues and Chapter 7 contains an outlook.

2 STATISTICS ON INCORPORATED AND UNINCORPORATED BUSINESSES

11. This section intends to give a picture of the quantitative importance of small and medium-sized businesses in OECD member countries. In large parts, the statistical part of the questionnaire is structured to produce results that can be compared with the responses documented in OECD (1994).

12. Like many parts of this preliminary report it is limited in its scope by the incomplete list of responses to the survey. Nevertheless, some interesting patterns emerge and the existing responses have been very careful and detailed.

13. Table 1 gives information on the taxable profits of incorporated and unincorporated businesses. In all countries with information available, the number of unincorporated businesses greatly exceeds the number of incorporated ones. In particular, this applies in the lower profit brackets, while for businesses with more than US$100,000 of taxable profits corporations start to dominate.

14. The importance of the various size classes for overall employment can be inferred from Table 2. All countries that provide separate data on employment in incorporated and unincorporated businesses have more total employment in incorporated businesses. At the same time, unincorporated businesses have a very prominent role among the businesses with less than 10 employees. This correlation between size and legal status makes clear that any difference in the tax treatment of incorporated versus unincorporated businesses will also tend to implement a different treatment of larger versus smaller businesses.[6]

15. Table 3 shows that unincorporated businesses tend to be rather frequent in most industries, but across countries large discrepancies do exist. For example, while, measured by the number of businesses, unincorporated manufacturing enterprises strongly dominate in most countries, incorporated manufacturing firms are relatively frequent in New Zealand, Norway, Japan and Spain. They even dominate in the case of Denmark.

[6] Of course, while small businesses tend to be more often unincorporated, entrepreneurs have to take a decision on legal form and the establishment of new firms as an incorporated or unincorporated business is empirically related to tax factors. See DE MOOIJ AND NICODEME (2006) for a micro-oriented study and FUEST AND WEICHENRIEDER (2002) for a study based on macro data.

Table 1. Distribution of number of businesses by amount of taxable profits

Country	Negative	US$0 – 9,999	US $ 10,000 – 49,999	US$ 50,000 – 99,999	US$ 100,000 – 499,999	US$ 0.5m – 1m	US$ 1m – 5m	US$ 5m +	Total
Australia									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Austria[i] ♦									
Unincorporated♣	77,000	140,000	121,000	23,000	17,600	570	170	5	379,300
Incorporated	40,000	27,500	15,200	5,400	8,000	1,700	1,500	390	99,500
Belgium									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Canada[ii] ▲									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	393,894▲	270,567▲	242,006▲	106,001▲	150,981▲	11,608▲	10,961▲	4,376▲	1,190,394
Czech Republic									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Denmark[i]									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	76,438	16,113	17,957	8,232	11,607	1,983	1,622	412	134,346
Germany									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Greece[iii] ◊									
Unincorporated	24,481	63,337	46,235	10,654	6,860	430	205	19	152,221
Incorporated	18,117	7,130	4,981	2,624	4,714	1,104	1,008	307	39,985
Ireland[i]¤									
Unincorporated	56,489	20,332	212,998	84,298	33,426	1,236	428	29	409, 236
Incorporated	48,626	15,482	13,073	5,662	8,725	1,767	1,840	817	95, 992
Italy[iv]									
Unincorporated	455,389♦	1,053,183♦	1,521,656♦	174,150♦	67,461♦	1,362♦	324♦		3,273,525
Incorporated	357,595♦	162,430♦	181,851♦	57,857♦	65,282♦	10,457♦	11,799♦		847,271
Japan[v] ⌂									
Unincorporated	-	178,333	1,364128	184,990	78,326		6,728		N/A
Incorporated	1,722,023	310,831	241,337	96,423	136,373	25,341	28,426	7,899	N/A
Mexico[vi]									
Unincorporated		1,449,191	332,458	55,569	34,297	2,445	1,576	216	1,875,752
Incorporated		262,112	53,201	18,072	23,641	4,576	4,130	623	366,355
New Zealand[vii]									
Unincorporated	37,100	34,400	106,200	23,100	11,500	600	800	0 ø	213,700
Incorporated	39,800	24,600	59,400	27,900	26,300	3,100	3,000	700	184,800
Norway[viii]									
Unincorporated	50,570	96,603	107,917	42,828	15,334	273	63	-	313,588▬
Incorporated	52,633	49,385	21,994	12,172	19,319	3,084	2,511	509	161,607
Poland									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Slovak Republic[ix]									
Unincorporated	49,089	333,978	23,253	1,074	1,022	69	21	0	360,047
Incorporated	55,269	28,537	11,706	3,655	4,507	798	734	180	50,117
Spain									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sweden[x]									
Unincorporated	N/A	650,556	137,421	8398	731	24	0	0	797,130
Incorporated	N/A	215,043	51,958	16,912	18,634	2,488	2,093	560	307,688

Distribution of number of businesses by amount of taxable profits, continued

Country	Negative	US$0 – 9,999	US $ 10,000 – 49,999	US$ 50,000 – 99,999	US$ 100,000 – 499,999	US$ 0.5m – 1m	US$ 1m – 5m	US$ 5m +	Total
United Kingdom[xi]									
Unincorporated	66,100	1,320,000	1,510,000	292,000	153,000	12,000	5,410	528	3,360,000
Incorporated	34[⊗]	592,000	278,000	127,000	165,600	20,800	12,900	4,200	1,200,000
United States									
Unincorporated	7,428,000	11,112,000	5,223,000	847,000	586,000	44,000	30,000	7,000	25,275,000
Incorporated	4,893,000	282,000	224,000	74,000	56,000	10,000	12,000	7,000	5,558,000

Source: questionnaire responses.

Annotations:

i Data are from 2004.

ii Data are from December 31, 2006.

iii Data refer to the fiscal year 2006, i.e. income of 2005

iv Data are from 2003.

v Data are from 2004 (Unincorporated) and 2005 (Incorporated).

vi At exchange rate 1 peso = 0.094 US$. Data are from 2005.

vii At exchange rate 1 NZ$ = 1.42 US$. Data are from 2005.

viii At exchange rate 1 Norwegian krona = 0.163 US$. Data are from 2004.

ix Taxpayers, who reported zero turnover or failed to report a turnover figure are not included (18,516 individuals and 20,387 incorporated entities). Exact limits used are SK 300,000, SK 150,000, SK 3,000,000, SK15,000,000, SK30,000,000, and SK150,000,000. Data are from 2005.

x Data refer to 2004. Exchange rate used: 1US$ = SEK 7.02 (average value during March 2007).

xi At exchange rate 1 GBP = 1.84 US$. HMRC tax return figures are subject to rounding. Data refer to fiscal year 2004/05.

▲ Brackets for Canada refer to CDN$ rather than US$.

♦ Profit brackets are defined in Euro, not US$.

♣ Some unincorporated businesses are not assessed for income tax.

◊ Unincorporated businesses include Ltds (EPEs), private companies (general and limited) and joint ventures; Incorporated businesses include SAs (stock corporations) only.

¤ Brackets are defined in Euros, not US$. Unincorporated data is from income tax returns for self-employed filed for 2004. Incorporated data is from corporation tax returns filed for 2004. These figures include the taxable profits of non-liable companies.

⌂ Unincorporated enterprises: Number of individuals with self employment income; Agriculture is excluded in unincorporated sector.

ø Zero entry is due to rounding.

■ Number refers to all self employed including partnerships. All people with negative or positive income from any business activity are included.

⊗ The dataset for incorporated enterprises did not show any negative profits. 34 businesses had missing profits and are excluded from the taxable profits. Losses are included in figures for total aggregate profits for the unincorporated.

Table 2. Distribution of aggregate employment by number of employees

Country	0-1	2-9	10-19	20-49	50-99	100-199	200-250	250+	Total
Australia▲									
Unincorporated / Incorporated	1,156,326∅	721,569			80,215		5,797		1,963,907
Austria[i] ♣									
Unincorporated	44,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	9,800	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Belgium									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	28,700	202,506	173,357	280,838	157,694	142,335	52,643	553,510	1,591,583
Canada									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Czech Republic									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Denmark[i]									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	144,825
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Germany									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Greece									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ireland									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Italy[i]									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	40,344	1,215,266	1,246,975	1,715,399	1,221,959	1,081,956	311,872	4,191,203	11,024,974
Japan[i]									
Unincorporated	6,712,328		891,564	364,524	63,985	41,515	19,824		8,093,740
Incorporated	7,956,393		7,261,700	9,797,253	5,915,930	4,554,109	8,358,012		43,843,397
Mexico[ii]									
Unincorporated	56,115	517,962	215,289	199,404	83,990	52,124	10,157	50.948	1,185,989
Incorporated	14,652	359,639	412,939	864,527	831,513	944,900	320,022	4,658,113	8,406,296
New Zealand[iii]									
Unincorporated	62,300	150,100	16,600	9,200	2,400	⊗	⊗	⊗	247,800
Incorporated	27,300	260,700	126,400	128,500	88,400	77,800	27,100	280,900	1,017,200
Norway[i]									
Unincorporated	121,567	84,769	9,410	2,800	498	126	-	398	219,568
Incorporated	21,088	208,737	150,767	168,982	107,244	99,468	28,556	398,496	1,183,338
Poland									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Slovak Republic[iv]									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	37,320	131,773	125,609	165,298	186,197	157,523	57,544	626,192	1,487,456

Distribution of aggregate employment by number of employees, continued

Country	Number of Employees								
	0-1	2-9	10-19	20-49	50-99	100-199	200-250	250+	Total
Spain									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sweden[i]									
Unincorporated	19,255	42,512	7,651	3,812	1,731	1,219	477	5,829	82,486
Incorporated	47,628	348,722	213,696	270,992	192,509	188,255	56,124	916,708	2,234,634
United Kingdom[v]									
Unincorporated	3,536,000	1,418,000	459,000	381,000	118,000	68,000	N/A	N/A	6,099,000
Incorporated	376,000	1,791,000	1,000,000	1,327,000	1,035,000	1,013,000	327,000	9,029,000	15,899,000
United States									
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: questionnaire responses.

Annotations:

i Data are from 2004.

ii Data are from 2005.

iii At exchange rate 1 NZ$ = 1.42 US$. Data are from 2005.

iv Taxpayers, who reported zero turnover or failed to report a turnover figure are not included (18,516 individuals and 20,387 incorporated entities). Data are from 2005.

v HMRC tax return figures are subject to rounding. Data refer to fiscal year 2004/05

∅ This figure comprises non-employers only. Businesses with one employee are included in the next bracket.

▲ Data refer to June 2006.

♣ The number of employees is equal to the number of wage files, i.e. if somebody is fired and somebody else is hired during the year, both are counted. This may produce a limited upward bias in employment brackets.

⊗ Confidential.

Table 3. Number of businesses by business activity

Country	Agriculture & Fishing	Manufacturing	Construction	Trade	Finance & Services	Other	Total
Australia▲							
Unincorporated	214,879	106,778	308,405	302,317	129646	901,822	1,249,994
Incorporated							713,913
Austria*⌂							
Unincorporated	12,000	26,000	15,000	56,000	253,000	21,000	383,000
Incorporated	800	12,000	10.000	21,000	55,000	1,000	99,500
Belgium							
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Canada◊							
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	55,639	61,560	129,003	172,137	758,257	13,798	1,190,394
Czech Republic							
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Denmark*							
Unincorporated⊗	--	8,698	18,687	27,265	60,800	57	115,507
Incorporatedø	2,062	8,219	9,338	20,739	60,525	32,943	134,364
Germany*							
Unincorporated	58,720	154,041	205,324	513,000	1,130,020	642	2,064,135
Incorporated	16,339	123,013	102,711	189,353	448,130	2,039	893,038
Greece							
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ireland¤							
Unincorporated	87,900	10,585	51,685	30,998	227,802	196	409,166
Incorporated	2,102	10,202	12,955	18,880	51,308	277	95,724
Italy♠							
Unincorporated	44,052	427,638	506,592	1,237,686	1,048,340	2,001	3,266,309
Incorporated	19,023	144,285	127,217	171,369	378,701	2,668	843,263
Japan*							
Unincorporated	--˜	223,233	224,259	730,085	1,681,316	407	2,859,300
Incorporated	18,518	352,755	340,038	895,079	1,224,975	2,879	2,834,244
Mexico•							
Unincorporated	588,227	506,406	166,132	3,097,811	358,303	1,509,336	6,226,215
Incorporated	54,785	100,097	89,642	287,477	169,920	126,638	828,559
New Zealand°♣							
Unincorporated	63,500	7,000	22,300	18,700	102,100	200	213,700
Incorporated	16,900	15,500	21,600	36,800	93,500	600	184,800
Norway*▬							
Unincorporated	65,877	7,915	24,107	21,656	76,502	251	196,217
Incorporated	3,485	13,085	12,971	37,760	90,485	3,821	161,607
Poland							
Unincorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Incorporated	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Slovak Republic+							
Unincorporated	22,347	55,214	89,184	171,488	14,117	117,954	470,304
Incorporated	5,812	12,873	8,969	69,464	1,101	51,965	150,184

Number of businesses by business activity, continued

Country	Agriculture & Fishing	Manufacturing	Construction	Trade	Finance & Services	Other	Total
Spain°							
Unincorporated	N/A	86,915	217,018	511,445	950,588	1,299	1,767,265
Incorporated	N/A	152,567	198,567	330,014	610,025	5,691	1,296,864
Sweden◄							
Unincorporated	173,273	20,510	30,667	44,452	160,717	176	707,829◊
Incorporated	7,603	26,993	22,160	55,147	156,659	355	316,901◊
United Kingdomʘ*****							
Unincorporated	153,975	222,465	757,840	391,195	1,726,050	7,190	3,258,715
Incorporated	15,625	109,580	104,680	179,745	612,910	1,590	1,024,125
United States*							
Unincorporated	2,406,450	393,890	2,741,370	2,929,620	16,216,570	587,770	25,275,670
Incorporated	141,550	281,450	721,800	1,001,210	3,370,680	41,270	5,557,970

Source: questionnaire responses.

Annotations:

▲ Data refer to June 2006, separate data for incorporated and unincorporated businesses are not available.

◊ Data refer to December 31, 2006

⌂ Unincorporated taxpayers are counted as businesses in cases where an income tax assessment with income from agriculture, free profession, business in a narrow sense (members of the economic chamber) and rent/lease wass included. As incorporated businesses, all CIT assessments were taken, although for some of them it could be questionable if they can be considered as businesses (associations, public institutions).
Otherwise some of them could have subsidiaries which are due to VAT as a separate entity. Flat-rate farmers, i.e. those without VAT-assessment are not included.

* Data refer to 2004.

▫ Records are classified on basis of NACE Rev.1.1. Groups. Data sources are tax returns for 2004. NACE Category E (Electricity, Gas and Water) is omitted from the above Table.

■ 196,217 refers to sole proprietors from “The Central Register of Establishment and Enterprises”, while the larger number of Table 1 is based on tax files of all self-employed.

⊗ Data on unincorporated firms do not include the agriculture and fishing sector, part of the transportation sector, insurance, public administration and others.

ø The sector electricity, gas and water supply is not included in the statistics (538 businesses). Corporations that have chosen joint taxation appear as one business.

♣ The statistical unit used is called the 'kind-of-activity unit". This is a subdivision of an enterprise engaged in predominantly one activity and for which a single set of accounting records is available.

ʘ Utilities have been included in "Other". Because of data limitations, some sectors are missing from the finance & services box.

♠ Data refer to 2003

◄ For incorporated businesses data are from end 2004, but for unincorporated data are a mix of end 2003 and end 2004 data.

◊ Total figures for Sweden include 278,034 unincorporated businesses and 47,984 incorporated businesses that are unspecified and not included in the any of the industry cells.

~ Agriculture in unincorporated businesses is excluded in the statistics.

° Data refer to 2005

• Data refer to 2006

+ Data refer to January 2007

3 VALUE ADDED TAXATION

16. An important general feature of VAT systems, which is of major importance to small businesses, is the threshold of sales beyond which businesses are required to register for VAT taxation. As Table 4 explicates, these thresholds vary widely. The UK gives a comparatively lenient example. Businesses with less than £61,000 (US$119,525) of sales p.a. are not required to register for VAT. This compares to Denmark on the other end of the spectrum, where businesses with sales of more than DKK 50,000 (US$8,720) are required to register, or Mexico, Sweden, or Spain where there is no threshold.

17. The problem of setting an optimal threshold can be seen as finding an optimal trade-off between three effects KEEN AND MINTZ (2004). While an increase of the threshold saves administrative cost for those additional firms that can opt out, two downsides have to be considered. An increased threshold will produce a loss in tax revenues and intensify tax discrimination between exempt and taxable firms. Beyond this trade-off, any threshold that divides businesses into an exempted group and a fully taxed group may introduce incentives to stay below the threshold in order to not forgo the competitive advantage of being tax exempt. This feature, which will be particularly strong for businesses that supply private households, may introduce an unintended growth impediment into tax systems.

18. Estimates for the revenue losses from exempting businesses below the threshold are the exception rather than the rule, but the UK, with its relatively high threshold, estimates its revenue losses at £ 900m (US$1,764m) for the fiscal year 2005/06, which forms a modest 1.2% of total VAT revenues.

19. Abstracting from the thresholds for small businesses, none of the 19 reporting countries with a VAT system (the US have decentralised sales taxes) have a preferential treatment that implies reduced VAT payments for small businesses. However, as Table 5 explicates, the frequency of VAT tax returns and payments generally differ and most countries give a preference to small businesses below certain taxable turnover thresholds by allowing fewer tax returns than in the case of large businesses. These preferences are connected to taxable sales and in general do not depend on the legal form of the businesses.

20. Table 5 also gives an overview of the administration of VAT registration numbers. Particularly among EU-countries, concerns about VAT fraud rank high in tax policy discussions.[7] These concerns have made the issuing of VAT registration numbers, which are necessary to reclaiming taxes on inputs, a sensitive issue and some EU-countries seem to require detailed evidence of "real" business activity to combat bogus firms set up for VAT fraud. On the other hand, swift receipt of the registration numbers is often essential to produce invoices and a lag in the administrative process of issuing registration numbers can produce severe liquidity problems for newly established businesses.

[7] See, e.g., NAM AND PARSCHE AND SCHADEN (2001).

Table 4. VAT – General

Country	Number of businesses registered for VAT	Registration threshold	Voluntary registration possible?	Businesses below threshold not registered / estimated no. of businesses above threshold but not registered	Estimated revenue cost of threshold
Australia	~ 2,500,000[◊]	AU$ 50,000 (US$39,180) turnover (AU$ 100,000 (US$78,360) for non-profit enterprises).	Yes. Businesses that have an annual turnover below the threshold have the option of registering for GST.	For the 2004/05 income year, there were approximately 930,000 businesses with turnover less than AU$ 50,000 (US$39,180) that were voluntarily registered for GST and approximately 40,000 non-profit organisations with turnover less than AU$ 100,000 (US$78,360) that were voluntarily registered for GST.	No.
Austria	582,000	€7,500 (US$9,749) turnover for registration (obligation to declare), but option for tax-free turnover below €22,000 (US$28,597) p.a. From 2007: €30,000 (US$38,997)	Yes. About 105,000 VAT declarations below €7,500 (US$9,749) turnover, some of which were obliged, because the tax office has sent them a VAT form or because of some other reason (e.g. imports).	About 20.000 below the threshold with an non-voluntary VAT declaration, no estimate of those above and not registered	No.
Belgium	723,353[ø]	All businesses must register, but small ones with turnover of €5,580 (US$7,253) or less are in principle tax exempt.	Yes. 6,604[♠] registrants have changed from the special regime for small enterprises (with a turnover of less than €5,580 (US$7,253)) into another regime.	70,956 businesses below the threshold.	No.

Country	Number of businesses registered for VAT	Registration threshold	Voluntary registration possible?	Businesses below threshold not registered / estimated no. of businesses above threshold but not registered	Estimated revenue cost of threshold
Canada	2,600,000	Small suppliers CA$30,000 (US$25,554) or less are not required to register. Charities may also qualify as small suppliers if their annual revenue is CA$25,000 (US$21,295) or less. Public sector bodies: CA$50,000 (US$42,590) or less.	Yes, a business below the small supplier threshold can voluntarily register for GST/HST purposes.	N/A	N/A
Czech Republic	554,597[♣]	CZK1m (US$ 46,800)	Yes, businesses below the threshold can opt-into the regular VAT regime.	N/A	N/A
Denmark	419,648[ø]	DKK50,000 (US$8,720)	Yes, but no estimates on voluntarily registered businesses available.	N/A	N/A
Germany	~5m	€17,500 (US$22,748; previous year); expected turnover current year must not exceed €50,000 (US$64,995).	Yes. Opt in decision is binding for 5 years.	N/A	N/A
Greece	N/A	€10,000 (US$12,999) for businesses selling goods and for mixed businesses where revenues from services do not exceed €5,000); for services: €5,000 (US$6,500) .	Yes.	N/A	N/A
Ireland	279,879[☼]	Various specific thresholds apply depending on the type of business (type of goods, services, mail-order, inputs) that fall between €35,000 (US$ 45,497) and €70,000 (US$ 90,993).	Yes, but no estimates on voluntarily registered businesses available.	N/A	N/A

Country	Number of businesses registered for VAT	Registration threshold	Voluntary registration possible?	Businesses below threshold not registered / estimated no. of businesses above threshold but not registered	Estimated revenue cost of threshold
Italy	5,502,224◄	€7,000 (US$9.099) annual turnover (in 2006).	No.	N/A	N/A
Japan	3,723,000▲	¥10m (US$83,000)	Yes, there are 80,000 voluntary registrations.▲	N/A	No.
Mexico	6.3m (766,750 corporations and 5,569,690 individuals)	No VAT registration threshold.♦	Not applicable because of no registration threshold.	All taxpayers are obliged to register. There are no estimates available on the number of businesses above the threshold and not registered for the VAT.	N/A
New Zealand	640,000	NZ$ 40,000 (US$27,807)	Yes, it is estimated that 279,000 (44%) of all registered businesses are below the threshold.	Non-registered businesses below threshold: 159,000.♣ An estimated 10,000 businesses above threshold are not registered	N/A
Norway	329,639□	NOK 50,000 (US$7,852). For charitable and non-profit institutions and organisations NOK 140,000 (US$21,984).	No. However, there are some special rules regarding leasing of agricultural land and maintenance of roads for use in forestry business, in which case registration can take place irrespective of turnover. The number of these registrants is 4260 for the year 2006.	N/A	No.
Poland	1,426,799○	Taxpayers who in the previous tax year recorded a turnover of €10,000 (US$12,999) or less may enjoy tax exemption.	Yes, taxpayers can opt into the regular VAT regime.	No.	No.
Slovak Republic	159,106○	SKK 1,500,000 (US$56,109)	Yes, 40,699 voluntary businesses registered.○	Some 500,000 businesses below the threshold are not registered.	N/A

Country	Number of businesses registered for VAT	Registration threshold	Voluntary registration possible?	Businesses below threshold not registered / estimated no. of businesses above threshold but not registered	Estimated revenue cost of threshold
Spain	3,049,080►	There is no a registration threshold for VAT purposes in Spain.	No, since there is no registration threshold.	No, since there is no registration threshold.	Not applicable.
Sweden	927,430□	Sweden does not apply a registration threshold.	Not applicable.	Not applicable.	Not applicable.
United Kingdom	1.9m○	£70,000 (US$137,160) for distance sales; £61,000 (US$119,525) for other sales	Yes, some 680,000⊗ voluntary registrations.	Some 2.5m businesses below threshold are not registered.	£900m⊗ (US$1,764 m)
United States	N/A	N/A	N/A	N/A	N/A

Source: questionnaire responses.
Annotations:
◄ Data from 2003.
► Data from 2004.
♣ Data from 2005.
◊ As of June 30, 2006
♠ Data from 2006.
▲ As of March 2006.
○ As of December 2006.
ø As of February 2007.
□ As of March 2007.
☼ As of May 2007.
⊗ Fiscal year 2005/06. The figure includes businesses that were not registered for the entire year.
♦ Small taxpayers, under a small tax payer regime (REPECOS) have the option of paying VAT based on an estimate of the fiscal authority (cf. Table 9 and Table 12).

Table 5. VAT – Administrative simplifications and compliance incentives

Country	
Australia	
Administrative Simplifications	Businesses up to a turnover of AU$1m (US$783,600) may account for the value added tax (GST) on a cash basis; businesses that are voluntarily registered have the option of reporting and paying on an annual basis. Eligible taxpayers can pay GST by instalments each quarter on the basis of an estimate of their annual GST liability and may calculate GST once a year when reporting annual GST. Simplified accounting methods are available for some entities with annual turnover of AU$ 2m (US$1,567,200) or less. Broadly, entities with annual turnover of $2m (US$1,567,200) or less can claim a full input tax credit on acquisitions that are partly for private purposes. They then make an adjustment to account for private use at year end.
Compliance incentives	No.
VAT registration number	Yes.
Austria	
Administrative simplifications	Annual (not monthly) declaration for turnover < €100,000 (US$129,990) Option for tax-free turnover < €22,000 (US$28,597), (2007 ff.: €30,000 (US$38,997)) Option for input tax of 1,8% for inputs other than goods, if turnover < €220,000 (US$285,978)
Compliance incentives	No.
VAT registration number	Yes.
Belgium	
Administrative simplifications	Yes. Quarterly instead of monthly returns available if turnover (excl. VAT) does not exceed €1m (US$1.3m). [€200,000 (US$259,980) for supplies of mineral oils, mobile telephone equipment, computers with their peripherals, accessories and components or motorized land vehicles.] For flat rate enterprises, the annual turnover is set according to a fixed rate for each VAT rate, but the deduction of the VAT on inputs is applied according to the normal rules. Flat rate enterprises have an annual turnover of no more than €750,000 (excl. VAT) (US$974,925), they deal mainly with private individuals and are active in certain sectors (e.g. bakers, butchers, hairdressers).
Compliance incentives	No.
VAT registration number	Yes.

Canada		
	Administrative simplifications	Taxable turnover below CA$500,000 (US$425,900) qualifies for annual filing and quarterly instalments unless net tax is less than CA$1,500 (US$1,278), in which case businesses remit tax only once a year. Taxable turnover between CA$500,000 (US$425,900) and CA$6,000,000 (US$5,110,800) qualifies for quarterly filing and payments. Above CA$6m (US$5.1m) monthly filing and remitting. (Note: In Budget 2007, the Canadian government proposed certain adjustments to these thresholds, more specifically to increase the CA$500,000 (US$425,900) taxable supplies threshold to CA$1.5m (US$1.27m) and the CA$1,500 (US$1,278) net tax threshold to CA$3,000 (US$2,555).) In addition to less frequent tax remittance and filing requirements, small businesses may use a simplified accounting method, called the Quick Method.
	Compliance incentives	No.
	VAT registration number	In Canada, the federal GST/HST registration number is called a Business Number (BN). The BN must be provided on invoices when the vendor's annual sales of taxable goods and service are greater than CA$30,000 (US$25,554).
Czech Republic		
	Administrative simplifications	Businesses with taxable quarterly turnover below CZK10m (US$468,000) have the calendar quarter as their tax period, while the others file monthly. Businesses that do not have to comply with accounting obligations have different rules for record keeping.
	Compliance incentives	No.
	VAT registration number	Invoices must contain a tax identification number of the supplier and also of the customer. The tax identification number is issued by local tax authority within approximately 5 days
Denmark		
	Administrative simplifications	2 declarations per year if taxable turnover p.a. is below DKK1m (US$174,389). 4 declarations a year if turnover is between DKK1m (US$174,389) and DKK 15m (US$2.6m). 12 declarations a year if turnover is DKK15m (US$2.6m) or more.
	Compliance incentives	No.
	VAT registration number	Invoices have to bear the supplier VAT registration number. Exception: Businesses with sale only or primarily to private persons. VAT registration numbers are issued by The Danish Commerce and Companies Agency but the registration has to be approved by the VAT administration "SKAT".
Germany		
	Administrative simplifications	New businesses, except those below threshold, are required to submit monthly returns in the year in which they are founded and for the following calendar year. Filing obligations are somewhat reduced for small businesses.
	Compliance incentives	None.
	VAT registration number	Invoices must bear a tax number assigned by the Tax Office or the VAT Registration Number assigned by the Federal Central Tax Office. There are no figures available on the average time until the tax number is received.

Greece

Administrative simplifications: Businesses, which are obliged by law to keep simple accounting records declaring purchases only (Books of Category A) such as: (a) entrepreneurs running a business in a non-tourist town or locality with a population of less than 5 000, which are engaged solely in the sale of goods whose gross revenue during the previous year did not exceed €100,000 (US$129,999); (b) sellers of agricultural products in open markets, kiosks, petrol filling stations they file VAT returns on a quarterly basis and they use a special method for calculating their turnover (i.e. they apply rates of gross profits on their purchases).

Further, the abovementioned businesses may opt not to file periodical VAT returns. A relevant petition has to be filed with the competent tax authority within January. In such a case the relevant VAT due is paid in interim payments calculated on the basis of VAT paid during the previous fiscal year increased at 10%. The final VAT due is adjusted with the recapitulative annual VAT return.

Note: Farmers subject to the special system of Art. 41, businesses with 60% or more sales in wholesale and businesses carrying out exports are excluded from the abovementioned simplified regime. Further Greek VAT Code provides that businesses keeping books and records of Category B (annual turnover up to 1.5m Euros, or certain categories of entrepreneurs such as accountants, engineers etc.) file VAT returns on a quarterly basis.

Compliance incentives: No.

VAT registration number: Yes.

Ireland

Administrative simplifications: Yes. In general, VAT returns must be made on a bi-monthly basis. For smaller businesses, the frequency of filing VAT returns is reduced from July 2007. For businesses with a yearly liability of €3,000 (US$3,900) or less, the option of filing returns on a half-yearly basis will be available. Between €3,001 (US$3901) and €14,400 (US$18,719), the option of filing returns every four months will be available.

Compliance incentives: No.

VAT registration number: All VAT invoices must show the trader's VAT registration number.

Every applicant for VAT registration must complete the appropriate application form, which must be returned to the appropriate Revenue District. Registration is effective from the date on which the application for registration is processed, or from such earlier date as may be agreed between the Revenue District and the applicant. In the case of a person not obliged to register but who is opting to do so, the effective date will be not earlier than the beginning of the taxable period during which the application is made.

A person who is setting up a business but who has not yet commenced supplying taxable goods or services may register for VAT as soon as it is clear that he or she will become a taxable person. This will enable that person to obtain credit for VAT on purchases made before trading actually commences.

Newly created businesses are on average registered within 10 working days, in line with Revenue's Customer Services Standards for VAT registrations.

Italy		
	Administrative simplifications	For some categories of taxpayers, current legislation provides for simplified administrative requirements concerning VAT and invoicing obligations, records of invoices received and issued and VAT payments. These simplified arrangements are available for businesses providing services and persons carrying out artistic and professional services whose turnover did not exceed €309,874.14 (US$402,805) in the previous calendar year, and businesses carrying out other kinds of activities whose turnover did not exceed €516,456.90 (US$671,342).
	Compliance incentives	N/A
	VAT registration number	N/A
Japan		
	Administrative simplifications	Yes, there is a simplified TAX system if the turnover two years ago was below ¥50m (US$415,144). In this case a deemed tax on credited purchases is available, which is calculated as a percentage of the consumption tax payable in respect of taxable sales. Depending on trade or industry between 90% and 50% of the consumption tax is available as a credit. The system can be used by SMEs whose value of taxable sales in the base period must be ¥50m (US$415,144) or less. In principle, there is no distinction treatment for between corporation and personal business.
	Compliance incentives	No.
	VAT registration number	No.
Mexico		
	Administrative simplifications	Small taxpayers (REPECOS) are subject to a more simplified record keeping that differs from that which taxpayers follow in the general regime. An example for this is the fact that they are only obliged to keep accounting record of their daily income. REPECOS are not obliged to issue invoices; however, they do have to issue receipts that include VAT in the price. There are no modified administrative requirements for small/medium size incorporated businesses.
	Compliance incentives	No.
	VAT registration number	No. However, invoices must include the name of the individual or company, their fiscal address and the taxpayer registration number. The TAX Administration Service (SAT) is the organization that issues this number.
New Zealand		
	Administrative simplifications	Six-month return period available if total taxable turnover was below NZ$250,000 (US$173,793) in the last 12 months, or is unlikely to exceed this threshold during the next 12 months. Two-month return period available if turnover is below NZ$24m (US$16.7m). Monthly declaration by election or beyond taxable turnover of NZ$24m (US$16.7m).
	Compliance incentives	No.
	VAT registration number	Required, but a business receives a number almost immediately once the registration is accepted.
Norway		
	Administrative simplifications	A registered person with supplies of under NOK1m (US$157,030) p.a. may apply to submit VAT returns annually (annual year-end returns). The normal rule is 6 returns per year.

Compliance incentives	No.
VAT registration number	Yes. The number is issued by The Central Coordinating Register for Legal Entities. It is the Country tax office that decides whether the conditions for registration are fulfilled, so invoices can only bear the registration number after a decision has been made by the country tax office. The described procedure can take some weeks.
Poland	
Administrative simplifications	Simplification procedures are addressed to "small taxpayers" and give them right to chose the less frequent returns (i.e. quarterly). "Small taxpayers" in the previous tax year had a turnover not higher than €800,000 (US$1m), in specific cases the threshold is lower – €30,000 (US$38,997). Simplified record-keeping addresses taxpayers using tax exemption. The simplification in form of flat-rate tax is available to taxpayers who provide taxi services. The rate is 3% and taxpayers fill in simplified tax returns.
Compliance incentives	No.
VAT registration number	As a rule, invoices must include tax identification numbers of seller and purchaser. Number of purchaser is not obligatory if the purchaser is a natural person not carrying out economic activity or a farmer.
Slovak Republic	
Administrative simplifications	If turnover is below SKK10m (US$374,061), there are 4 declarations per year; but the standard of monthly returns may also be elected.
Compliance incentives	No.
VAT registration number	Yes, invoices have to bear a VAT registration number. The tax office must register a taxable person for VAT, issue a certificate of VAT registration, and allocate an identification number for VAT to the person within 30 days from the day that the application for VAT registration was delivered.
Spain	
Administrative simplifications	Generally speaking, registered businesses (incorporated and unincorporated) with an annual turnover not exceeding €6,010,121.04 (US$7,812,556) are obliged to submit their VAT tax returns/payments on a quarterly basis (standard: monthly payments).
Compliance incentives	As a general rule, there are no special tax incentives for compliance because VAT tax rates are established in Spain following objective criteria based on the nature of goods and services supplied. The Spanish Tax Agency provides services addressed to facilitate VAT compliance, like e-filing, e-payment, etc.
VAT registration number	Yes, invoices have to bear a VAT registration number (NIF). The Spanish Tax Administration (AEAT) is responsible for issuing a NIF to taxpayers. It's done automatically upon taxpayer's request
Sweden	
Administrative simplifications	The normal reporting period is one month. Businesses with a taxable base that does not exceed SEK1m (US$143,200) p.a. are allowed to report VAT once a year in the income tax return.
Compliance incentives	There are no special tax incentives for compliance.
VAT registration number	Invoices for VAT purposes must include the suppliers VAT registration number.

United Kingdom	
Administrative simplifications	(a) 1 declaration per year available for businesses with an annual taxable turnover up to £1,350,000 (US$ 2.6m). (b) *Cash accounting* is available for businesses whose taxable turnover (excluding VAT) in the next year will be £660,000 (US$1.3m) or less: VAT is paid on the basis of payments made and received rather than invoices issued and received. (c) *Flat Rate Scheme (FRS)* for small businesses. Available if taxable turnover (excluding VAT) in the next year will be below £150,000 (US$293,913) *and* total business income (including VAT) below £187,500 (US$367,392). The FRS allows eligible businesses to pay VAT by applying a percentage to their VAT-inclusive turnover instead of having to work out the VAT on individual sales and purchases. (d) *Flat Rate Scheme for Farmers* as an alternative to VAT registration. Farmers and other people involved in agricultural production activities are not able to reclaim input tax on their business purchases, but instead are allowed to charge a "flat-rate addition" (FRA) which they are allowed to keep as compensation for the loss of input tax. The FRA may be claimed by any VAT registered customer provided the normal invoice rules are met.
Compliance incentives	Most businesses that pay their VAT return by an approved electronic method can qualify for up to seven extra calendar days, from the standard due date, for both their return and payment to reach HMRC. The extra time applies to both paper and electronic VAT returns. Businesses that file return electronically and pay by Direct Debit may receive seven extra calendar days, from the standard due date, for sending their return. It is a further three working days before payment from their nominated bank account is collected.
VAT registration number	VAT invoices must show the supplier's VAT registration number. If the supply is to a customer who is not VAT-registered, or it is a zero rated supply, then a VAT invoice does not need to be issued. HM Revenue and Customs issues the VAT registration numbers. Within this department, there are four VAT registration units and one non-established taxable persons unit and all of these units process VAT registrations. The aim is to process the registration, or identify those as high risk, within 14 calendar days. By the end of March 2007 the objective is to achieve this in 30% of cases. For the period April to December 2006 this was achieved in just under 30% of cases. Further, in December 2006 the average time taken to process 95% of applications was 24 days. Delays can occur when additional security checks need to be made to combat fraud (such as Missing Trader intra-Community (MTIC) fraud).
United States	
Administrative Simplifications	N/A
Compliance incentives	N/A
VAT registration number	N/A

Source: questionnaire responses.

4 TAXATION OF INCOME FROM BUSINESSES

4.1 PRESUMPTIVE TAX REGIMES

21. As mentioned in the introduction, a presumptive tax regime is one where the desired tax base is not itself measured but is inferred from some simple indicators (turnover, assets, farm size, shop size, etc.), which are more easily measured than the base itself.

22. Several of the responding OECD countries report elements of a presumptive system, including Austria, Belgium, the Czech Republic, Greece, Italy, Japan, Mexico, Poland and Spain. Questionnaire responses about the motivation for using presumptive systems fall into two groups. While the responses from Austria, Belgium, the Czech Republic, Poland and Mexico point towards simpler bookkeeping and simplified processing of tax returns, responses from Greece, Italy, Japan and Spain name improved tax compliance, reduced tax avoidance and a more equitable taxation as a motivation for running presumptive systems.

23. These different motivations tend to be reflected by the extent to which businesses may opt out of the presumptive system (see Table 6). While Austria, Belgium, Poland and Mexico give taxpayers the opportunity to opt out, this is not the case in Greece, Italy and Japan. The criteria that qualify for the presumptive system are also different. In the case of Austria, Belgium, Poland and Mexico small taxpayers are targeted, while in Italy, for example, businesses with profits up to US$9.7m (as of 2007) may be pushed into the presumptive system.

Table 6. Criteria for presumptive taxation

Country	**Criteria to qualify for presumptive taxation**	**Opt out possibilities**
Austria	- Unincorporated business only. - General option for SMEs below turnover of €220,000 (US$288,578) in preceding year. - Restaurants, Hotels with turnover below €255,000 (US$331,475; preceding year): - Food retailers with turnover below €600,000 (US$779,940; 2 preceding years). - Drug stores with turnover below €400,000 (US$519,960; 2 preceding years). - Sales representatives. - Artists, writers.	Opt out possible, but decision binding for 5 years.

Country	Criteria to qualify for presumptive taxation	Opt out possibilities
Belgium	Business in a sector of activity for which presumptive bases have been established by the tax administration. Additional requirements: As regards VAT: a) The taxpayer must be an individual or a partnership b) The presumptive tax is normally designed for taxpayers that should not usually deliver invoices or similar documents. Therefore the presumptive tax is applicable only to taxable persons that carry out operations for which there are no obligation to deliver invoices or similar documents for at least 75 % of their total sales turnover. This percentage can however be reduced to 60% specific cases. c) The taxpayer must not have an annual turnover of more than €750,000 (excl. VAT).[8] As regards income tax: The tax administration can decide, upon agreement with the interested professional bodies, of the presumptive bases of taxation. The tax administration can discretionary apply the presumptive tax regime to taxpayers that are not members of the concerned professional associations and which do not agree on the basis of taxation for the related presumptive tax. Taxation under the presumptive bases constitutes a particular application of taxation by comparison, and the assent of the taxpayer relative to a legal mode of taxation is not legally required.	Opt out possible, opt in is subject to criteria reported in left column.
Czech Republic	Lump sum taxation is available for individuals with income from agriculture production, from a trade and/or from other business activity if the business has no employees or co-operating persons, and annual income in the three immediately preceding taxable periods did not exceed CZK5m (US$234,000). The business owner may not participate in an association that is not a legal entity.	A taxpayer cannot opt back for the real regime.
Greece	In the presumptive taxation the calculation of the taxable income takes into account the taxpayer's expenses such as living expenses for him and his dependants and expenses incurred for the acquisition of assets. When the declared expenses in the taxpayer's annual tax return out weigh his declared total income, then taxable income is calculated presumptively, based on the above mentioned expenses. The taxpayer is asked to provide evidence for the purchases he has done. The resulting difference, if any, between the amount of expenses made and the income spent to finance them is considered income of the taxpayer and is taxable.	Opt in possible, but taxpayers can then question the calculation of the presumptive tax only as far as living expenses are concerned. Taxpayers cannot opt out when declared expenses outweigh declared income.
Italy	Sector studies imply a presumptive taxation. Sector studies analyse tax return data to identify potential income earning capacity (as well as relevant limitations) of the average taxpayer in each business category. In general, sector studies are applied to taxpayers regardless of their legal nature or accounting system, when they have declared an amount of profits or remunerations not exceeding €5,164,569 (US$6.7m) for the reference period; as of 2007 this amount is €7,500,000 (US$9.7m).	No opt out, unless there is evidence that their real income is different from presumptive income.

[8] The criteria mentioned can be different for the application of other specific VAT regimes.

Country	Criteria to qualify for presumptive taxation	Opt out possibilities
Japan	"Taxation by Estimation Method" is the method of calculating a taxpayer's taxable income by using a variety of indirect information in tax audits, made under the related director of the tax office. The "Taxation by Estimation Method" applies in the case of unincorporated businesses, as well as in the case of incorporated businesses.	No opt out.
Mexico	Small taxpayers (Repecos) are taxed on a presumptive bases (annual turnover). In order to be taxed as Repecos, the income that derives from the activities of these taxpayers, plus the interests from the previous year, must not exceed MEX$ 2m (US$91,300). Repecos are subject to a single 2% rate on their gross income. In the case of incorporated businesses, the fiscal authority is entitled to determine, presumptively, the taxpayers´ fiscal profit based on a percentage which differs between sectors.	For purposes of the income tax, all taxpayers can pay according to the real regime (opt out), but this decision is irreversible.
Poland	Unincorporated (non-agricultural) businesses are liable to taxation on general terms unless they chose either taxation with a uniform 19% rate tax or the lump-sum taxation on registered revenues. No threshold apply in case of taxation with a uniform flat 19% rate. The Lump-Sum Income Tax Act provides two form of taxation of business income: a lump-sum taxation on registered revenues, or a "tax card". Taxpayers may choose lump-sum taxation on registered revenues if in the previous year the turnover was €250,000 (US$324,975) or less. Regardless of the revenue, the lump-sum tax on registered revenues is levied on taxpayers who start performing a given activity in the tax year and are not taxed in the form of tax card. The lump-sum tax rates on registered revenue are: - 20% for revenue raised by liberal professions - 17% for revenue raised, inter alia, from rendering the following services: car rent, hotels, agency in wholesale trade, - 8.5% on revenue gained, inter alia, from service activities, including the sale of drinks with the volume of alcohol above 1.5%, - 5,5% on income gained from production and construction activities, - 3.0% on income gained from service activities in the scope of trade and catering, with the exception of income on the sale of drinks with the volume of alcohol above 1.5%. Tax base is turnover without deduction of costs. The accounting requirements are lowered. "Tax card" is the simplest form of taxation of income from economic activity with no accounting requirements. Rates of "tax card" are specified in amount by statute and depend on: - the form and scope of the activity performed, - the number of employees, - the number of inhabitants of the place where the economic activity is performed. This form of taxation is available to very small businesses listed in the Lump-Sum Income Tax Act.	Yes, by default taxpayers are taxed according to the real regime, only PIT taxpayers carrying out economic activity can opt into presumptive taxation.

<table>
<tr><th>Country</th><th>Criteria to qualify for presumptive taxation</th><th>Opt out possibilities</th></tr>
<tr><td>Spain</td><td>Only those unincorporated businesses performing certain qualified economic activities may apply for the presumptive taxation system in the PIT:
- Qualifying activities previously determined by the Ministry of Economy and Finance.
- Activities not explicitly excluded from the application of this scheme.
- Those taxpayers with a turnover not exceeding (in the last period):
  - EUR 450,000 in their total economic activities
  - EUR 300,000 in case of agricultural, forestry, etc, activities
  - Sales and services purchases (excluding assets) not exceeding the amount of EUR 300,000
While criteria and thresholds are not the same as applied for VAT (or other indirect taxes) purposes, there is a high degree of coordination between the PIT presumptive system of taxation (estimación objetiva) and the VAT simplified scheme. Both schemes are voluntary and they are applied on a joint basis to those taxpayers carrying out economic activities (of reduced dimension).</td><td>Opt out possible.</td></tr>
</table>

Source: questionnaire responses.

Table 7. Criteria for presumptive taxation

Country	Tax base	Number of participating businesses, revenues
Austria	Generally, the tax base is turnover minus deductible expenses and deductible input VAT. Deductible expenses (other than goods inputs, wages and related taxes) equal 12% of turnover and a maximum of €26,400 (US$34,317), 6% for free professionals. Restaurants, hotels, food retailers, etc. have slightly different thresholds and formulas for lump sum deductions.	Some 400 restaurants and hotels, 220 retailers, 1200 sales representatives, 360 writers. Tax revenues account for less than 1% of total tax revenues from businesses.
Belgium	See Table 6.	As regards VAT, there are 30,000 taxpayers subject to the presumptive tax regime and 80,000 exempt small taxpayers. As regards income tax, there are 36,000 taxpayers subject to the presumptive tax bases ruled by the Presumptive Tax Board (Collège des forfaits). There is no information on tax revenues.
Czech Republic	The presumptive tax system is based on the total expected income being liable to tax and the total expected expenses. The standard tax rate is used for determination of a lump sum tax. Tax Base From CZK to CZK — Tax rate 0 – 121,200 (US$ 0 – 5,672) — 12% 121,20 – 218,400 (US$ 5,672– 10,221) — 19% 218,400 – 331,200 (US$ 10,221 – 15,500) — 25% 331,200 (US$ 15,500) and more — 32%	N/A

Country	Tax base	Number of participating businesses, revenues
Greece	Presumptive taxation is based on living expenses and expenses incurred by the taxpayer for the acquisition of property. Expenses include the following. - Private purchases or leasing of cars, two or three wheeled vehicles, leisure boats, aircrafts, helicopters and movable assets of great value (of above €5.000). - Expenses made for the purchasing or leasing of immovable property, for the construction of a building or a swimming pool. (Expenses made for the construction of buildings by a construction enterprise are excluded. The same applies for the expenses made by an adult for the purchase or the construction of a building to be used as his main residence, as long as its surface does not exceed 120 square meters.) - Yearly expenses for gifts, parental provisions as long as these expenses exceed €300. Grants and gifts to the state, or the regional administrations are excluded. - Expenses for the depreciations of loans or credits of any kind. - Granting of loans (loans to enterprises, joint ventures or societies, from their members or shareholders, are excluded). - Presumptions made with regard to the living expenses: a) The yearly presumptive rent for ownership occupancy or leased main residence with a surface of 200m² and above. b) The presumptive rent for one or more cottages (this presumptive rent is calculated for each one of the cottages for a period of three months per year). c) The yearly presumptive expenses of the car. These expenses are calculated based on the cost incurred for the maintenance of the car which in turn is calculated in accordance with the car's taxable horse power and the participation of the relative presumptive expenses in the family budget. d) The yearly presumptive expenses made for the maintenance of leisure boats belonging to the taxpayers and/or his dependants. e) The yearly presumptive expenses made for the maintenance of the swimming pool. f) The yearly presumptive expenses made for the maintenance of the aircraft or helicopter belonging to the taxpayer and/or his dependants. Presumptive taxation does not substitute for VAT or social contributions.	N/A
Italy	See Table 6.	N/A

Country	Tax base	Number of participating businesses, revenues
Japan	The methods used in practice are as follows: - Change of assets method (Net worth method): Method to estimate taxpayer's taxable income based on the increase/decrease of the taxpayer's net worth (total assets less total liabilities). - Percentage method: Method to estimate the taxpayer's taxable income by multiplying specific percentages or ratios with a known figure for the taxpayer, such as sales amount and/or cost of sales amount. - Efficiency method: Method to estimate taxpayer's taxable income from the number of product units, sales units, materials etc. Presumptive taxation does not substitute for VAT or social contributions.	N/A
Mexico	See Table 6.	For fiscal year 2005, the revenue from unincorporated businesses raised by the simplified regimes (Repecos and the Intermediate regime[9]) was 12.65% of all tax revenue from unincorporated business income. (This percentage does not include withholdings that are made to individuals such as: salaries, fee based income, leasing, selling of goods, etc.) In October 2006, Repecos accounted for 3,551,618 taxpayers. Tax revenue from these amounted to MEX$314m (US$29m) in the fiscal year 2005.
Poland	See Table 6. The presumptive tax does not substitute for VAT or social contributions.	In 2005, 145,171 taxpayers chose the lump-sum tax on registered revenue (9,797 less than in 2004), and 552,485 chose the "tax card" (23,610 less than in 2004). 2005 tax revenues from the simplified system. - from "tax card": PLN120.5m (US$39m) - from lump-sum tax on registered revenue: PLN1,340m (US$433m). The share of revenue from these two forms of taxes in total revenue from economic activity in PIT was 14.2%, and in combine revenue from PIT and CIT together 4.7%.

[9] For details on the Intermediate regime see Table 9.

Country	Tax base	Number of participating businesses, revenues
Spain	Turnover is only used in case of agriculture activities. For other economic activities net income is assessed on parameters called "modulos", which take into account variables such as: number of employees; electric power, number of tables in a restaurant, etc,.) The presumptive taxation system covers nine different (and independent) economic activities. Where a taxpayer performs more than one activity net income is assessed independently. Net income indexes applied on gross income vary among 0.13 and 0.56	In 2004, taxpayers subject to the presumptive system were: - Agriculture activities: 1,062,501 - Other activities: 644,618 • Agriculture activities: EUR 3,593.2 million • Other activities: EUR 7,495.1 million Revenues in 2004 amounted to 38.9% of total revenue declared by unincorporated business taxpayers performing economic activities within the PIT in 2004.

Source: questionnaire responses.

4.2 THE TREATMENT OF INCORPORATED AND UNINCORPORATED BUSINESSES

24. Since small businesses, in particular in their starting period, tend to be unincorporated a difference in the treatment of different legal forms may translate into discrimination between different business sizes. One feature of the tax system that may discriminate against incorporation is the economic double taxation of distributed profits: distributed profits, which had been subject to corporate tax, are in addition taxed at the personal shareholder level. Table 8 gives an overview.

25. One approach to encounter the double taxation problem is to use a full imputation system: personal shareholders along with their dividend receive a tax credit that equals the corporate tax on the underlying profit distributed. Although such a system has its merits when it comes to building a tax system that is neutral with respect to the incorporation decision, it has become increasingly unsatisfactory to run an imputation system in an international context, as imputation credits usually do not apply to cross-border dividends. The European Court of Justice has recently decided that this is a discrimination against foreign investments, which in the EU is incompatible with fundamental rights of economic freedom.[10]

26. The resulting trend, at least in Europe, to abolish imputation systems and replacing these with classical systems in which distributed profits are taxed at the corporate *and* shareholder level may be particularly problematic for young firms (cf. SINN (1991)). The reason is that double taxation is particularly discriminating against new equity issues, while the cost of retained earnings available to mature companies is kept unaffected by double taxation of dividends. Although double taxation is often partly cushioned by shareholder relief (e.g. reduced tax rates on dividends), its presence is widespread according to the country responses collected in Table 8.

27. Another issue, in particular when double taxation makes incorporation disadvantageous, is whether limited liability, a potential benefit of incorporation, can at least to some extent be enjoyed without subjecting profits to the corporate income tax. Even if this is the case, such opportunities may have downsides, like restrictions on the way the partnership can be represented by a single individual. Besides describing the national corporate tax systems, Table 8 also touches upon those issues.

[10] Decision of September 7, 2004 (C 319/02).

28. One feature of the tax system that may discourage incorporation of SMEs is the double taxation of dividends described above. But, of course, also the sizes of the personal and corporate taxes matter. Table 9 sheds light on the rates for incorporated and unincorporated businesses and reports on possible differences in the tax base and the requirements of instalments. As to the relationship between top personal tax rates and corporate tax rates, a first group of countries (Australia, Austria, Belgium, the Czch Republic, Germany, Denmark, Greece, Japan, Spain, and the UK) have a corporate tax rate that falls short of the top personal income tax rate. Some of these countries have identified the gap as a potential problem and have started to target the potential discrimination against unincorporated businesses. In Germany, the effective personal tax on business income may be reduced by a credit of local business taxes against the personal income tax that is not available for corporations. Denmark allows corporations to retain profits subject to a 28% tax rate, while profits from unincorporated businesses are progressively taxed at a top rate of 62.96%. As a reaction to this asymmetry, Denmark offers a special scheme targeted at self-employed that allows a preferential rate of 28% on retentions for those who opt into this scheme.

29. Another set of countries, including Mexico, Norway, Poland, Slovak Republic, and Sweden, has largely aligned the taxed rates on unincorporated and incorporated businesses. In most of these countries taxes on business income are proportional to income and the symmetry between unincorporated and incorporated business is at least roughly achieved for high and low income earners.

4.3 SPECIAL MEASURES TARGETED AT SMALL OR MEDIUM-SIZED BUSINESSES

30. Frequently, governments try to foster employment or investment by specific measures such as capital allowances, R&D credits or subsidies, and the like. Table 10 gives an overview. Canada, Greece, the UK and the US create examples where special incentives (depreciation, R&D credits) differentiate between SMEs and other firms. In other cases, smaller businesses are treated favourably under payroll taxes.

4.4 ACCOUNTING RULES

31. Differentiated rules for large businesses and SMEs may also apply to accounting. Tax accounting can be expected to be one core reason why smaller businesses face a relatively higher compliance cost than large firms. Table 11 collects and summarizes the country responses in this area.

Table 8. Corporate tax systems and forms of limited liability

Country	
Australia	
Relief for double taxation	Corporations pay 30% on income. Shareholders pay tax at their marginal tax rate on the grossed up value of the dividend, however, they receive franking tax credits through the imputation system. Full imputation applies, though companies can frank dividends at less than 100%.
Special schemes (e.g. for closely held corporations)	Certain limited partnerships operating for the purpose of investing in venture capital activities are treated as flow-through vehicles for taxation purposes instead of being taxed as corporate limited partnerships at the entity level. The partners in these vehicles are entitled to taxation concessions on the profits and gains from the eligible venture capital investments. The tax concessions are estimated to cost the revenue $25m (US$19.6m) over the period 2007-08 to 2010-11.
Limited liability w/o full CIT obligation possible?	Small businesses may operate through trusts. The trustee owns the property of trust estate (eg. land and buildings and other assets) and the beneficiaries are paid the net trust income (assessable income less deductions). Generally, the trust income will form part of the income of the beneficiary and is taxed at their marginal tax rate.
Is it possible for unincorporated businesses to opt for CIT?	No.
Austria	
Relief for double taxation	Personal shareholders enjoy a reduced withholding tax rate (final) of 25% on dividends.
Special schemes (e.g. for closely held corporations)	No.
Limited liability w/o full CIT obligation possible?	No.
Is it possible for unincorporated businesses to opt for CIT?	No.
Belgium	
Relief for double taxation	Dividends distributed by share companies are included in the taxable base and taxed at a reduced rate of 15% (25% on shares issued before Jan. 1994). Participation exemption can be granted for dividends received from other companies, subject to various conditions (participation threshold, upstream taxation requirement and specific exclusions motivated by anti-abuse rules).
Special schemes (e.g. for closely held corporations)	No.
Limited liability w/o full CIT obligation possible?	No.
Is it possible for unincorporated businesses to opt for CIT?	No.

Canada

Relief for double taxation	The Canadian corporate tax system levies two taxes on investment income earned by private corporations to eliminate the incentive for individuals to use private corporations to defer taxes on investment income:
	- An additional Part I tax of 6 2/3 % applies to investment income other than dividends earned by Canadian-controlled private corporations.
	- A tax of 33 1/3 % (Part IV tax) is also payable on dividends received by private corporations in the following circumstances:
	  - The dividend is received from a connected company (10% or more of the share capital), and the company paying the dividend received a refund as a consequence of making the dividend payment.
	  - The dividend is received from taxable Canadian corporations not connected to the particular corporation and from non-connected foreign affiliate corporations if the dividends were deducted in computing taxable income.
	To ensure integration of corporate and individual taxes on investment income, these taxes and a portion (20%) of the corporation's tax on investment income are refundable to the corporation upon the payment of dividends at a rate of one dollar for every three dollars of dividends.
	The Canadian personal income tax system, through a gross-up and dividend tax credit mechanism, provides recognition for corporate taxes paid, based on either the combined federal/provincial tax rate applicable to small business income, or the combined federal/provincial general corporate tax rate.
	For ordinary dividends (generally those paid by corporations taxed at the small business rate), dividends are grossed up by 25% (based on an underlying federal-provincial corporate tax rate of 20%). The federal dividend tax credit is 13 1/3% of the grossed-up amounts of dividend income, and the average provincial dividend tax credit is about 7%.
	For eligible dividends (generally those corporations subject to tax at the general corporate tax rate), dividends are grossed up by 45% (based on an underlying federal-provincial corporate tax rate of about 31.5%). The federal dividend tax credit is 19% of the grossed-up amount of dividend income, and the average provincial dividend tax credit is about 11%.

Special schemes (e.g. for closely held corporations)	No.
Limited liability w/o full CIT obligation possible?	No.
Is it possible for unincorporated businesses to opt for CIT?	Unincorporated businesses cannot opt for the tax treatment of incorporated businesses.

Czech Republic

Relief for double taxation	Dividends distributed by resident corporations to resident shareholders are exempt form the income tax but subject to a final withholding tax, which may be waved for intra-company dividends under the EU parent-subsidiary directive (90/435/EEC; 2003/123/EC).
Special schemes (e.g. for closely held corporations)	There are no special provisions enabling corporations with a limited number of shareholder or limited size to receive a preferential treatment to moderate the economic double taxation of profits on the corporate and shareholder levels. But in the Czech Republic there are two legal forms of societies ("komanditní společnost" - limited partnership and "veřejná obchodní společnost" – general partnership) that partially (limited partnership) or totally (general partnership) distribute their tax base to their

	partners and the correspondent part of this tax base is subject to taxation on the level of partners.
Limited liability w/o full CIT obligation possible?	No.
Is it possible for unincorporated businesses to opt for CIT?	No, there is impossible for unincorporated businesses to opt for the corporate income tax. If an unincorporated business decides to incorporate, the minimum capitalisation requirement is following: • in case of a limited liability company a minimal registered capital has to amount at least CZK200,000 (US$9,360); • in case of a joint stock company a minimal registered capital has to amount at least CZK2m (US$93,600).
Denmark	
Relief for double taxation	Corporate tax 28%. At the personal level dividends and capital gains are defined as “income from shares”. For share income less than DKK45,500 (US$7,935) the tax rate is 28%, for income above DKK45,500 the rate is 43%. The overall tax rate on distributed profits is 48.16% and 58.96% respectively.
Special schemes (e.g. for closely held corporations)	--
Limited liability w/o full CIT obligation possible?	K/S (a limited partnership) and I/S (partnership) are considered flow-through entities and are taxed at shareholder level only. In a K/S there are two types of owners: (a) The “komplementar” owners represent the partnership as a legal entity and (b) the “kommandist” who has limited liabilities and as a standard no decision power.
Is it possible for unincorporated businesses to opt for CIT?	No.
Germany	
Relief for double taxation	95% of inter-company dividends exempt. For individual investors, 50% of the dividend is exempt; the remainder is subject to PIT.
Special schemes (e.g. for closely held corporations)	No.
Limited liability w/o full CIT obligation possible?	Yes. The unlimited partner of a limited partnership (GmbH & Co KG) may be a corporation, while all limited partners may be individuals subject to PIT.
Is it possible for unincorporated businesses to opt for CIT?	No.
Greece	
Relief for double taxation	The law does not provide for other income taxes on retained corporate earnings in addition to a national corporate income tax. Distributed earnings are acquitted of any further income tax obligation provided that corporate income tax as determined in art. 109 of Law 2238/94, has been paid (par. 1, art. 114 of Law 2238/1994).
Special schemes (e.g. for closely held corporations)	N/A
Limited liability w/o full CIT obligation possible?	N/A

Is it possible for unincorporated businesses to opt for CIT?	N/A

Ireland

Relief for double taxation	Dividends paid by resident companies are subject to the personal income tax. A dividend withholding tax is credited at the personal shareholder level.
Special schemes (e.g. for closely held corporations)	No.
Limited liability w/o full CIT obligation possible?	Use of a limited partnership could afford liability to limited partners without taxation at the entity/enterprise level. A limited partner is not allowed to take part in the management of the firm or bind his co-partners. Only a general partner can manage the firm or represent it.
Is it possible for unincorporated businesses to opt for CIT?	No.

Italy

Relief for double taxation	No withholding tax is applied on distributed dividends; however, it is necessary to distinguish between taxpayers: in case of businesses liable to IRES (corporate income tax), 5% of the dividends are included in taxable income; in case of individuals, dividends are taxed at 12.5% or, under certain circumstances, are included in taxable income for PIT purposes to the extent of 40% of relevant amount.
Special schemes (e.g. for closely held corporations)	No preferential tax treatment of dividends is applied to small businesses. In general, the Italian corporate income taxation (IRES) provides for a substantial non-taxation where dividends are not distributed to shareholders; when dividends are distributed to shareholders, a form of levy is applied under the new taxation system; a previous credit system has been abolished, which prevented distributed dividends from being taxed twice.
Limited liability w/o full CIT obligation possible?	No.
Is it possible for unincorporated businesses to opt for CIT?	No.

Japan

Relief for double taxation	There is a taxation of retention money on specific family corporations. However, it is not applied for a company whose capital is less than ¥100m (US$830,000). Dividends distributed by listed corporations are withheld at the rate of 20% (10% for dividends distributed during the period between April 2003 and March 2009), and the taxpayer can choose not to include the dividend income in the tax return. On the other hand, if dividends are subject to an aggregate tax, a credit for dividends (to deduct 6.4%-12.8% of dividend income from income tax and local inhabitant tax) is applicable.
Special schemes (e.g. for closely held corporations)	No.

Limited liability w/o full CIT obligation possible?	For limited liability partnerships it is possible to delegate decision making and contracting with suppliers and customers to a single partner or director who represents the partnership as a legal entity.
Is it possible for unincorporated businesses to opt for CIT?	No.

Mexico

Relief for double taxation	Mexico runs a full imputation system. Personal shareholders pay personal income tax on dividends received plus the underlying corporate tax, but receive a tax credit that matches the underlying corporate tax.
Special schemes (e.g. for closely held corporations)	No.
Limited liability w/o full CIT obligation possible?	No.
Is it possible for unincorporated businesses to opt for CIT?	In order for unincorporated businesses to pay according to the corporate income tax, they must register in the Tax Administration Service (SAT) as a corporation.

New Zealand

Relief for double taxation	Full imputation system.
Special schemes (e.g. for closely held corporations)	Dividends paid by certain closely-held "qualifying companies" are only taxable to the extent they are fully imputed. Any dividends that are not-imputed are exempt from income tax in the hands of the shareholders.
Limited liability w/o full CIT obligation possible?	Special partnership regime available that allows partners to enjoy the benefit of limited liability and flow through tax status. However, some regulatory aspects of this structure are outdated and thus there are few special partnerships in existence. New Zealand is committed to introducing the modern Limited Partnership structure. Under this proposed structure the 'general partner' is responsible for the decision making etc. of the partnership.
Is it possible for unincorporated businesses to opt for CIT?	No.

Norway

Relief for double taxation	Norway implemented a dividend/gains tax at the personal level in 2006. The system allows for a so called "rate of return allowance" (RRA), equal to interest on short term government bonds multiplied by the cost price of the share. Corporate shareholders are tax exempt.
Special schemes (e.g. for closely held corporations)	N/A
Limited liability w/o full CIT obligation possible?	Limited partnerships are not subject to taxation on the entity level. Limited partnership is a partnership where at least one partner has unlimited liability for the obligations of the partnership (general partner) and at least one other partner has limited liability up to a stipulated sum. The general partner conducts the management of the partnership and it can be agreed that the general partner shall have

	the general decision-making authority in the partnership.
Is it possible for unincorporated businesses to opt for CIT?	No.

Poland

Relief for double taxation	Modified classical system. A 19% income tax applies on dividends received by Polish individual shareholders. From January 1 2007, inter-company dividends received from Polish or EU/EEA companies are exempt from Polish income tax (CIT) if a minimum holding of 15% applies(from 2009, 10% holding requirement). Before 2007, dividends from non-Polish companies were not exempt.
Special schemes (e.g. for closely held corporations)	No, polish CIT Act does not provide any special regulation depending on the size or number of shareholders..
Limited liability w/o full CIT obligation possible?	No.
Is it possible for unincorporated businesses to opt for CIT?	No.

Slovak Republic

Relief for double taxation	Since 2004 dividends are exempted at the level of the personal shareholder.
Special schemes (e.g. for closely held corporations)	There are some types of companies (public limited partnership and limited partnership) that are considered to be transparent (taxable at shareholder level only). These companies are transparent irrespective of their size of number or their shareholders.
Limited liability w/o full CIT obligation possible?	According to Article 85 of the Commercial Code each member of the unlimited company is considered to be an authorized representative, since the Memorandum of Association does not settle them to act jointly. If only some of the members of unlimited companies are entrusted by the Memorandum of Association with acting on behalf of the company in all matters, then only these members are considered to be an authorized representative. General partners of the limited partnership company are considered to be an authorized representative (Art. 101 of the Commercial Code). Unless otherwise stated by the Memorandum of Association, each general partner is entrusted with acting on behalf of the company individually.
Is it possible for unincorporated businesses to opt for CIT?	N/A

Spain

Relief for double taxation to opt for CIT?	For corporate shareholders a dividend tax credit applies: 50% of the corporate income tax attributable to the gross dividend may be credited against the recipient's tax liability. Under the affiliation privilege regime, the credit is increased to 100% (exemption). To qualify for the 100% credit, the parent company must have had a direct or indirect participation of at least 5% in the capital of the subsidiary for a continuous period of at least one year For individuals: Spain applies (in 2006) a partial imputation system, which entails the inclusion in their taxable income the amount of

	dividends received from a resident company. The amount must be grossed up by 40%. An imputation credit of 40% is then granted against their personal income tax liability
Special schemes (e.g. for closely held corporations)	There are no special provisions enabling corporations (with a limited number of shareholders or limited size) to receive a preferential tax treatment to moderate economic double taxation of profits on the corporate and shareholder level. Fiscal transparency only applies to domestic and European economic interest groupings and unincorporated joint ventures.
Limited liability w/o full CIT obligation possible?	No.
Is it possible for unincorporated businesses to opt for CIT?	No.

Sweden

Relief for double taxation to opt for CIT?	Sweden applies the classical system of double taxation. Dividends distributed to resident individual shareholders are subject to the personal income tax of 30% (i.e. the tax rate for capital income). Dividends within the corporate sector are often tax exempt. Inter-company dividends are exempt. Dividends from listed shares are tax exempt only if the owner holds 10% or more of the voting power of the company. If the owner holds less than 10% of the voting rights the dividends can still be tax exempt if the owner can prove that the possession of the shares are related to the company's business. Consequently, dividends on portfolio investments (i.e. less than 10%) are taxable.
Special schemes (e.g. for closely held corporations)	Dividends to shareholders of closely held companies are taxed according to a special regime. Very broadly, the part of the dividend that is deemed to be income from capital is taxed according to the capital tax rate of 30%. Any excess dividend is taxed as income from employment according to the progressive scale. In addition to these rules, there are special flow-through rules for investment companies and mutual investment funds. Such entities are taxed on received dividends but may deduct the dividend paid. Furthermore, such entities are not taxed for capital gains on shares and may not deduct capital losses. They must also record a standardized income of 1.5% of the value of the investment portfolio.
Limited liability w/o full CIT obligation possible?	Partnerships (including limited liability partnerships) are not taxed on the corporate level. Instead the partners are subject to tax for their part of the profit. It is possible to delegate decision making to a partner, although not to a partner with limited responsibility. A partner with limited responsibility may not represent the partnership.
Is it possible for unincorporated businesses to opt for CIT?	No.

United Kingdom

Relief for double taxation to opt for CIT?	For income tax purposes domestic dividends are taxable at 10% (Lower Rate); 10% (Basic Rate); 32.5% (Higher Rate). But a shareholder receiving a domestic dividend is entitled to a non-payable tax credit equal to one-ninth (i.e. 10%) of the amount of the dividend (partial imputation). This reduced the effective tax rates on domestic dividends to 0% (Lower Rate); 0% (Basic Rate); (25% Higher Rate).
Special schemes (e.g. for closely held corporations)	No.
Limited liability w/o full	Limited Liability Partnerships possible, but not limited to the size of business.

CIT obligation possible?	
Is it possible for unincorporated businesses to opt for CIT?	No.

United States

Relief for double taxation	Dividends distributed to shareholders are taxed in the classical manner and fully includable in gross income and subject to tax under the individual income tax. However, dividends paid by a domestic corporation or a "qualified foreign corporation" are taxed at lower rates than other ordinary income. The rates applicable to qualified dividends are the same as apply to capital gains, either 5% or 15%, depending on the individual's regular tax bracket.
Special schemes (e.g. for closely held corporations)	Yes. "Subchapter S Corporations" are subject to only one level of tax on income at the rates applicable to the shareholder. The primary eligibility conditions are: no more than 100 shareholders, with a husband and wife counting as 1 shareholder and with families allowed to elect to be treated as 1 shareholder; shareholders can only be individuals, estates, certain trusts, and certain exempt organizations; shareholders can only be citizens or residents; the corporation can have only one class of stock; and the corporation must be a domestic corporation. There are no estimates of the tax revenue loss
Limited liability w/o full CIT obligation possible?	Limited partnerships and limited liability companies (LLCs) receive flow-through taxation of income and limited liability for the partners or members. It is possible for limited partnerships or LLCs to delegate decision making and contracting authority to a single partner or employee.
Is it possible for unincorporated businesses to opt for CIT?	Yes, unincorporated businesses may elect to be treated as a corporation for Federal income tax purposes. Possible tax incentives – In general, there is no incentive to be taxed under the corporate income tax instead of the individual income tax. In some specific circumstances (such as leading up to certain types of mergers, when certain international business activities are involved, or for most insurance companies), corporate tax status may be advantageous or required. There are no capitalisation requirements for corporate taxation.

Source: questionnaire responses and OECD tax database.

Annotations:

° $28 + (100 – 28) \cdot 0.28 = 48.16$; $28 + (100 – 28) \cdot 0.43 = 58.96$.

Table 9. Incorporated and unincorporated businesses: tax base, rates and prepayments

Country	Differences in tax base	Tax rates[×]	Instalments
Australia			
Incorporated	None.	There is a flat rate at 30%.	None.
Unincorporated	None.	A progressive tax rate with the current top rate at 45% is adopted for the 2007-2008 income year.	None.
Austria			
Incorporated	None.	The corporate income tax rate is rate 25% (34% until 2004).	None.
Unincorporated	None.	The top personal income tax rate is 50%.	None.
Belgium			
Incorporated	Depreciation rules, provisions relating to the carry-forward of losses are roughly identical for PIT and CIT.	For incorporated businesses, corporate income tax is payable at a nominal rate of 33.99% (common rate of 33% plus additional crisis contribution of 3%). For qualifying SME's, there is a reduced rates structure which can be applied when the taxable profit does not exceed €322,500 (US$419,218).	Quarterly instalments (10/4, 10/7, 10/10 and 20/12).
Unincorporated	The tax base for unincorporated business is the net amount of profits.	25 to 50% (plus municipal taxes) and a zero rate band of €6,040 (US$7,851) per spouse.	Quarterly instalments (10/4, 10/7, 10/10 and 20/12).

Country	Differences in tax base	Tax rates[×]	Instalments
Canada			
Incorporated	None.	General rate of 21% in 2007, scheduled to be reduced to 19% by 2010. The federal government has proposed to reduce it further to 18.5 per cent in 2011. The Quebec government's general corporate tax rate is 9.9 per cent in 2007. For 2007, the combined federal/Quebec general corporate tax rate is 32.02 per cent.	Corporations with annual federal tax payable of more than CA$1,000 (US$852) (Budget 2007 proposes to raise this to CA$3,000 (US$2,555) for a corporation's first tax year after 2007) are required to pay in monthly instalments. Corporations with income tax payable of CA$1,000 (US$852) (Budget 2007 proposes to raise this to CA$3,000 (US$2,555)) or less are not required to pay by instalment, but rather make one annual payment.
Unincorporated	None.	Canadian controlled private corporations (CCPCs) are eligible for a lower federal tax rate of 12%, also known as the small business tax rate, on the first $400,000 of qualifying active business income. The tax rate is scheduled to fall to 11.5% in 2008 and 11% in 2009. For CCPCs whose taxable capital exceeds $10m, the amount of income eligible for the lower rate is linearly reduced and eliminated if taxable capital exceeds $15 million. All provinces have a reduced rate for small business income. Quebec 2007: 8 per cent. Combined federal/Quebec small business rate: 21.12%. This rate includes the federal corporate surtax, which applies to all corporations and is equal to 1.12 per cent of corporate income. The federal surtax is scheduled to be eliminated on January 1, 2008.	Quarterly instalments throughout the year. This rule applies where the combined federal and provincial yearly tax owing on such income exceeds CA$2,000 (US$1,704) (Budget 2007 proposes to raise this threshold to CA$3,000 (US$2,555)). The CA$2,000 (US$1,704) threshold is adjusted for unincorporated businesses in Quebec to CA$1,200 (US$1,022) of federal tax payable after federal tax withholdings because the federal government collects only its portion of income taxes in Quebec. Unincorporated businesses with net tax owing of CA$2,000 (US$1,704) (CA$1,200 (US$1,022) in Quebec) or less remit annually (on April 30th of the following year).

Country	Differences in tax base	Tax rates[×]	Instalments
Czech Republic			
Incorporated	Tax base is derived from accounting profits.	24 %	For unincorporated and incorporated businesses, no prepayments if last tax liability did not exceed CZK30,000 (US$1,404) than no pre-payment. If last liability was higher but below CZK150, 000 (US$7,020), prepayment is 40% of last tax liability, paid twice a year. Otherwise, businesses pay one quarter of their last tax liability, paid four times a year.
Unincorporated	For taxpayers who are not keeping accounting records but simplified "tax records" the tax base is income minus documented expenses. Where a taxpayer does not claim documented expenses, he may claim as expenses certain percentage of his income (80% from income from agriculture production, 60% from income from a craft trade, 50% from income from other trade, and 40% from income from other business activity or from other independent gainful activity).	From CZK to CZK — Tax 0 – 121,200 (US$ 5,672) — 12% 121,200 – 218,400 (US$10,221) — 19% 218,400 – 331,200 (US$15,500) — 25% 331,200 (US$ 15,500) and more — 32%	
Denmark			
Incorporated	Income liable to taxation is profit less expenses (interest expenses, deprecations and others).	Flat rate: 28%.	2 instalments p.a.
Unincorporated	The income liable for taxation is annual profit, but interest expenses are not fully deductible. Self-employed can opt into "The Danish Special Business Arrangement". It is designed to treat incorporated businesses and self-employed more equally. The scheme allows a preferential 28% tax rate on retained earnings. Withdrawn profit is split into capital and personal incomes by determining equity and applying a multiplicative factor. Interest is fully deductible under this scheme.[♣]	By default, unincorporated businesses are taxed at the graduated personal tax rate; top rate 62.96%. The rate for interest deductions is only 33.3%. The Danish Special Business Arrangement taxes capital income at a top rate of 59.74%.	10 instalments p.a.

Country	Differences in tax base	Tax rates[×]	Instalments
Germany			
Incorporated	In the case of corporations, the profit shown on the tax balance sheet is generally subject to taxation.	The linear tax rate for corporations is 25% in 2006 and 2007. Including the solidarity surcharge and local trade tax, the tax burden is 38.65%. The 2008 business tax reform aims to reduce this burden to below 30%.	In the case of corporations and individuals, the amount of the prepayments depends on the amount of tax assessed in the preceding assessment period.
Unincorporated	Where individuals run a sole proprietorship or participate in a partnership pursuing a trade or business activity, the business income is included in the overall basis for the assessment of personal income tax. Some differences apply in the area of capital gains. See Table 13.	Individuals are subject to a progressive tax schedule. The tax rate depends on the amount of taxable income and rises to a ceiling of 42%.	
Greece			
Incorporated	N/A	Limited partnerships (EE), unlimited general partnerships (OE) and civil law communities that carry on business, are taxed with a flat rate of 22% for 2006 and 20% for 2007 respectively. While joint ventures, civil companies, participation and silent companies are taxed at a flat rate of 29% for 2006 and 25% for 2007. Statutory Tax rate for Societe Anonyms (SA), Limited Liability Companies (EPE), associations etc. is reduced to a flat rate of 32% for 2005, 29% for 2006 and 25% for 2007.	N/A
Unincorporated	N/A	Top personal income rate is 40%.	N/A

Country	Differences in tax base	Tax rates[×]	Instalments
Ireland			
Incorporated	None.	12.5% on trading profits; 25% on non-trading/passive income & trading income from certain trades e.g. petroleum, mining, land-dealing companies. Surcharge of 20% applies to the undistributed rental & investment income of closely held companies and an additional surcharge of 20% on 50% of the trading profits of professional service companies.	Corporations pay a preliminary tax of 90% of the total liability one month before the end of the accounting period. The balance is paid when the company lodges its (annual) corporation tax return. Companies with taxable profits of EUR150,000 (US$194,985) or less have may base their preliminary tax on the profits of the preceding accounting period.
Unincorporated	None.	Standard rate of tax: 20%; Higher rate: 41%	Unincorporated businesses pay income tax by reference to the calendar year. To avoid interest charges preliminary tax (90% of final tax payable for the year or 100% of the final tax payable for the previous year) must be paid by 31st October in the year of assessment. The balance of tax must be paid by 31st October in the year following the year of assessment.
Italy			
Incorporated	N/A	CIT is a proportional tax at 33 %.	N/A
Unincorporated	N/A	PIT is a progressive tax at a maximum rate of 43% in 2006 and 2007. There apply also regional and communal additional taxes ranging from 0.9% to 1.9% (1,4 + 0,5).	N/A

Country	Differences in tax base	Tax rates[×]	Instalments
Japan			
Incorporated	The whole amount of capital gains is included in the taxable income	Corporations with capital of more than ¥100m (US$830,000): 39.54% (including local tax), which is flat. Corporations with capital up to ¥100m: maximum tax rate is 40.87% (including local tax), which is progressive.	Corporations with accounting periods exceeding six months file an interim return at the end of the first six months of the period and make a prepayment. However, if ½ of the previous year's corporation tax is ¥100,000 (US$830) and less, submission of interim declaration and tax payment are not needed.
Unincorporated	Capital gains: The tax rate is 20% (including local tax) (10% from 2003 to 2008 for listed stock, etc.). Capital gains are levied separately from other forms of income.	The maximum tax rate is 50% (including local tax), which is progressive.	If the estimated tax in a year amounts to ¥150,000 (US$1,245) or more fixed as of May 15th, there is an estimated tax payment for a part of this year's income tax.
Mexico			
Incorporated	The tax base of incorporated businesses consists of the total income minus total expenses (authorized deductions). This base is estimated on an accrual basis.	In 2006, incorporated businesses were subject to a 29% rate (28% starting in 2007).	Monthly provisional payments and an annual tax return.
Unincorporated	REPECOS[♦] pay a 2% rate on their gross annual income. However, they are subject to an exemption equal to the minimum wage. Taxpayers in the Intermediate Regime (individuals with business income below MEX $ 4 m (US$365,350) estimate their base on a cash flow basis). Taxpayers with business income are entitled to deduct some personal expenditures such as medical expenses, health insurance premiums, among others. For those in the Intermediate Regime, purchases of fixed assets are deducted in full and not as an annual percentage.	REPECOS are subject to a 2% flat rate which is paid on their gross annual income. Taxpayers in the Intermediate regime apply a tax base, whose maximum rate was 29% in 2006 (28% starting in 2007), as well as the rest of the individuals with business income.	REPECOS are not obliged to file an annual tax return, instead, they file monthly provisional payments which are considered definitive. Taxpayers in the Intermediate Regime as well as those with business income, are obliged to file monthly provisional payments, which are based on the income minus the authorized deductions.
New Zealand			
Incorporated	There is no difference in the measurement of taxable income between incorporated and unincorporated businesses.	Flat rate: 33%.	3 instalments if last year's tax liability exceeded NZ$2,500 (US$1,738).
Unincorporated		Income is taxed at the marginal tax rates of their owners. In 2006, the top personal marginal tax rate was 39%.	Same as incorporated.

Country	Differences in tax base	Tax rates[×]	Instalments
Norway			
Incorporated	N/A	28% (48.2%).[□]	N/A
Unincorporated	N/A	28% (50.7%).[□]	N/A
Poland			
Incorporated	None.	CIT – 19%	None.
Unincorporated	None.	PIT – as a rule progressive scale with 19%, 30% and 40% or optional 19%	None.
Slovak Republic			
Incorporated		Flat rate: 19%.	Instalments required if last tax liability exceeded SKK50,000 (US$1,870)
Unincorporated	Unincorporated businesses (individuals) may skip double-entry book-keeping. Individuals are also allowed to use some lump-sum cost items for calculating tax base.	Flat rate: 19%.	Same as incorporated.
Spain			
Incorporated	None.	CIT – 35% (for 2006)	None.
Unincorporated	No differences at all, unincorporated businesses must assess their taxable base according to CIT legislation following to the same procedure adopted by incorporated businesses, exception made of capital gains, which are not included in the tax base, and are subject to 15% PIT rate.	PIT: progressive schedule, and the relevant top statutory tax rate for 2006 was situated at 45%	None.

Country	Differences in tax base	Tax rates[×]	Instalments
Sweden			
Incorporated	25 % of the profit may be offset to a special reserve. If a company has done so, a standardized income is subject to tax. The purpose of the standardized income is to effectively charge an interest for the – otherwise – interest free loan. An unincorporated business may offset 30 % of the profit to the reserve and does not have to pay tax on any standardized income.	Flat tax: 28%	None.
Unincorporated	Tax on retained earnings with a flat rate tax of 28 % (i.e. the same as for incorporated businesses) may be paid. When the income no longer is retained the income is taxed according to a progressive scale (see below) and the "prepaid" 28%-tax is credited the final tax bill. Furthermore, a part of the income from an unincorporated business may be taxed as income from capital (30 %). The purpose of these provisions is to achieve tax neutrality between incorporated and unincorporated businesses.	For individuals the part of the business income that is deemed to be capital income is taxed accordingly with a flat rate of 30%. The residual is taxed according to a progressive scale. First the entire income is subject to a proportional municipal tax of 29.00 – 34.74% (depending on the municipality). Second, for taxable income above SEK 306,000 (US$43,819) the income is also subject to a state tax according to the following scale: Taxable income (SEK) Tax rate 0-306,000 (US$43,819): 0% 306,000-460,600 (US$65,958): 20% 460,600 and more 25%	None.
United Kingdom			
Incorporated	The tax base is the same for both unincorporated and incorporated businesses.	Small companies' rate on profits of £0 - £300,000 (US$587,774): 19% Main rate on profits beyond £1,500,001 (US$2,938,871): 30% Rate for profits between £300,001 - £1,500,000 (US$587,774 – US$2,938,871) increases linearly from 19 to 30%.	Most corporations are exempted from instalments. Some 1% of incorporated businesses are classed as "large", usually with profits >£1.5m (US$2.9m). These companies pay in 4 instalments.
Unincorporated		Top personal income tax of 40%	2 instalments within tax year.

Country	Differences in tax base	Tax rates×	Instalments
United States			
Incorporated	Federal tax: The measurement of business income subject to tax is largely the same for corporations and unincorporated businesses. The main differences are: (1) large C corporations may be subject to the Corporate Alternative Minimum Tax; (2) net long term capital gains are included fully in taxable corporate income, whereas for individuals they are taxed at special rates on capital gains and dividends, below the individual's regular rates (cf. Table 13).	Federal: For C Corporations the top statutory rate is 35%. However, because of phase-outs of the benefits of lower graduated rates, some corporations face marginal rates of 38 or 39%. California: Corporations: flat rate of 8.84%	Federal: individuals and C corporations both make quarterly estimated payments of taxes owed. Final corporate instalments (for calendar year taxpayers) are due Dec. 15, one month before final estimated payments are due for individuals.
Unincorporated		Individuals: income of unincorporated businesses is taxed on the owner's tax returns. The top rate for individuals is 35% (with various phase-outs putting some individuals at higher rates). California: Individuals: progressive rates, top rate of 9.3% (plus an additional 1% millionaires' surtax).	See above.

Annotations:

× As applicable in 2006.

♣ In 2004, 226,000 out of 408,000 self-employed persons were enrolled in special schemes. For some of these persons, the self-employed business is only an avocation. The scheme is intended to treat incorporated and unincorporated businesses more equally.

♦ Small tax payers under the REPECOS regime.

□ The tax rates in parenthesis are the total marginal tax rate that applies to the personal owner.

Table 10. Allowances and tax credits targeted at small and medium-sized businesses

Country	
Australia	Under the Simplified Tax System (STS) taxpayers can choose to pool assets for depreciation purposes. The rates of depreciation are 30 % for the general small business pool and 5 % for the long life small business pool. Assets with effective lives of less than 25 years are allocated to the general small business pool, while those having effective lives of 25 years or more are allocated to the long life small business pool. There is also an immediate deduction for low-cost assets; that is, assets whose costs are less than AU$ 1,000 (US$784). STS taxpayers also have access to simpler trading stock rules. From 1 July 2007 these rules apply to small businesses with a turnover of up to AU$ 2m (US$1.6m). State and Territory Governments levy payroll taxes on businesses based on wage/salary costs. These payroll taxes generally have thresholds aimed at excluding small businesses from these taxes. Thresholds are usually based on annual turnover and/or the number of employees.
Austria	There is a tax credit of €1,000 (US$1,299.9) for every employed apprentice (open for all PIT and CIT payers).
Belgium	An allowance amounts to €4,840 (US$6292) per taxable period and per additional staff member employed in Belgium. If however, in the course of the year following the exemption, the work force diminishes in comparison with the year of allowance, the total amount of formerly granted allowance shall be included in taxable profits by €4,840 (US$6292) (tax year 2008) per released member of the personnel.
Canada	The federal government provides a number of tax provisions designed to help SMEs invest and grow to recognise that small businesses have greater difficulty obtaining financing than larger businesses. *Refundable Tax Credits* - Scientific Research and Experimental Development (SR&ED) SR&ED tax measures provide support for research and development via a tax deduction, which allows immediate expensing of all allowable expenditures, and an investment tax credit (ITC). The general tax credit rate is 20%. Small CPCCs qualify for an enhanced rate of 35% on their first CA$2m (US$1.7m) of SR&ED expenditures. Unused SR&ED ITCs earned in a year are refundable for small CCPCs that have prior-year taxable income less than CA$400,000 (US$340,720) and prior-year taxable capital less than CA$10m (US$8.5m). For these corporations, SR&ED ITCs on the first CA$2m (US$1.7m) of current expenditures are fully refundable. SR&ED ITCs on other current expenditures and all capital expenditures by small CCPCs are eligible for a 40% refund. The CA$2m (US$1.7m) expenditure limit is phased out for prior-year taxable income between CA$400,000 (US$340,720) and CA$600,000 (US$511,080) and for prior-year taxable capital between CA$10m (US$8.5m) and CA$15m (US$12.8m). SR&ED ITCs earned by unincorporated businesses are eligible for a 40% refund. - Atlantic Investment Tax Credit (AITC) The objective is to promote development in the Atlantic Provinces and the Gaspé region. The AITC is available at a rate of 10% of eligible expenditures in the Atlantic region, and their associated offshore areas. The AITC is earned on eligible expenditures on new

buildings, machinery and equipment employed in farming, fishing, logging, mining, oil and gas, and manufacturing and processing. The AITC is refundable at a rate of 40% for CCPCs that have taxable income below CA$400,000 (US$340,720) and taxable capital below CA$10m (US$8.5m). The taxable income limit is reduced on a straight-line basis for businesses with taxable capital between CA$10m (US$8.5m) and $15m (US$12.8m). Refundable AITC credits are not available to businesses with taxable income above CA$400,000 (US$340,720) or taxable capital above CA$15m (US$12.8m).

- Flow Through Shares
  Flow-through shares, though not directed specifically at small companies, are primarily used by SMEs. Flow-through shares are available to finance exploration and development expenses in the mining and oil and gas sectors and certain intangible start-up expenses of clean energy generation projects. Flow-through shares allow a corporation to transfer unused tax deductions to shareholders. This helps firms to raise equity by enabling them to sell their shares at a premium. Flow-through shares are primarily used by smaller, start-up companies and junior exploration firms that do not have enough taxable income to be able to use available tax deductions themselves.
  Junior oil and gas companies with less than CA$15m (US$12.8m) in taxable capital are entitled to treat the first CA$1m (US$851,800) per year of development expenses that they transfer to investors using flow-through shares as exploration expenses, which are entitled to a faster write-off rate (100% for exploration expenses vs. 30% for development expenses).
- Incentives to Invest in Small Business
  In addition to the preferential capital gains treatment for small businesses, provincial assistance for venture capital investments in small business is not included in the corporation's income for tax purposes nor do they reduce the cost basis of the capital assets to which the assistance relates.

Czech Republic	Czech Income Taxes Act contains one tax regime which is common for all incorporated taxpayers regardless the size of these taxpayers (i.e. this Act comprises no exceptions for small/medium businesses).
Denmark	There are no allowances or tax credits related to investment or employment and targeted at small or medium-sized businesses.
Germany	SMEs may, in addition to the regular depreciation allowance, a special depreciation of up to 20% of the acquisition price and production costs of movable assets is available for up to five years. The use of this special depreciation allowance depends on the prior formation of reserves for the acquisition of the asset. Only those establishments with business assets at the close of the financial year preceding the acquisition or production of the asset of no more than €204,517 (US$265,852) or those establishments that determine their profit using the cash accounting benefit from the special depreciation allowance. In the case of agricultural and forestry businesses, the assessed value may not exceed €122,710 (US$159,511).
Greece	Law 3296/2004 introduced incentives for the merger of small and medium-sized enterprises, regardless of the sector of operation. Incentives were given in order to establish partnerships or limited liability companies or societe anonymes. According to the above law, profits of the resultant company are taxed under the statutory flat rate reduced by 10% for the first year of operation and 5% for the second year of operation. In addition, with reference to tax allowances for small and medium enterprises, the law provides for certain tax allowances based on the region of the country the investment takes place. The tax allowances can reach up to a certain percentage of the investment cost or can relate

	to the total expense of the investment. The law sets limits above which an investment plan can qualify for the tax allowance as follows: Very small enterprises: €100,000 (US$129,990) Small enterprises: €150,000 (US$194,985) Medium enterprises: €250,000 (US$324,975) The size of the enterprise is determined according to the EC regulation 70/2001. As far as the investment plans of the very small enterprises are concerned, investments for the modernization of small industries of at least €30,000 (US$38,997) enjoy the tax allowances of the Law (art. 5 of Law 3299/2004).
Ireland	No.
Italy	No relevant rule is available in Italy.
Japan	Special taxation measures for SMEs, based on the Special Taxation Measures Law: - Tax credit of the amount equivalent to 12% is allowed for testing and research expenses and an additional credit for 5% of the increment is also allowed. - When SMEs acquire specified machines, etc., they can elect to use a special initial depreciation of 30% of the acquisition costs or a 7% tax credit. - Special treatment of cost of small assets: SMEs can deduct the acquiring costs of small assets up to ¥3m (US$24,900), each acquiring cost that is less than ¥300,000 (US$2,490).
Mexico	There is a tax credit for Research and Development (R&D) investment. For 2007, the total amount distributed by this stimulus is MEX$4,500m (US$411m). The law provides that MEX$1,000m (US$91.3m) should be distributed among small/ medium businesses and to the development of alternative sources of energy.
New Zealand	There are no allowances or tax credits related to investment or employment and targeted at small or medium-sized businesses.
Norway	No.
Poland	Since 2007 the definition of "small taxpayer" is introduced into the tax system. "Small taxpayers" are taxpayers who recorded in the previous tax year a turnover not higher than €800,000 (US$1,039,920). Those taxpayers are entitled to quarterly based tax advanced payment and more generous tax depreciation to encourage entrepreneurship.
Slovak Republic	There are no allowances or tax credits related to investment or employment and targeted at small or medium-sized businesses.
Spain	Tax incentives for SME have been introduced to neutralize market inefficiencies (e.g. difficulties of obtaining finance) and to counteract the regressive nature of taxation and compliance costs on SME: - Accelerated depreciation for new assets: by multiplying by 2 the maximum linear coefficient provided in the official tables. - Accelerated depreciation for previously sold and reinvested assets: by multiplying by 3 the maximum linear coefficient provided in the

	official tables. - Freedom of amortization for new assets when there is a parallel increase of employment within the firm and this increased employment is maintained for an additional period of 24 months. The investment amount subject to free depreciation is calculated by multiplying €120,000 (US$155,988) by the number on new hired employees. - Freedom of amortization for the so-called "low value" assets invested within the firm. Those assets with a unitary value not exceeding €601.01 (US$781) may be freely depreciated with an overall ceiling of €12,024.24 (US$15,630) during the tax period. - Tax deductibility of a provision for doubtful debts based on an estimated calculation up to 1% of current debtors at the end of tax year
Sweden	No.
United Kingdom	(1) Capital allowances for small/medium businesses: – Capital allowances allow the cost of capital assets to be written off against a business's taxable profits. They take the place of commercial depreciation charged in commercial accounts. The main rate of capital allowances for general spending on plant and machinery is 25% a year on the "reducing balance basis". First-year allowances (FYAs) bring forward the time that tax relief is available for capital spending and allow a greater proportion of the cost of an investment to qualify for tax relief against a business's profits of the period in which the investment is made. Small and medium-sized enterprises (SMEs) can claim 40% FYAs on their investments in most plant and machinery; there are some exceptions, including spending on long-life assets, cars and assets for leasing. (The rate of the FYAs for small businesses only, has been temporarily increased from 40% to 50% for one year only for the tax year 2006/07.) The policy objective of these FYAs is to support investment, by providing a cashflow benefit for SME investment in plant and machinery. The definition of SMEs for this purpose is based on Section 247 of the Companies Act 1985, which is connected to Article 11 of the Fourth Council Directive 78/660/EEC, as amended. For this purpose, a SME must satisfy two out of three of the following tests: Annual turnover must not exceed €29.2m (£22.8m, US$38.9m); Balance sheet total must not exceed €14.6m (£11.4m, US$19m) and number of employees must not exceed 250. (2) Research and Development (R&D) tax credits for small and medium sized companies (SMEs) to promote innovation and productivity. R&D tax credits were introduced for SMEs in April 2000 and extended to large companies in April 2002. Companies must have qualifying R&D expenditure of over £10,000 (US$19,592) per annum to be eligible. The SME scheme allows companies to deduct an additional 50% of qualifying R&D expenditure when calculating their taxable profits. Loss-making SMEs can surrender this deduction for a cash payment up to 24% of their qualifying R&D expenditure. The large company scheme provides a 25% enhanced deduction but no cash payment.
United States	The federal individual and corporate income tax systems provide for expensing (deductions in the year the expenditure is made) of certain investment expenses for certain small businesses, either corporate or unincorporated. Specifically, in 2006 businesses with less than $430,000 in qualifying investment may elect to expense up to $108,000 of the cost of qualifying property placed in service each year. The $108,000 amount is phased out dollar for dollar starting at $430,000 of qualifying investment. Qualifying investment is generally defined, with a few exceptions, as depreciable tangible personal property purchased for use in a trade or business. (The deduction is allowed only to the extent of business income. Any excess can be carried over to future years.)

Table 11. Simplified accounting

Country	
Australia	Under the Pay As You Go (PAYG) withholding system (a system whereby registered entities are required to withhold tax from various specified payments and forward it to the Australian Taxation Office), the frequency with which taxpayers must remit payments depends on the amount withheld in the previous year. Entities that withheld amounts exceeding AU$ 1m p.a. (US$783,600) remit within six to nine days after the amount was withheld. Medium withholders (those who withheld between AU$25,000 (US$19,590) and AU$1m (US$783,600) per year) remit monthly. Small withholders (withholding AU$25,000 (US$19,590) or less per year) remit quarterly. Under the PAYG instalments system (a system whereby the estimated tax liability on income not subject to the withholding system is collected progressively throughout the year), most taxpayers pay income tax instalments quarterly. Taxpayers whose previous years notional tax amount was less than AU$8,000 (US$6,269) may make annual instalments (if certain other requirements are met). The Government has announced that small business owners with turnover of less than AU$ 2m (US$1.6m) will get access to the simplified arrangements outlined above. This change will apply from 1 July 2007.
Austria	Unincorporated businesses below €400,000 (US$519,960) turnover are exempted from filing full accounts (only revenues and expenses are reported).
Belgium	In Belgium, accounting requirements vary according to the nature and size of business; are considered as SMEs legal entities that do not exceed the thresholds below: - Employed workers in annual average: 50; - Annual turnover (except VAT): €7,300,000 (US$9,489,270); - Total assets sheet: €3,650,000 (US$4,744,635). Any business employing more than 100 workers is considered as a large enterprise. Very small businesses fulfil the following requirements: - It should be a natural person or a partnership or a simple commandite company; - The annual turnover (except VAT) should not exceed €500,000 (US$649,950). SMEs should have a double-entry accounting and an annual inventory. The annual accounts must be agreed by the shareholders' meeting. In the following thirty days they should be provided to the National Bank that checks their content. There are abridged accounting requirements available for small businesses. Very small businesses can hold a simplified accounting provided that all transactions are immediately and fully registered by chronological order in at least three books: a treasury book, a purchase book and a selling book. An inventory should be made at least once a year that includes all credences, debts, and engagements as well all resources devoted to the business.
Canada	There are no simplified accounting procedures for filing personal or corporate income tax returns of SMEs, however, depending on the size of the remittance, eligible small businesses are permitted to remit payroll source deductions, and corporate tax instalments less frequently than large corporations. Also, SMEs are provided with more time to fill out the remittances.
Czech Republic	Simplified "tax evidence" for taxpayers with turnover up to CZK15m (US$0.7m) shall ensure the ascertainment of the income tax base by containing the data of income and expenses, detailed as required for ascertainment of the tax base, property and liabilities.
Denmark	As from 2006, small and medium sized businesses are exempted from supplying full fledged tax accounts with their tax return. Tax accounts are to be produced only if business is selected for further inspection.

Germany	For certain companies cash accounting balance may substitute for balance sheet sheet and profit and loss account. This presupposes that there is no legal obligation to keep accounting records and produce financial statements at regular intervals. Such an obligation can arise from provisions under tax law or non-tax law, for example, where certain turnover or profit thresholds are exceeded.
Greece	Simplified accounting rules and simplified tax requirements available; no need for publication of financial statements. Greece participates in the program for the development of the accounting standards for SMEs. Regarding the tax audit of businesses with annual turnover thresholds (€300,000 for trading companies and €150,000 for services companies), the law provides non-compulsory, simplified and synoptically procedure for final closing of the cases without audit, by a form of self-assessment, filing tax returns with the corresponding of the said self-assessment accounts of taxes.
Ireland	To help ease the regulatory burden on business, less frequent filing of PAYE/PRSI returns was introduced for small and medium enterprises in 2006. (PAYE stands for Pay As You Earn and acts a withholding tax on wages; PRSI: Pay Related Social Security.) Quarterly filing arrangements were introduced for employers whose annual PAYE/PRSI liability was €30,000 (US$38,997) or less. This initiative reduced the administrative burden for some 76,000 SMEs.
Italy	Yes. For example, businesses falling within simplified accounting procedure are exempted from keeping statutory accounting records, except for statutory registers for VAT purposes.
Japan	No.
Mexico	No.
New Zealand	A number of tax simplification initiatives, that target small and medium sized businesses, have been introduced recently, including: (a) subsidising the use of external payroll providers by small employers for their PAYE (pay as you earn) tax obligations; (b) aligning the payment of provisional income tax with payments of Goods and Services Tax (to reduce the number of tax payment dates) and allowing businesses to base their provisional tax payments on GST sales; (c) A rebate for early payment of provisional tax in the first year of a business.
Norway	Small, sole proprietorships (with assets up to NOK 20m (US$3,1m) or not more than 20 employees) or general partnerships (up to NOK 5m (US$785,150) in turnover and no more than 4 employees) are exempted from preparing annual accounts. However, businesses in this group must prepare an annual report for income tax purposes in order to determine taxable income and assets for the year.
Poland	Accounting requirements depend on legal status of taxpayer. Legal entities being CIT taxpayers and PIT taxpayers with turnover (in previous year) exceeding €0.8m (US$1m) keep regular accounting. Rest of PIT taxpayers (businesses) apply tax book of revenue and expenses.
Slovak Republic	Uniform treatment of taxpayers.
Spain	In order to ease tax compliance small and medium businesses area allowed using a simplified accounting procedure (unincorporated and incorporated businesses) if they comply with the following requirements: - Companies with total assets not exceeding €1m (US$1,299,900) - Net turnover below €2m (US$2,599,800)

	- Companies with an average staff not exceeding 10 employees
Sweden	Sweden has a strong connection between the tax base and the financial accounts. Simplified accounting rules apply to sole traders with a turnover less of than SEK3m.
United Kingdom	(a) Simplified self assessment return for self employed individuals with profits less than £15,000 (US$29,389). (b) Simplified corporation tax return for companies with simplified tax affairs.
United States	(a) Cash accounting: Businesses with less than $1m in average annual gross receipts for the past 3 years, and businesses with average annual gross receipts over $1m but less than $10m that are not in trade, manufacturing, mining, or the information industries generally can use the cash method of accounting, rather than accrual accounting. (b) Exemption from uniform capitalization rules: businesses with no more than $10m in average annual gross receipts are exempt from requirements to capitalize the direct costs and part of the indirect costs of production or resale activities.

Source: questionnaire responses.

4.5 LOSSES, CAPITAL GAINS AND VENTURE CAPITAL

32. Fostering new firm formation to speed up innovation and to increase employment is a major objective of public policy in most countries. Entrepreneurs who start new businesses take on large risks. A large share of newly established firms usually fails to survive their first years of business and this observation is not restricted to high-risk innovation industries.[11]

33. Given the high rate of failure and the prominence of initial losses the tax rules that concern business losses are of high relevance. In this vain, the EU Commission for example has demanded that "tax provisions must be re-assessed in the light of their effects on entrepreneurs' willingness to take the risk to start a business or grow" COMMISSION OF THE EUROPEAN COMMUNITIES (2003). Tax measures that can be expected to increase risk taking are generous loss carry backwards and infinite (possible interest bearing) carry forwards. Often, however, loss utilization is limited by ring fencing (losses can only be netted within income classes), minimum taxes, and the forfeiture of loss carry forwards in the case of ownership changes or mergers.[12] Against this background, Table 12 summarizes important features in reporting countries. In particular, it shows to what extent business losses may be used to offset taxable non-business income and describes the generosity of loss carry forwards and carry backwards.

34. While losses are an inevitable risk implied by starting a business, of course, there is also an upside to it. In the case of a successful business this will be reflected in capital gains of shares that may or may not trigger a capital gains tax when capital gains are realized.[13]

35. Table 13 highlights this aspect of national tax codes, while Table 14 considers the special rules that may apply to venture capital providers.

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[11] For empirical studies on the survival rate of new businesses see, for example, WAGNER (1994) or MATA AND PORTUGAL (1994).

[12] For an excellent survey of the risk taking incentives under income taxation with complete and incomplete loss offset cf. KONRAD AND BUCHHOLZ (2000).

[13] In practice, all countries tax capital gains on the basis of the realization principle. For a possibility to implement accrual equivalent capital gains taxation, see AUERBACH (1991).

Table 12. The tax treatment of business losses

<table>
<tr><th>Country</th><th>Can business losses of unincorporated businesses be deducted against non-business income (e.g. wage income)?</th><th>Carry forwards and carry backwards</th></tr>
<tr><td>Australia</td><td>Business losses of an individual are generally deductible against other income. In certain circumstances, it will be deferred to a future tax year. A business loss will not be able to be deducted against other income in the year in which the loss was incurred if any of these criteria is not satisfied:

- the assessable income of the particular business activity is greater than AU$20,000 (US$15,672);
- the total assets exceed AU$0.5m (US$391,800) in real property, or AU$0.1m (US$0.78m) of other assets excluding cars;
- the particular activity results in taxable income in 3 out of the last 5 years;
- the activity is a primary production or professional arts business and the individual's assessable income for that year from other sources does not exceed AU$40,000 (US$31,344); or
- the loss arises in circumstances outside the control of the taxpayer (for example the activity is affected by a natural disaster) or from an activity with a significant commercial purpose or character (such as start-up expenditure in relation to an activity with a long lead time) and the Commissioner of Taxation's discretion is exercised.

A loss which is unable to be offset against other income in the same year may be offset in a future year against any profit from the business activity or a like activity, or against other income when one of the criteria in Division 35 is satisfied. If a business activity meets a test or the Commissioner's discretion is exercised, deferred losses will be able to be offset against any income of that individual.</td><td>There is no limit on the period over which business losses can be carried forward and offset against taxable income in future years. Business losses cannot be offset against taxable income in prior years (that is, loss carry back is not allowed). The rules are the same for all businesses.</td></tr>
</table>

Country	Can business losses of unincorporated businesses be deducted against non-business income (e.g. wage income)?	Carry forwards and carry backwards
Austria	Yes.	Only businesses with full accounting (balance sheet) can carry forward losses, no time limit. Exception: A newly founded business without balance sheet has a carry-forward for 3 years. From 2007 onwards, loss carry-forward also for cash accounting.
Belgium	The losses a taxpayer incurs in the course of a taxable period in the framework of one professional activity are set off against any taxable income the same taxpayer realizes in the same taxable period in the framework of another activity.	For unincorporated businesses and incorporated businesses, there is no time limit in the carry forward of losses and there is no possibility of carry back. The rules do not differ between small and large businesses. There is a specific abuse provision for losses resulting from business restructuring that applies only for CIT.
Canada	Non-capital losses of an unincorporated business can generally be deducted against other sources of income.	Non-capital losses and allowable business investment losses (ABIL) may be deducted against income from all sources for the three preceding years and, depending on the taxation year in which the loss was incurred, may be carried forward for 7, 10 or 20 years. - Non-capital losses arising in taxation years that end after 2005 (i.e., 2006 and afterwards) can be carried forward 20 years. - Non-capital losses arising in taxation years ending after March 22, 2004 and before 2006 can be carried forward 10 years. - Otherwise, non-capital losses can be carried forward 7 years. ABILs which cannot be utilized in the carry forward period survive to be carried forward indefinitely under the capital loss rules. The rules do not differ between unincorporated and incorporated businesses nor do they differ between large and small enterprises.
Czech Republic	No.	Business losses may by carried forward for five years.
Denmark	There are restrictions. Only self-employed who have opted for a special business arrangement (cf. Table 9) may deduct some losses in their personal income.	Losses resulting from year 2002 or later may be carried forward indefinitely. Losses from years before 2002 may be carried forward the 5 following years.

Country	Can business losses of unincorporated businesses be deducted against non-business income (e.g. wage income)?	Carry forwards and carry backwards
Germany	Losses from business activities may, in principle, be offset against positive income from the same type of income in the year in which the losses were incurred (horizontal loss compensation). It is also possible to offset negative income against positive income from other types of income (vertical loss compensation). Special restrictions on offsetting losses exist in the following cases, areas or industries. - Restrictions for losses incurred from animal husbandry. - For non-financial institutions, losses from forward transactions may only be offset against profits from forward transactions. - Losses from undisclosed partnerships (e.g., dormant partnerships) in a company, where one (other) company participates directly or indirectly, may only be offset against the same source of income in the previous year or in future years - Losses in the case of limited liability may not be offset against other income insofar as this leads to a negative capital account on the part of the co-partner with limited liability, unless extended external liability towards third parties exists pursuant to the Commercial Code. These losses may only be offset against later - Losses from tax deferral schemes may only be offset against later profits from the same source of income where the forecast losses amount to more than 10% of the subscribed and payable or invested capital. A tax deferral scheme is deemed to exist where a model is used to achieve tax benefits in the form of negative	Negative income which is not compensated when determining the total income in the first year of application can be can be carried back to the preceding year up to a total amount of €511,500 (US$664,899). Insofar as the losses are neither offset or nor carried back in whole or in part at the request of the taxpayer, the losses may be carried forward indefinitely into assessment periods following the year in which the losses were incurred. Losses can be deducted without limitation in the subsequent years for a gross income of up to €1m (USD 1.3m) and up to 60% of the total income exceeding €1m. The abovementioned amounts are doubled in the case of married couples whose income tax is assed jointly.
Greece	Business losses from enterprises that comply with certain accounting standards can be deducted against non-business or any other income.	If non-business income or any other income does not exist against which to deduct business losses, then losses may be carried forward to offset taxable income in the next 5 future years.

Country	Can business losses of unincorporated businesses be deducted against non-business income (e.g. wage income)?	Carry forwards and carry backwards
Ireland	Yes, but only in the year of loss.	Unincorporated businesses may carry forward indefinitely, but only for offset against profits of the same trade. Business losses in the year of cessation may be carried back for a maximum of three years but only for offset against profits of the same trade. Incorporated businesses may carry forward indefinitely against profits of the same trade. Trading profits may be offset against 'relevant trading income' i.e. other trading profits in the accounting period and the preceding accounting period on a 'euro for euro' basis. Unused trading losses may be offset on a 'value basis' against passive income/non-trading income.
Italy	No. As of 2006, business losses can be deducted against other items of income only if these items of income belong to the category of business income.	For the purposes of loss carry forward or backward, the number of years varies depending on when the loss was incurred: - losses incurred in the first three years of an activity may be carried forward for an unlimited number of years; - losses incurred after the third year of an activity may be carried forward for the following five years. Rules do not significantly differ between small and medium businesses. As of 2 July 2006, specific anti-avoidance rules prevent losses being carried forward or backward, when they were incurred by a company that was liquidated and then restored for this purpose only.
Japan	Yes.	Incorporated: carry forwards : seven years carry backwards : one year Unincorporated: carry forwards : three years carry backwards : one year

Country	Can business losses of unincorporated businesses be deducted against non-business income (e.g. wage income)?	Carry forwards and carry backwards
Mexico	No.	Business losses can be carried forward to offset taxable income for a period of ten years. The rules do not differ between small/large businesses. In the case of unincorporated businesses, individuals with business income can also carry forward their losses in a period of ten years, except in the case of REPECOS.
New Zealand	No ring-fence. Income can be deducted against other income of the business owner.	Business losses can be carried forward and deducted against income in future years. Losses cannot be carried back and offset against taxable income in the previous years. There is no limitation on the number of years a loss can be carried forward. For incorporated businesses, business losses are allowed to be carried forward as long as there is continuity of shareholding – defined as a group of persons holding at least 49% of the company at all times during the relevant period.
Norway	Yes, the tax base for business income and other capital income is fully harmonised.	Losses may be carried forward for an infinite period. Before 2006 there was a 10 year limit.
Poland	In case of PIT losses from one economic activity cannot be deducted from income of another economic activity.	Business losses may be carried forward for 5 subsequent tax year, deduction up to 50% of the amount of the loss in each year.
Slovak Republic	In case of an individual it is possible to deduct tax losses from the tax base related to the income tax in case of business incomes, other gainful activity incomes and rental incomes, capital assets incomes and from the tax base related to other incomes. In case of an individual it is not allowed to deduct business losses from employment income.	Tax carry forward allowed but restricted to five years. There are no differences between individuals and legal entities, small and medium businesses etc.
Spain	Unincorporated businesses are allowed to deduct business losses against other income sources under the PIT regulations.	Business losses may be carried forward (not backward) to offset taxable income in the coming 15 years, and these rules apply for both incorporated and unincorporated businesses.

Country	Can business losses of unincorporated businesses be deducted against non-business income (e.g. wage income)?	Carry forwards and carry backwards
Sweden	Losses from a newly started business may be offset against non-business income for the first five years of the business. The deduction for each year may not exceed SEK100,000 (US$14,320). For businesses in the form of literary, artistic or similar activities, losses may be deducted even after the first five years. The cap of SEK100,000 (US$14,320) is not applicable for such businesses.	There is a right to an unlimited carry forward of losses. There is no loss carry backward. The rules are the same for unincorporated and incorporated businesses. Limitations apply if the losing company receives a new owner.
United Kingdom	Generally, a(n) (unincorporated) business that has incurred a trading loss may claim to set that trading loss against most forms of other income. Any individual with trading losses can claim to set the loss arising in a year of assessment against their general income of the same year or treat it as set against the income of the immediately preceding year if so claimed. It is also allowed to trade losses to be set against capital gains.	Unincorporated businesses: losses can be carried backwards to the preceding year. Where a person incurs trading losses either alone or in partnership s/he may claim those losses against profits arising in an indefinite number of future years of assessment until those losses are consumed but subject to the trade being the same trade. Relief in the early years of the new trade such that losses incurred in any of the first 4 years of assessment may be treated as though they are set against the individual's other sources of taxable income going back up to 3 years before the year of loss is provided. As the income in earlier year is used up the relief spreads in the next year and so on until either there are no more losses or indeed income to relieve. Corporations can carry forward trading losses against future trading income from the same trade. There is no limit on the carry forward, provided the trade continues. Companies can set off trading losses against total profits of current and previous accounting periods. Companies within the charge to corporation tax with the necessary group relationship can transfer trade losses to other companies within the group.

Country	Can business losses of unincorporated businesses be deducted against non-business income (e.g. wage income)?	Carry forwards and carry backwards
United States	Under the passive activity loss rules, if the owner or investor "materially participates" in the activities of the business, then losses may generally be deducted against non-business income. However, if the owner is a "passive" investor and not involved in a regular, continuous and substantial way in the operations of the business activity, then losses generally may only be deducted against other "passive" income or deferred until the owner disposes of the entire interest in the passive activity. At that time, any remaining carried-over passive losses may be deducted against non-passive income. There are special exceptions, such as for some real estate losses and for some investments in oil and gas properties	Generally, net operating losses (NOLs) can be carried back to the two prior tax years and then forward for up to 20 years. A temporary provision to provide economic stimulus allowed a five-year carry back of NOLs incurred during 2001 and 2002. In general, the same loss carry back and carry forward rules apply to NOL's of both unincorporated and incorporated businesses and to large and small businesses. Special rules apply in certain limited situations. For example, farming losses may be carried back up to five years.

Source: questionnaire responses.

Table 13. Taxes on capital gains

Country	The treatment of capital gains of domestic shares	Minimum holding period
Australia	Included in the personal income tax base for individuals and in the corporate tax base for corporations. Capital losses can reduce capital gains in the current or future income years but are not deductible against other types of income.	After a holding period of 12 months individuals pay tax on only half of any capital gain that they make. Corporations are not eligible for the discount.
Austria	Individuals: to include in the personal income tax base, if holding period less than one year. Corporations: included in the CIT base	Individuals: one year.
Belgium	Capital gains realised by private investors are totally exempt. Capital gains on shares held as business assets are also exempt, without the re-investment condition or intangibility condition having to be met. Capital gains on shares hold by incorporated businesses are exempt but exemption is only granted if the "upstream taxation requirement" and the other conditions applicable for the participation exemption are met (apart from the participation threshold).	N/A
Canada	Generally, taxpayers include 50% of net capital gains in income for tax purposes (i.e. 50% of gains form part of the personal or corporate tax base). Regular income tax is paid on this amount (i.e., there is no separate capital gains tax).	There is no legislated minimum holding period for the 50% inclusion rate, although in some cases speculators may be treated as having transacted on income, not capital gains, account.
Czech Republic	As far as incorporated businesses are concerned realized capital gains on domestic equity shares are fully included in the corporate tax base and the common tax rate (24 %) is applied.	N/A
Denmark	Capital gains and losses on domestic equity shares realized less than three years after acquisition and owned by businesses are included in the corporate tax base. There is however a relaxation in the rules concerning mergers between corporations. Capital gains on domestic equity owned by personal shareholders are included in the base of a separate capital gains tax. The corporate tax rate is 28 %, the capital gains tax rate for personal investors is 28% and 43% for gains beyond DKK45,500 (US$7,935).	Personal capital gains tax: before 2006 only capital gains realized less than three years after an acquisition were included in the tax base. For the moment some transitional rules are also in force.

Country	The treatment of capital gains of domestic shares	Minimum holding period
Germany	Insofar as a tax liability exists, capital gains are on principle subject either to income tax or corporation tax. There is no separate capital gains tax. In the case of corporation tax, profits from the sale of a share in another corporation are generally 95% exempt. In the case of income tax, a distinction is first drawn between whether the shareholding is privately owned or held as business assets. Where shareholdings are held as business assets, half of the profit is exempt from tax and the other half is subject to the taxpayer's personal income tax rate. Where the shareholding is held privately, the capital gain is liable to tax where the shareholding was held for less than one year or where the seller held more than 1% of the company's capital. The profit is also subject to the so-called half-income system, and half of the profit is consequently free of tax. The taxable portion of the profit is taxed at the personal income rate which applies to the taxpayer.	As the law currently stands, if the shareholding is held as a private asset, the capital gain is however free of tax where the shareholding was held for longer than one year and is less than 1% of the company's nominal capital.
Greece	- Gains from the transfer of business-related rights, such as (sub-) leasing rights or the right to a patent or a trademark, are taxed at 20%. - A 20% rate applies for the transfer of a business as a going concern, and to any gain from the transfer of a participation (interest) in a limited liability company or partnership. In both cases, the sale price cannot be lower than an amount calculated according to certain formulae. - A 5% "income" tax is imposed on the actual transfer value of shares not listed on any recognized stock exchange that are sold by Greek holders, as well as on the actual transfer value of Greek unlisted shares sold by non resident holders. The method for calculating the minimum (nominal) actual transfer value is determined according to rules prescribed by the Ministry of Finance. - If the beneficiary of the income from such a sale is a legal entity of those mentioned in art.101 of Law 2238/94 (i.e. SA, Ltd, public companies, associations etc.), capital gains are included in the corporate tax base as well. - Transactions on the Athens Stock Exchange or on a foreign stock exchange are subject to transfer tax at the rate of 0.15% on the sales proceeds received for the shares.	There is no minimum holding period. Capital gains are taxable without regard to the holding period.
Ireland	The gains on domestic equity shares are included in the base of a separate capital gains tax. They are taxed at a 20% rate. There is no reduced capital gains tax.	N/A

Country	The treatment of capital gains of domestic shares	Minimum holding period
Italy	Capital gains are included in personal and corporate taxes. Non-qualifying participations of individuals are taxed at 12.5%. 40% of gains on qualifying participations are liable to standard taxation.	Corporations: 84% of capital gains of financial fixed assets are exempted if participation was held for 18 months and other conditions are met.
Japan	Unincorporated: the tax rate including local taxes is 20% (10% from 2003 to 2008 for listed stock, etc.). Capital gains are taxed separate from other forms of income. Incorporated: the whole amount of capital gains is included in the taxable income.	There is no minimum holding period. Capital gains are taxable without regarding the holding period.
Mexico	Capital gains which derive from the Mexican Stock Exchange are exempt from personal income tax. However, in the case of corporations, these have to be included in the base and therefore be subject, as a whole, to a 28% rate.	N/A
New Zealand	New Zealand does not have a general capital gains tax. However, capital gains are taxable in certain circumstances as income – namely, when the capital gain forms part of a taxpayer's trading or business income or where an asset was purchased with the dominant purpose of resale. Guidance on when a gain is taxable, and not, is provided in case law on the "capital/revenue" boundary. Where capital gains are brought to tax, they are taxed at the normal income tax rate of the relevant taxpayer.	There is no reduction in liability depending on the holding period.
Norway	Capital gains are taxed as ordinary income at the personal level.	N/A
Poland	Taxation of capital gains depends on who is the beneficiary. In case of legal entities (CIT) income from this source is included in tax base. In case of PIT capital gains are taxed separately with 19% rate.	N/A
Slovak Republic	There is no specific capital gains tax in the Slovak Republic. According to the Act on Income Tax, capital gains from domestic equity shares are liable to the general income tax (at a flat rate).	N/A
Spain	Regarding incorporated businesses (therefore, those subject to the CIT) they must include their capital gains (in full) in their ordinary income and therefore are subject to CIT at the general rate.	For unincorporated businesses capital gains (and losses) are assessed separately. Short-term (less than 1 year) capital gains (and losses) are subject to the PIT progressive rate schedule. Long-term (more than 1 year) capital gains (and losses) are subject to a flat tax rate of 15%

Country	The treatment of capital gains of domestic shares	Minimum holding period
Sweden	Capital gains are taxed within the income tax system. For an individual tax payer the entire capital gain is treated as a capital income (30 % tax), regardless of the time of possession. Capital gains from closely held companies may partly be deemed as income from employment. For a corporate tax payer capital gains are mostly tax exempt. The criteria for tax exemption correspond to the rules for exemption for tax on dividends.	If the sold shares are listed on a stock exchange the criteria for exemption must have been fulfilled for a consecutive period of 12 months immediately prior to the divestiture. When the criteria for exemption are not fulfilled, the capital gain is included in the "normal" corporate tax base
United Kingdom	Gains accruing to corporations are charged to corporation tax, not capital gains tax. For individuals the capital gain is added to their income and taxed at the appropriate rate (40% to the extent that the total income exceeds the basic rate band of £33,300 (US$65,243), otherwise 20% or 10% depending on their total income plus gains). The rate applicable for trusts is 40%. The tax due on the taxable gain is 'capital gains tax' not 'income tax'. The gains are included in full, but subject to allowable capital losses brought forward or of the year, taper relief (see column to the right), and an annual exempt amount for individuals, trusts for the disabled and personal representatives of the estates of the deceased of £8,800 (US$17,241)per annum, and for other trusts £4,400 (US$8,621). There is no annual exemption for companies but their gains will attract indexation allowance.	If the asset was held before 6 April 1998 then indexation, an inflation allowance based on the RPI (retail prices index), is due up to that date from the date of acquisition. Indexation is added to the original acquisition cost of the asset (and any subsequent enhancement expenditure from the date incurred) and is based on the gains shown by the RPI. Indexation is still given (up to the date of disposal) for assets sold by companies. For indexation there is no minimum holding period but no relief would be due if an asset had been bought and sold within a month. Taper relief is available for assets held by individuals, personal representatives and trusts since 6 April 1998. For a business asset the gain is halved if the asset has been held for a full year, and is a quarter of the gain if it has been held for 2 or more years. For a non- business asset the gain is chargeable in full for the first 2 years and then is reduced by 5% for each full year held after that, down to a maximum of 40% for 10 or more years (leaving 60% chargeable).

Country	The treatment of capital gains of domestic shares	Minimum holding period
United States	In the individual income tax, capital gains on domestic equity shares are fully included in Adjusted Gross Income, but net long-term gains and qualified dividends in excess of any short-term capital losses are taxed under a separate rate schedule. Net long-term capital gains that would otherwise be taxed at a 10 or 15 percent rate are taxed at a 5 percent rate, and gains that would otherwise by taxed at higher rates, are taxed at a 15 percent rate. The holding period for the 5 and 15 percent rates is one year. Short-term gains are taxed at ordinary tax rates. In the corporate income tax, net capital gains are fully included in income subject to tax at the regular corporate income tax rates. Net capital losses may not be deducted from other income but can be carried back to each of the three prior tax years or forward for up to five years to offset capital gains in those years. Any net capital loss that cannot be carried back or forward under these rules is not deductible. A regulated investment company (mutual fund) net capital loss may be carried forward up to eight years.	See left column.

Source: questionnaire responses.

Table 14. Capital gains and venture capital

Country	Do the rules for capital gains/losses realized on equity shares in small/medium businesses or venture capital based firms differ from the "normal" provisions?
Australia	Eligible venture capital investors are exempt from capital gains tax on gains made on eligible venture capital investments.
Austria	No.
Belgium	In Belgium, there are no specific provisions with respect to venture capital. A special tax system (innovative companies) was established at the beginning of the 1980s. However, it was not successful and was phased out in the 1990s.
Canada	The 50% inclusion rate for capital gains is the same regardless of the size of the business, however, there are several capital gains tax provisions that encourage investment in small businesses including: - Lifetime Capital Gains Exemption (LCGE): Investors can claim a lifetime exemption of up to CA$500,000 (US$425,900) of the capital gains from the sale of qualified small business shares. Budget 2007 proposes to increase the LCGE limit to CA$750,000 (US$638,850), effective March 19, 2007. - Small Business Capital Gains Rollover: A taxpayer is allowed to defer the taxation of capital gains realized on the disposition of common shares issued to the individual by an eligible small business corporation to the extent that the proceeds are reinvested in common shares of other eligible small business corporations. To qualify for deferral, the reinvestment must take place no later than 120 days after the end of the year of disposition. The total carrying value of the assets of the corporation and corporations related to it cannot exceed CA$50m (US$42.6m) immediately before and after the share was issued. - Allowable Business Investment Losses Provision: In general, capital losses can only be applied against realized capital gains and cannot be used to offset other sources of income. However, capital losses on small business investments (allowable business investment losses, ABILs) can be used to offset ordinary income. Under the current rules, the allowable portion (50%) of a capital loss incurred from an arm's length disposition of a share or debt owed by a small business corporation or as a result of the corporation becoming insolvent or bankrupt, or because the debt is uncollectible, may de deducted against any source of income for the year. If the allowable business investment loss exceeds net income for the year, any excess will be treated as a non-capital loss, which may be carried back three years and then forward twenty years. If the loss cannot be fully utilized against income by the end of the twenty-year carry forward, it then becomes a net capital loss, which can be carried forward indefinitely to be applied against future capital gains. - Investment in Labour Sponsored Venture Capital Corporations (LSVCCS): Individuals who make venture capital investments through labour-sponsored venture capital corporations (LSVCCs) are eligible to receive a 15% non-refundable federal tax credit on investments up to CA$5,000 (US$4,259). Most provinces provide a matching credit. In addition, LSVCC investments are also eligible investments for registered retirement savings plans (RRSPs), which is a tax-deferred retirement savings vehicles that allows individuals to deduct the value of these investments from the calculation of income for tax purposes.
Czech Republic	Incorporated businesses are treated the same independent of size. There are no special tax rules for providers of venture capital (in the sense that venture capital means a purchase of shares of entities non-

	tradable in the stock-exchange). But in the case of investment funds, unit trusts and pension funds there is a reduced tax rate of 5 %.
Denmark	No.
Germany	No.
Greece	No.
Ireland	Individuals can obtain tax relief on investments in companies under the Business Expansion Scheme and/or the Seed Capital Scheme. This reduction will normally result in a no gain/no loss situation.
Italy	N/A
Japan	There are special tax treatments for personal investors who invest in stock issued by specific SMEs. - Deduction of the investment to specific SMEs from the whole amount of capital gains in this year. - Reduction of taxable amount of capital gains by half if stocks have been issued by specific SMEs and have been held for three years and sold within three years after the specific SMEs became listed or merged, etc. - Carry forward for three years in case of capital losses from selling the stocks before the specific SMEs are listed.
Mexico	Special rules apply in the case of venture capital investment trusts (FINCAS) and capital investment partnerships (SINCAS).
New Zealand	No.
Norway	No.
Poland	No.
Slovak Republic	No.
Spain	Capital gains/losses realised by venture capital based firms deserve a special treatment when they are allowed to apply a 99% exemption in realised capital gains arising from a transfer of their participations, and also receive a tax credit equal to 100% of their own tax on gross dividends.
Sweden	No special rules are applicable for venture capitalist.
United Kingdom	(a) Enterprise Investment Scheme (EIS) - direct investment into small and medium sized companies meeting the EIS criteria. EIS income tax relief requires that there is no connection between the investor and the company, the company is an unquoted, trading

	company below the size limits given. The income tax relief is limited to investments of £400,000 (US$0.78m) per annum. Any loss made on the shares, less any IT relief claimed, can be claimed. Any gain on shares acquired in excess of the £400,000 is chargeable as normal. This relief is available to individuals and trusts. (b) EIS deferral relief: the conditions are similar to IT relief, though deferral relief is also available to investors who are connected with the company. Any gain made within the relevant period can be deferred by reinvesting it in EIS shares via direct subscription. When the shares are disposed of, or on the occurrence of one of the other chargeable events relating to the shares, the deferred gain comes back into charge. Again this is available to individuals and certain trustees (c) Loss Relief: There is also a relief for losses on investments in small and medium sized unquoted trading companies (not necessarily EIS companies but defined in similar terms). Capital losses on shares in these companies can be relieved directly against income. This is available to individuals only. There is also a relief along the same lines where the investment is made by an investment company in a qualifying trading company. (d) Venture Capital Trusts (VCTs) - individuals invest in shares in VCTs, (fully listed companies). The VCT then invests in small and medium sized companies similar to EIS companies. An investor over the age of 18 acquiring shares (by purchase or subscription) in a VCT can claim income tax relief on shares up to a value not exceeding £200,000 (US$0.39m) per year. There is an exemption from CGT on the disposal of those shares. No loss relief is available. There is no relief for trusts or companies. The VCTs themselves are exempt from CGT on gains and losses. (e) Corporate Venture Scheme (CVS) - companies obtain relief for investments made in SMEs. The CVS provides various relieves for companies that subscribe directly for shares in certain unquoted trading SMEs, again similar to the EIS requirements. Loss relief allows them to set capital losses against other income. Capital gains tax on realisations of CVS investments can be deferred if the proceeds are reinvested in shares that qualify for CVS corporation tax relief. There is no exemption for gains but many of the gains and losses will be covered by more widely available relieves such as the Substantial Shareholders Exemption (SSE). Since 1st April 2002 companies can be exempt from gains on the sale of shares in other companies provided that trading and other requirements are met. The SSE is not restricted to investments in small and medium sized companies
United States	Individuals can exclude 50% of capital gains from the sale of eligible small business stock held at least five years. After applying the exclusion, taxable gains are taxed at ordinary rates up to 28 percent so that the maximum rate is 14 percent. A portion of the excluded gains is taxed as preference income under the Alternative Minimum tax. At the present time, there is almost no tax benefit from this provision. If the 15 percent capital gains rate expires after 2010, the small business exclusion could provide a larger benefit as the top capital gains rate would increase to 20 percent. To be eligible, stock must be purchased at the time of issue, and the total assets of the corporation, including the proceeds of the stock sale, may not exceed $ 50m. A number of other restrictions on the type of business and its activities also apply. In addition, a provision enacted in 1997 allows individuals to roll over capital gain from the sale of small business stock held more than six months if the taxpayer reinvests the proceeds in other qualifying small business stock within 60 days of the sale of the original stock. The replacement stock must meet the active business requirements of the small business exclusion described above. Another provision allows up to $100,000 of capital losses from the sale of small business corporation stock to be treated as ordinary losses, and therefore not subject to the normal $3,000 annual limit on the deduction of capital losses against other income. To qualify for this provision, the small business corporation must have paid in capital of $1m or less at the time the stock was purchased.

Source: questionnaire responses.

Table 15. Business sell outs and bequests

Country	Tax provisions for retirement of business owner	Provisions for capital gains taxes in the case of bequests/inheritances
Australia	Yes. The capital gains tax (CGT) small business retirement exemption and the 15-year exemption are exceptions to the usual CGT treatment. - The small business retirement exemption provides an exemption for small business operators for certain capital gains up to a lifetime limit of AU$ 500,000 (US$391,800). The amount must be paid into a superannuation (i.e. pension) fund if the relevant individual is under 55 (but not otherwise). - The small business CGT 15-year exemption provides a total exemption for a capital gain if the taxpayer owns the asset for at least 15 years and the relevant individual is at least 55 and retiring, or is permanently incapacitated. Both measures apply only to capital gains made on the sale of assets used actively in a small business as distinct from investment assets such as rental properties and shares.	There is typically no CGT taxing-point upon a taxpayer's death. However, this does not mean that accrued capital gains on assets owned by the deceased are not taxable. Instead, any accrued CGT liability in effect 'rolls over' to the person inheriting the asset until that person disposes of it (other than through their own death). This treatment can apply for an unlimited number of inheritances. If the deceased acquired the asset before 20 September 1985, the CGT law treats the inheritor as acquiring the asset on the deceased's date of death for its then market value. This ensures that the person inheriting the asset pays CGT only on any increase in value from the date of death.
Austria	In general, the gain from selling a business can be distributed over the next 5 years (if owned for more than 7 years). If retirement, there is an option for half-rate taxation (instead of 5 years division).	There is no capital gains taxation.
Belgium	Belgium provides for a reduced tax rate (16.5% instead of 33% for intangible fixed assets in separate taxation) above 60 years old for the seller who finishes his activity. But there is no carry-over or spread-out taxation regime in this case.	There are two aspects of the tax treatment: donation duties and estate duties.

Country	Tax provisions for retirement of business owner	Provisions for capital gains taxes in the case of bequests/inheritances
Canada	The lifetime capital gains exemption described in Table 14 provides tax relief to unincorporated farmers and fishers. Taxpayers selling an unincorporated business can use the proceeds to contribute to a Registered Retirement Savings Plan (RRSP), a tax-deferred savings account. The RRSP contribution limit has been increased substantially in recent years, and unused RRSP contribution room can be carried forward and used in subsequent years. This significantly improves retirement savings opportunities for owners of unincorporated businesses.	In general, an individual who transfers capital property, including small business shares, to a family member is deemed to have disposed of the property at its fair market value and the family member to have acquired it for the same amount. This deemed disposition can result in a capital gain if the property has appreciated in value. Individuals transferring qualified small business corporation shares can benefit from the lifetime capital gains exemption. Qualifying farm and fishing property are eligible for an intergenerational rollover. That is, farmers and fishers can transfer qualifying farming and fishing assets of unlimited value to their children or grandchildren without triggering a capital gains tax bill at the time of the transfer. Capital gains tax is payable on future sales outside the family, based on the parent's original cost base.
Czech Republic	No.	No, just inheritance tax is levied.
Denmark	The profit from selling can be placed in a pension fund to avoid taxation up to payment (of the pension). The maximum amount to be placed in a pension fund is DKK2,363,800 in 2007 (US$412,228). Alternatively it is possible to do a generational change (succession) where only the new owner (a relative) is taxed. Both rules are effective for personally owned as well as limited liability businesses. In case of a limited liability business the seller, however, has to be a principal shareholder.	The bequest triggers inheritance taxation and capital gains taxation – the capital gains taxation is paid from the estate. If the daughter or son chooses to take over the business, they will also take over the obligations concerning taxation. In this case the bequest still triggers inheritance taxation, but a credit is given concerning the postponed capital taxation.
Germany	Income from the sale or termination of a business is taxed at a reduced rate according to what is referred to as the "one fifth rule" and cushions the effects of tax progression. Taxpayers aged over 55 receive a tax-free allowance of €45,000. However, this allowance is reduced by the amount that the capital gain exceeds €136,000. Furthermore, taxpayers may apply for this income to be subjected to only 56% of their average tax rate. This reduction may only be claimed for one sale or closure of a business during the taxpayer's lifetime. The special rate is limited to the first €5m of the gain.	Upon death, the entire estate is transferred without charge by way of universal succession to the sole heir or community of heirs. This means that the devolution of the inheritance has no impact under income tax law.

Country	Tax provisions for retirement of business owner	Provisions for capital gains taxes in the case of bequests/inheritances
Greece	No.	A capital transfer tax is directly related to the kind of the capital transferred i.e. enterprise, listed or non listed shares etc, the time of acquisition and the kinship of the person who makes the gift and the legatee. Specifically, when shares or a whole enterprise or parts of it are transferred, to persons of 1st or 2nd degree of relation (husbands and wives, parents, sisters, brothers, ants and uncles), a flat tax rate of 1.2% and 2.4% respectively is applied. Otherwise, a the 3rd degree tax scale is used. The assessment of the value of the capital transferred i.e. enterprise, is based on objective criteria, defined – specified every time with ministerial ruling.
Ireland	There is a special provision exempting capital gains tax for persons over 55 years who are disposing of business assets, which they have owned and used in the business for ten years ending on the date of the disposal. There is an exemption limit of €0.75m (US$0.97m) and this is a lifetime limit – if there are similar subsequent sales above this figure, earlier relief given may be clawed back. If the disposal is within the family the limit does not apply. The relief also applies to shares in a family trading company or shares in the holding company of a family trading group. The relief does not extend to the whole of the gain on the shares but only to the extent that the proceeds represent trading assets within the company or group.	Death does not trigger a capital gains tax. There is a threshold for inheritance tax for any inheritance passing from a parent to a son or daughter and this remains the same in all situations. However there is a special relief which applies to gift and inheritance (these taxes are charged on the donee or beneficiary) of business assets. This relief reduces the value of certain business assets by 90%. The relief does not distinguish between sizes of enterprises or values of assets once the conditions are met. This relief may be clawed back in certain circumstances.
Italy	N/A	N/A
Japan	No.	For stocks without any market price acquired by individuals through inheritance, the taxable value for inheritance tax is reduced by 10% and a maximum of ¥100m (US$0.8m).
Mexico	No.	Inheritances are exempt from the individual income tax. Moreover, there is no inheritance or estate tax in this case.

Country	Tax provisions for retirement of business owner	Provisions for capital gains taxes in the case of bequests/inheritances
New Zealand	The general rules for determining whether sales proceeds of a revenue (taxable) or capital (non-taxable) nature apply when unincorporated businesses are sold. There is no change to these rules for a specific event like retirement. Normally, the sale of an unincorporated business to finance retirement is likely to be a capital transaction.	As in the case of a sell out, the general capital/revenue boundary would apply in the case of shares inherited from a deceased person's estate. New Zealand does not levy estate taxes. Generally, the inheritance of shares is normally likely to be on capital account.
Norway	No, but gains from selling real capital is spread out as taxable income with a 20 % rate p.a.	No.
Poland	No.	The value of inheritance is exempt from tax for children.
Slovak Republic	No.	There is no inheritance tax in the Slovak Republic.
Spain	As a general rule, arising capital gains from the selling (onerous transfer) of an unincorporated business in order to finance retirement (or whatever be the case) is subject to a PIT flat rate of 15%. Nevertheless, the owner may transfer the business to their heirs (inter vivos gift). In this case the owner is not liable to the 15% PIT rate and the Inheritance and Gift tax grants a 95% allowance to the heirs.	The Inheritance and Gift tax provides a 95% allowance in the tax base of their heirs.
Sweden	No, but there are some provisions that allow an individual taxpayer to spread out an income that is related to previous years over those years. An income may not be spread out for more than 10 years. These rules may be applied on the part of a capital gain that is deemed to be income from employment.	An inheritance does not trigger any income tax. When the daughter/son sells the inherited shares she/he must use the same purchase price as the parent should have used.
United Kingdom	No.	No liability to capital gains tax arises when an individual dies. A person who inherits shares - or any other asset - included in the deceased person's estate is treated as acquiring the shares at the date of death for their market value at that time. There is therefore no capital gains taxation on top of any inheritance tax liability on the person's estate.

Country	Tax provisions for retirement of business owner	Provisions for capital gains taxes in the case of bequests/inheritances
United States	There are no special provisions for reduced capital gains rates on sales of businesses related to retirement.	Under current law, there is no capital gains tax on unrealized capital gains on assets held at death under the rationale that such gains are subject to the estate tax. The basis of such assets is generally stepped up to the fair market value at the date of death. During 2010, when the estate tax is repealed for one year, inherited assets would retain the basis of the decedent. Heirs would pay capital gains tax when the assets were sold. Under the estate tax, if the small business makes up at least 35 percent of the estate, the inheritance taxes on the business may be paid in instalments over 15 years and at preferential interest rates.

Source: questionnaire responses.

5 CONCESSIONS UNDER OTHER TAXES AND SUBSIDIES

36. For many owners of small businesses, the value of this business constitutes a major part of their assets. Funding retirement therefore often implies selling the closely-held business. Again, tax implications may form a problem. Under a progressive tax system, for example, the one-time sale of a business may lead to a much higher tax burden than the same income enjoyed over a couple of years. Special tax regulations that make it easier for business owners to retire are therefore surveyed in Table 15, which also collects details on the tax treatment of capital gains in the case of bequest.

37. Additional interesting issues, like the possibility of self-employed to opt out of social security, special measures towards small businesses in gift and wealth taxes, and open subsidies to small businesses are covered in Table 16, Table 17 and Table 18.

Table 16. Social security contributions and property taxes

Country	**Are there special regulations in relation to social security payments by small business employers such as thresholds/ different rates?**	**Can self-employed individuals opt out from social security, public health care and other schemes that are compulsory for employed workers?**
Australia	Under the Superannuation Guarantee law, businesses do not need to make superannuation contributions on behalf of employees, if the employee earns less than AU$450 (US$353) in the month. This applies to all businesses regardless of business size.	Australia does not have a social insurance scheme. Health and unemployment benefits are funded out of Government revenue. Self-employed individuals are not covered under the mandatory Superannuation Guarantee scheme. However, they may make voluntary contributions which are tax deductible and taxed preferentially.
Austria	Not dependent on the size of the employing firm, but on the income of the employees (see TDB).	No.
Belgium	N/A	N/A
Canada	No special provisions for small employers. Self-employed individuals are required to pay both the employee share and the employer share of Canada Pension Plan (CPP) contributions (CA$9.90 (US$8.43) per CA$100 (US$85)) of their net earnings up to the year's maximum).	Self employed individuals are not covered by employment insurance (EI). Only those in an employer-employee relationship in insurable employment pay EI premiums and are covered by the program. In addition, they cannot opt out of the CPP.
Czech Republic	No.	Only sickness insurance for self-employed persons is completely voluntary. Self-employed persons for which business is not the main source of income have voluntary pension and unemployed insurance if their net income from business do not exceed CZK48,334 (US$2,262) per year.
Denmark	No.	Self-employed cannot opt out from social security. In addition to social security there exists a compulsory pension scheme for wage earners. Self-employed individuals can opt into this scheme
Germany	As to health insurance contributions: no concessions for small business employers. For self-employed members of the statutory health insurance, contributions are calculated on the basis of their individual economic capacity. However, there is a set (fictitious) minimum income even if the real revenue is lower.	Self-employed are not forced into the public system, but may opt for the sickness funds. From 1 April 2007, cancellation of public health insurance prove of alternative coverage is necessary to finish their membership. Self-employed are generally not included in the public pension system. Compulsory membership applies to some free-lance occupations, though.

Country	Are there special regulations in relation to social security payments by small business employers such as thresholds/ different rates?	Can self-employed individuals opt out from social security, public health care and other schemes that are compulsory for employed workers?
Greece	No.	Self employed individuals are not covered by the compulsory insurance scheme for employed workers which is the Social Insurance Organization (IKA), but they must make monthly compulsory lump-sum contributions to OAEE (Free Professional' Social Insurance Organization), the amount of which ranges depending on the number of years the person has been insured. For those insured prior to 1st January 1993, lower contributions apply.
Ireland	No concessions based on the size of the employer. There are, however, three schemes which provide exemptions from PRSI liability in specified circumstances. - In situations where a person is temporarily posted from a non-EU country by an employer, who does not have his principal place of business in Ireland, Northern Ireland, in Great Britain and the Isle of Man and the period of employment in Ireland is no more that 52 weeks; - A special PRSI refund of PRSI contributions on the employers contribution in respect of their seafaring employees; and - An exemption from PRSI contributions on the employers contribution in respect of employees on the Back-to-Work incentive scheme for long term unemployed and other vulnerable groups for the first two years of their employment.	The social insurance system in Ireland is based on the payment of compulsory Pay-Related Social Insurance (PRSI) contributions to the Social Insurance Fund, subject to a minimum income level. There is no provision for compulsorily insured contributors to opt out of coverage. Contributors accrue entitlement to a range of social benefits subject to prescribed conditions. In accordance with the legislative stipulations of the Social Welfare Acts, the same contribution conditions apply to both employed and self-employed workers. PRSI contributions comprise a social insurance portion and a health contribution. The health contribution goes towards the funding of public health services (i.e. it does not become part of the Social Insurance Fund that finances social insurance payments). Entitlement to health services in Ireland is not related to these contributions but is primarily based on residency and means.
Italy	Regardless of the type or size of the business performed, any business employers must pay social security contributions for its own employees; special advantages are applied according to employment contract but regardless of the size of the business.	Self-employed individuals must pay statutory social security contributions. However, they can opt for private social security or health care schemes of supplementary kind.
Japan	N/A	N/A
Mexico	No.	Yes, the self-employed can decide whether they want to be part of the social security system or not.

Country	Are there special regulations in relation to social security payments by small business employers such as thresholds/ different rates?	Can self-employed individuals opt out from social security, public health care and other schemes that are compulsory for employed workers?
New Zealand	There is no such general "social security" payment which small business employers are required to pay. Most general social security type benefits (e.g. health and education) are provided by the general tax fund which is collected by the government.	See column to the left.
Norway	No.	No.
Poland	Persons carrying out economic activity pay monthly social security contribution. Base of assessment of contributions is declared income but not less then 60% of average wage in previous quarter (75% of average wage in enterprise sector in previous quarter – in case of health insurance contribution). In case of person starting economic activity (with some exceptions and conditions) the base of assessment of contribution is lower by half for fist two years.	No, social insurance (old-age pension, disability pension, sickness and work accidence insurance) and health insurance are obligatory for both employee and self-employed (or persons carrying out economic activity), except for sickness insurance which is mandatory for self-employed (or persons carrying out economic activity).
Slovak Republic	No.	No.
Spain	No.	No.
Sweden	No.	No, but within the health care insurance system a self-employed individual can choose a qualifying period of 1, 3 or 30 days before any benefits may be claimed.

Country	Are there special regulations in relation to social security payments by small business employers such as thresholds/ different rates?	Can self-employed individuals opt out from social security, public health care and other schemes that are compulsory for employed workers?
United Kingdom	No.	The self-employed can not opt out of Social Security but they can apply for exception to pay based on low profits (currently £4,465 (US$8,748) p.a.). The self-employed have to pay Class 2 contributions on profits above £4,465 (US$8748) or £2.10 (US$4.11) per week (but can pay on profits below this amount to secure entitlement to benefit). Payment of Class 2 contributions counts toward the basic state pension, Maternity Allowance and Incapacity Benefit. The self-employed also pay Class 4 contributions of 8% on their profits between £5,035 (US$9,865) and £33,540 (US$65,713), (plus 1% on profits above £33,540 (US$65,713)) per annum. The employed pay Class 1 contributions of 11% on their earnings between £97 (US$190) and £645 (US$1,264) per week (plus 1% on earnings above £645pw). Employers also have to pay Class 1 contributions of 12.8% on the earnings of their employees above £97pw. The contributions paid by employees count for a wider range of benefits including, Jobseeker's Allowance, Incapacity Benefit, Maternity Allowance, basic state pension, Additional State pension and Bereavement Benefits.
United States	There is no difference in employment tax liability for small employers. The frequency with which employment tax deposits need to be made (withholding of employees' income taxes, payments of social security and Medicare taxes, and unemployment insurance) depends on the size of the firm's payroll.	No.

Source: questionnaire responses.

Table 17. Wealth, inheritance and gifts taxes

Country	**Special provisions targeted to small businesses under wealth, inheritance and gifts taxes**
Australia	No.
Austria	Deduction of an allowance of up to €365,000 (US$474,464) for transfers of business (under certain conditions).
Belgium	N/A
Canada	No.
Czech Republic	No.
Denmark	No.
Germany	The law on inheritance tax grants relief on business assets, agricultural and forestry businesses and shares in corporations (representing a minimum holding of more than 25%): there is a tax-free allowance of €225,000 and a downward valuation adjustment of 35%. This applies regardless of the size of the company. The current legislation does not contain any regulations specially targeted at SMEs. The German government has presented a bill to facilitate the transfer of business ownership. This bill contains a provision on business assets, agricultural and forestry assets and shares in corporations (representing a minimum holding of more than 25%) whereby the inheritance tax payable on productive assets is initially deferred and gradually reduced provided that the business is kept in operation for at least 10 years following the transfer of ownership). A threshold of €100,000 (US$129,990) should also be introduced as part of this process. This is intended to remove the time-consuming task of monitoring the cases of small and very small business (such as small traders, smaller crafts businesses and agricultural and forestry businesses as well).
Greece	No.
Ireland	No. (There is currently no wealth tax in Ireland and death does not trigger capital gains; see Table 15.)
Italy	No.
Japan	With respect to certain sites for business (less than 400) or certain sites for residence (less than 240), the taxable base is obtained by decreasing 80% or 50% of the respective value. For stocks without any market price acquired by individuals through inheritance, 10% of the taxable value for inheritance tax is reduced (¥100m maximum (US$830,000)).
Mexico	No.
New Zealand	No.
Norway	No.
Poland	N/A
Slovak Republic	No.
Spain	N/A
Sweden	Sweden does not have an inheritance or a gift tax. In the recent spring budget, the government has announced its intentions to abolish the wealth tax with effect from January 1, 2007.
United Kingdom	A number of relieves are operated that, where applicable, reduce the value of business property for inheritance tax (IHT) purposes. These various concessions for productive assets are intended as economic incentives i.e. to lower the total effective tax burden on these compared to other assets, though in some cases social considerations may enter in. However, IHT Business Property Relief is not aimed specifically at small businesses, or indeed businesses of any particular size: it can apply equally to small, medium and large businesses. Relieves do not apply to any business or company which is engaged wholly or mainly in dealing in securities, land or buildings, or in making or holding investments; or to businesses not carried on for gain (in other words it's geared towards trading businesses rather than investment businesses). Unincorporated businesses and incorporated businesses not listed on the United Kingdom Stock exchange have their asset value reduced by 100 per cent for IHT purposes. A broadly equivalent relief for qualifying agricultural property again applies at usually 100 per cent.

United States	There are 2 provisions available to all businesses but of particular value to small businesses under the estate taxes. (a) Special Use Valuations. Under certain circumstances, if the market value of a farm or real property used in a closely held business exceeds the capitalized value at the current use, the estate may exclude from the value of the estate up to US$940,000 (in 2007) of the difference between the two amounts If the property is sold to a non-family member or ceases to be used in its original use within 10 years, additional tax may be due. (b) Instalment payments at preferential rates. If a closely-held business makes up at least 35 percent of an estate, taxes on the estate may be paid in instalments over 15 years and at preferential interest rates. The current estate tax law is temporary, scheduled to revert in 2011 to the less generous rates and deductions in effect in 2001. Both the Administration and the Congress have expressed interest in modifying current law in order to prevent this from happening.

Source: questionnaire responses.

Table 18. Subsidized loan programs, guarantees, government grants, etc. targeted to small businesses

Country	
Australia	Not through the taxation system. Business may apply for business assistance grants from AusIndustry, in the Department of Industry, Tourism and Resources.
Austria	No.
Belgium	Belgium is a federal country and subsidisation policies fall under regions' competencies. However, at federal level there is a Participation Fund (Fonds de Participation). It is a governmental financial institution whose role is to help starting independent entrepreneurs, professionals and small business to access bank credits. It also helps struggling against unemployment by giving loans to unemployed workers that create their own enterprise (see http://www.fonds.org). The Fund objective is to improve financial stability of new or existing small enterprises by providing loans that would help obtaining bank loans if necessary. These loans are provided at advantageous conditions (rates, reimbursement conditions) and are submitted to conditions
Canada	The federal government funds several programs and entities that provide or help provide financing to SMEs including: - The Canada Small Business Financing Program covers 85% of any losses incurred as a result of a default on a loan registered under the program. - Income support may be provided to workers who want to become self-employed. - There are programs that provide business financing to small businesses that are willing to locate in rural areas, Quebec's regions and Northern Ontario. - The federal government, via the Western Economic Diversification program, contributes funds to a "loan loss reserve" to partially offset higher risks associated with eligible loans to small businesses in Western Canada. - The Atlantic Canada Opportunities Agency has invested in a private sector Atlantic Canada venture capital fund and has two direct financing programs to support small businesses in the region. - Financing is provided to SMEs to help them meet technological challenges. - The Business Development Bank of Canada provides loans and venture capital. - To help with export financing, the Export Development Corporation supplies financing and risk management services to Canadian exporters, 90% of which are SMEs. - Farm Credit Canada and Agriculture and Agri Food Canada provide business and financial services to farms and agribusiness including family farms.

Czech Republic	N/A
Denmark	Establishment account (etableringskonto): to promote establishment of business wage earners considering starting up a business may pay part of their wage on a separate account. Part of this payment can be deducted in the normal personal tax base. The money on the account is tied up to investments in a new business. If the account has not been used for investments, i.e. if a new firm has not been established, in the income year when the account owner turns 67 there will be an additional assessment. The tax value of deduction on the account is 33.3%. Since 2006, there is a new measure to increase supply of risk capital. Among others, pension funds are granted a tax deduction if they invest in unquoted shares. Taxation when investing in unquoted shares is simplified. Recently it has also been decided that (bigger) private pension savings may be invested in unquoted shares.
Germany	N/A
Greece	N/A
Ireland	The Department of Social and Family Affairs operates a scheme called the Back to Work Enterprise Allowance. Introduced in 1999, it encourages the long-term unemployed and other vulnerable groups to take up self-employment opportunities by allowing them to retain a reducing proportion of their social welfare payment plus secondary benefits over four years. The allowance is paid on a reducing scale over a four-year period, i.e. 100% of a person's social welfare payment in year one, 75% in year two, 50% in year three and 25% in year four. In addition to this payment, Technical Assistance and Training Grants (TATs) provide assistance towards the training and business related expenses of Back to Work participants and long-term unemployed persons. This can include preparation of business plans/marketing strategy, financial projections and business accounts, computer training, small items of equipment or assistance towards the cost of public liability insurance. In 2006, a total of 3,657 TAT applications were approved at a cost of €2.2m (US$2.86m).
Italy	IRAP (Regional Tax on Productive Activities) is not applied to businesses whose taxable income is under €8,000 (US$10,399).
Japan	There are many types of loan programs, guarantees, and grants designed for SMEs.
Mexico	There is a special fund for small and medium businesses (Fondo PYME), which was created by the government with the aim of promoting Mexico's economic development through programs and projects that encourage the productivity, competitiveness, creativity and sustainability of small and medium businesses.
New Zealand	New Zealand Trade and Enterprise provides a number of programmes of assistance/grants to encourage the growth of New Zealand businesses. Under the Enterprise Development Grant scheme businesses can apply for assistance with the implementation of significant international market development initiatives, including expenditure related to: market visits; in-market representation; advertising and promotion; marketing materials; trade fairs and events; and market research.
Norway	Yes, some measures to stimulate innovative new firms. Entrepreneurs/founders can apply for several kinds of grants.
Poland	N/A
Slovak Republic	No.
Spain	During 2007, the instruments to facilitate SME access to existing sources of finance (by reducing costs, extending repayment terms and providing guarantees) are:

	- Ordinary loans. The ICO-PYME 2007 (Official Loan Institute-SME) facility is intended to provide financing under preferential conditions for investment projects undertaken by Spanish SMEs. The cost for the SME is the six-month EURIBOR + 0,65 % (if a floating rate is chosen) or the ICO benchmark + 0,65 % (a fixed rate for the duration of the loan). Loans are extended through banks and savings banks and are available to SME for investment in fixed assets, whether tangible or intangible, with a financing ceiling of 90% of net investment project. - Participatory loans. A participatory loan is a financing instrument that lies halfway between venture capital and traditional loans. It is a subordinated loan, i.e. ranks behind ordinary creditors in payment priority; it is a long-term loan with a long grace period; the interest rate is indexed to business profitability (financial returns), subject to an upper and lower limit and, finally, no additional guarantees are required other than those provided by the business project itself and the experience and expertise of the management group behind the enterprise. - Mutual Guarantee Companies (Sociedades de Garantía Recíproca, SGRs). These entities provide guarantees for loans granted to SMEs. The state-controlled company CERSA helps SMEs to overcome difficulties in raising finance for innovation projects, with particular attention to early-stage enterprises. Refinancing is provided to SGRs under agreements that specify different percentage coverage depending on the characteristics of the SME and the assets being financed via the guarantee operations. Risk taken on under SME guarantee schemes exceeds €3,100m (US$4,029.7m), and has allowed 35,000 firms to raise the finance they need, 91% of them are micro or small enterprises. - SME loan securitisation. Credit entities may assign loans from their balance sheet to a special purpose vehicle (securitisation fund FTP), and use the liquidity obtained to grant a new loan to other SMEs. The fund then issues bonds that raise the income needed to pay banks and saving banks for the assets transferred. In this way, financial entities can enlarge their liquidity without taking on additional debt, and secure the cash to grant new loans without increasing their balance sheets assets. The securitisation funds created will be backed by a government guarantee. - ICO micro-loan facility. Spain's OFFicial Credit Institute (Instituto de Crédito official, ICO) set up this facility in late 2002 to provide small loans to micro enterprises or individuals lacking the background to qualify for loans through traditional financial system channels: women, people aged over 45, the disabled, immigrants, etc. The maximum allowable is €25,000 (US$32,498) to finance up to 95% of the planned investment.
Sweden	Non-tax measures target at SMEs do exist.
United Kingdom	The Department for Trade and Industry (DTI) targets SMEs by way of the following provisions: - Grants for Research & Development for Small Businesses - Best Practice Products - Small Firms Loan Guarantee - Risk capital interventions for SMEs with high growth potential, investing a combination of private and public sector in SMEs seeking finance. There are a number of other provisions that small businesses can apply for but which are not targeted specifically towards them.
United States	The Small Business Administration provides business loan guarantees, capital access programs, and other services to small businesses.

Source: questionnaire responses.

6 ADMINISTRATIVE ISSUES

38. The questionnaire st to OECD member countries also contained a section on administrative arrangements. One of the objectives is to learn about countries approaches towards compliance costs, for example by evaluating these costs, organising tax administration along client based lines, or by planning future reforms. The following tables give a snap shot of responses in various areas. Overall, the responses show a high degree of awareness and current efforts in re-estimating compliance cost and reducing them. Many countries actively try to expand the coverage of e-government to reduce compliment cost.

39. The awareness of governments of the compliance costs of taxation is also reflected in Table 20, which lists measures and estimates of these costs. At least two of the responding countries have started to work with the OECD Standard Cost Model. A frequent approach merely evaluates the compliance costs before introduction of specific tax instruments of changes. In some cases (e.g. Belgium), the distinction between the costs of different business sizes has been addressed.

Table 19. Efforts to reduce the compliance costs for small business

Country	
Australia	Special concessions exist to reduce compliance costs for smaller businesses. The Government has also announced that it will introduce legislation to standardise the eligibility criteria for small business tax concessions from 1 July 2007. Separate eligibility tests currently exist for small business concessions. Specifically, the definition of small business varies across different areas of the tax law. As a result of new legislation, small businesses will only have to apply one eligibility test to access a range of small business concessions. A single definition of small business will result in reduced compliance costs for some 2m Australian small businesses, or over 90% of all Australian businesses.
Austria	See provisions under the value added tax and the income tax (Table 4, Table 5, Table 9, Table 10 and Table 11).
Belgium	Efforts beneficial for small business arise from several projects of e-governement: - annual electronic tax return for the corporation tax (VENSOC); - annual electronic tax return for the Individual Income Tax possibly since 1.6.2004 for independent entrepreneurs by means of the application TAX-ON-WEB; - electronic sending of the BELCOTAX declarations of the granted income by means of Internet by the application BELCOTAX-ON-WEB; - electronic tax return for the withholding tax on wages and salaries by means of the application FINPROF; - financial institutions can send the annual state of the collected tax on insurance contracts or accounts by means of the Internet by the application FINELTS; - a fiscal database is available for each taxpayer; - electronic filing of the VAT-declaration (INTERVAT and EDIVAT), of the quarterly and annual listing of exempted intra-community supplies and of the annual client-listing. A "service of preceding decisions in tax matter" has been set up. This service gives recommendations preceding certain tax operations in order to guarantee the legal security of the taxpayers. Creation of the crossroad bank of enterprises (Banque-Carrefour des Entreprises - BCE) that aims at simplifying administrative procedures by using a single data collection process and increase administrations efficiency.
Canada	Comprehensive efforts to reduce the compliance costs for small business include: - By September 2007, key federal regulatory departments will establish a baseline count of administrative and information requirements with which businesses must comply. These will be reduced by 20% by November 2008. - Establishment of website which serves as a single access point for federal and provincial/territorial government services, programs and regulations for businesses. Tax specific measures that are designed to reduce compliance costs include: - The formation of the Action Task Force on Small Business Issues, with government and private sector participation, to explore opportunities to reduce the compliance burden on small

business.

- The creation of the "My Business Account" service which allows businesses to access their business information online 7 days a week, 21 hours per day.
- Electronics services to business that make it easier to register a business, file tax and information returns (subject to eligibility), file tax remittances and to receive refunds and make payments.
- Integrated audits to streamline the audit process.

Czech Republic	The government proposed an initiative to reduce administrative burdens by up to 20% between 2006 – 2008. As a part of this process taxpayers may claim simplified imputed expenses: 80 % - of income derived form agricultural production 60 % - of income derived from small handicraft business 50 % - of income derived from other small business activity.
Denmark	It is the Danish Governments ambition that the compliance cost for the enterprises (big and small) should be reduced with up to 25 percent before the year 2010. This ambition was formulated in 2001 and there has since been worked extensively with simplifying regulations and laws in all ministries in Denmark.
Germany	In an international comparison, PricewaterhouseCoopers AG and World Bank, among other things, looked at how much time a model small firm with 60 employees required to take care of its tax obligations. A comparison was made of 175 countries. According to the study, the tax duties of this model enterprise in Germany require 105 hours a year. In only 25 countries was less time required. One reason for this is the fact that many measures adopted by the German government have, to a large extent, already liberated SMEs from superfluous tax bureaucracy. Employers have been relieved by transferring the disbursement of child benefit to the child benefit offices. The record keeping thresholds under the Fiscal Code (Abgabenordnung) have been raised by up to 35%. This is a simplification of particular benefit to business start-ups and smaller enterprises. New software (ElsterLohn) allows employers to transfer the data contained on the certificate of wages tax deduction electronically to the tax administration. This saves SMEs in Germany the need to process and dispatch some 30 million hard-copy certificates. This greatly reduces the technical and organisational effort required of employers. In addition, the tax administration provides the software package ElsterFormular as a free service, which supports the income tax return, the VAT return, the trade tax return, the provisional VAT return, the wages tax return and the certificate of wages tax deduction. According to a recent study, using ElsterFormular is, on average, a good 40 % less than that required by other procedures tested. In the current legislative period, further measures were implemented through an act to dismantle bureaucratic obstacles in particular for SMEs. In the tax field, the threshold for the obligation to keep accounts and records for tax purposes – measured by turnover – was raised again, from €350,000 to €500,000, and several facilities were introduced as regards VAT, in particular raising the threshold for small invoices from €100 to €150. This means that in future 170 million invoices will be subject to simpler reporting requirements. Further concrete measures will follow. A second act relieving the burden on SMEs, which is currently being discussed by parliament, should increase the threshold for the obligation to keep accounts and records for tax purposes – as measured by profit – from €30,000 to €50,000. The relief this provides taxpayers regarding bookkeeping will mean that in future practically all companies will have reduced reporting obligations. The reduction of bureaucracy is an ongoing task in Germany.
Greece	Regarding the tax audit of businesses below with annual turnover thresholds (€300,000

(US$389,970) for trading companies and €150,000 (US$194,985) for services companies), the law provides non-compulsory, simplified and synoptically procedure for final closing of the cases without audit, by a form of self-assessment, submitting declarations with the corresponding of the said self-assessment amounts of taxes.

Ireland

Over the past number of years major reform programmes to improve the administration of the tax and duty systems have been initiated. Recent initiatives undertaken include:

- Reduction in employer PAYE returns for SMEs from 13 to 4. This initiative introduced in 2006 reduced the administrative burden for some 76,000 small and medium sized employers.
- VAT returns filing frequency reduced to twice yearly and quarterly for small traders. Over 76,000 traders are eligible for these new arrangements which will come into effect from July and September 2007.
- The VAT registration thresholds for business increased to €35,000 in the case of services and €70,000 in the case of goods from 1 March 2007. The VAT cash accounting threshold increased to €1m from the same date.
- Ongoing simplification reviews of the main income tax and corporation tax return forms.
- New business models and related IT systems to streamline and minimize the necessity for customer contacts with Revenue in particular the PAYE On-line system and the re-development of the Customs Automatic Entry Processing system and the Common Agriculture Policy (CAP) Direct Trader Input (DTI) system.
- Continued promotion of the benefits of the Revenue On-line Service in providing efficiency in completion of returns, extended deadlines for filing, on-line validation, immediate processing, quicker turnaround times where repayments are due and 24 electronic access to current year and historic returns and accounts.
- Tailoring the website to meet the requirements of various user groups, individuals, businesses and practitioners.
- Exploring e-channels and e-business options to make it easier for customers to deal with Revenue.
- Exploring the possibility of more 'joined-up' services through the integration of Revenue's e-services with REACH, BASIS, and OASIS other Government Departments and local government as well as private sector organizations.
- Identifying and removing disincentives to customers dealing with Revenue electronically.
- Ongoing consultation with representative bodies through the forum of the Tax Administration and Liaison Committee (TALC) and the Customs Consultative Committee.
- Consolidation and modernisation of legislation.
- Influencing the EU review of EU Common Customs Code so as to ensure legal certainty for traders and to reduce the compliance burden to the fullest extent possible in proportion to the risk involved.
- Supporting the EU Commission's simplification/improvement agenda in the VAT area.

Italy

None.

Japan

Japan tries to design a simpler tax system. The National Tax Agency (NTA) endeavours to improve taxpayer services, including tax education, tax counselling, enhancing convenience for filing, public relation activities about the significance of tax, and information on tax law and procedures.

Mexico

Different approaches have been taken to reduce the taxpayer's cost of compliance. Some of them are the following:

- Taxpayer registration - by face to face interview, in taxpayer's business place instead of traditional scheme, through tax offices.
- Registration process in one visit - to simplify this, the number of forms and requirements has been reduced and reoriented to a conclusive interaction procedure.
- Partial payments - all official forms were replaced for a single universal (and optional) layout, allowing making these payments at the bank office or web.
- Although all services have been migrated to e-service channels, some of them maintain their

	traditional paper/face to face access.
New Zealand	Tax simplification for small businesses is a key focus of the New Zealand Government's tax policy work programme as the majority of New Zealand businesses are small. The tax simplification programme recognises that many small businesses struggle to comply with the increasingly complex set of tax laws to which they are subject. Key concerns for small businesses are the costs of compliance and the risks associated with non-compliance. The focus of the simplification programme is on reducing the stress, uncertainty and risks that these concerns place on small business. Also cf. Table 11. In addition the New Zealand Inland Revenue has appointed a small and medium business "champion" to coordinate the department's efforts to make it easier for these taxpayers to comply with their obligations.
Norway	The Tax Directorate is currently working on a proposal to implement a basic personal allowance for self employed with no employees and no real assets. The allowance is meant to replace deduction for actual expenses. The proposal is not yet presented to the Ministry of Finance.
Poland	Efforts are taken mainly in area of better tax information. Ministry of Finance and Tax administration prepare brochures, creating web sites with information and explanations about taxes.
Slovak Republic	There are no specific arrangements applied related to the reduction of the compliance costs for small businesses.
Spain	Spain makes use of some mechanisms addressed to reduce SME compliance costs: - Application of special schemes, for instance, presumptive taxation within the PIT; a simplified VAT scheme for small retailers, and a special scheme for "reduced dimension" SME. - Simplified accounting rules for SME entities. - Reduction of some formal tax duties, for instance, SME are allowed to submit and pay their taxes in a quarterly basis. - Inclusion of some tax incentives in order to improve the economic situation (neutrality) of SME for example a tax credit within the PIT to incorporate small companies (the so-called tax credit for the "Sociedad Limitada Nueva Empresa".
Sweden	- Developing electronic services, e.g. for file and form transfers. - A review and simplification of tax forms. - A proposal about VAT declaration quarterly instead of monthly for some SMEs. - A plan, a course of action, has been made on how to reduce the compliance costs.
United Kingdom	There have been a number of major projects to overhaul the existing tax system that were in part designed to reduce the compliance costs of business. In addition to this efforts have been taken to make things simpler for business by making forms easier to complete such as the reform of the self assessment tax form and by providing business with clearer guidance and helpline facilities. Reportedly, compliance costs for small business have been a key performance measures over the best part of the last decade within the Treasury.
United States	There are multiple efforts within the Internal Revenue Service (IRS) to balance tax compliance and costs incurred by taxpayers to meet their tax obligations. Several offices with specific responsibilities in this area are the Office of Taxpayer Burden Reduction, Electronic Tax Administration, and the Taxpayer Advocate.

Source: questionnaire responses.

Table 20. Measures or estimates of the compliance costs of the tax system

Country	
Australia	The Australian Government has committed to rigorous cost-benefit analysis of regulatory options. This includes measuring the compliance costs of tax regulation and thus the impact of regulation on business (both small and large).
Austria	No.
Belgium	The tax administration does not measure the compliance costs of the tax system but since the year 2000, the Federal Planning Bureau (Bureau Fédéral du Plan - BFP) makes a biennial survey on administrative burdens on businesses. The assessed costs include a larger area than the tax area but the latter is specifically identified. The survey distinguishes between enterprises and stand alone workers (those without employees) The most recent available survey concerns the year 2004.[14] For businesses the whole administrative burden (including tax, employment and environment) was assessed to be €4.91 billion (US$6.38 billion) i.e. 1.3% of GDP. This burden includes internal costs (0.95% of GDP) and external costs (0.78% of GDP). Tax administrative burden generates 46.2% of total cost. For small businesses, the whole administrative burden was assessed to be €2.31 billion (US$3 billion), whom €1.10 billion (US$1.43 billion) as internal costs and €1.21 billion (US$1.57 billion) as external costs. Tax administrative burden constitutes the largest part of these costs for small (46% of total costs) and medium-sized (51% of total cost) businesses. This is true in industrial and services sectors as well.
Canada	The Canada Revenue Agency tracks its internal costs of administration of the tax system, but does not track taxpayer compliance costs. In conjunction with the Action Task Force on Small Business Issues (as noted in Table 19), a measurement framework is being developed to help determine taxpayer compliance costs.
Czech Republic	No.
Denmark	The Danish Commerce Companies Agency is measuring the administrative burdens by the Standard Cost Model (SCM) for all ministries. For 2005, the administrative cost of the tax system in Denmark is estimated at DKK 8,345.5m (US$1,455m), where 84 percent is caused by Danish laws and regulations and the remaining 16 percent is caused by EU regulations and other international regulations. There are no separated estimates for SME's.
Germany	For the first time, a review of the regulatory costs to citizens, business and the administration is being implemented using the Standard Cost Model. The Standard Cost Model will be used to determine administrative costs. The results will then be differentiated in terms of the costs to citizens, business and the administration. Further distinctions will not be made.
Greece	Generally, the Greek tax administration evaluates the compliance costs before legislation reforms. Furthermore, depending on the scope of the tax reform and specifically for the tax audit, the tax administration measures the possible incomes in conjunction with administrative costs and the compliance costs for the businesses in order to proceed to any legislative act. Therefore if the said legal arrangement concerns the SME-tax payers, compliance costs are also measured and evaluated for them.

[14] See http://www.plan.be/admin/uploaded/200605091448078.PP100fr.pdf for the full version in French. A summary in English is available.

Ireland	Revenue does not systematically measure the compliance costs of the tax system.
Italy	N/A
Japan	No.
Mexico°	During 2007, the Tax Administration Service (SAT) is performing administrative simplification strategies to reduce compliance cost of taxpayers. In this connection, a new project is being developed, intended to evaluate compliance costs for both - SAT and taxpayers - from the following point of views: - The legal obligation to contribute as is stated by federal laws. - Administration / Control / Data processing of taxpayer's obligations. - Service delivery and channels operation.
New Zealand	In 2004, the New Zealand Inland Revenue undertook a major compliance cost benchmarking survey of the New Zealand small and medium-sized sector. The results of the research were published in 2005. The purpose of the survey was to develop a compliance cost benchmark against which to measure the effectiveness of current and future tax simplification interventions.
Norway	The Ministry of Trade and Industry make estimation of the cost of compliance for filling out compulsory forms in general, not specifically for SMEs.
Poland	N/A
Slovak Republic	The tax administration measures, estimates and evaluates the effectiveness (costs) related to the tax system overall. There is no separate estimate for SME taxpayers.
Spain	Yes, the Spanish Tax Administration includes every year in its annual tax report some estimates about compliance costs. Nevertheless, the AEAT does not provide estimates for different taxpayers' segments
Sweden	The tax administration doesn't have a plan to regularly measure the compliance costs of the whole tax system. However, in 2005 a large study on the compliance cost for VAT was carried out. This study was a follow up of a study from 1993. The results were analyzed from many different perspectives, size of business being one of them. At the moment no other compliance cost studies are planned.
United Kingdom	There is no baseline value for compliance costs of the tax system, but changes in compliance costs for businesses that have been documented in impact assessments for all the major regulatory or operational changes to the tax system. Over the last year 36 such impact assessments have been published. The relevant changes in compliance costs for these have been broken down by size of business (small, medium and large). In addition to this there is a baseline value as at May 2005 of the level of administrative burden (one element of compliance cost) placed on business by the UK tax system. This is fully broken down into different taxpayer segments.
United States	Yes, where reliable data are available, taxpayer burden is measured as the time or money expended by taxpayers to fulfil their tax obligations. Estimates are made as needed by the IRS Office of Research, depending on data available, and are usually maintained by the Office of Taxpayer Burden Reduction.

Source: questionnaire responses.

7 OUTLOOK

40. In these times of increasing globalisation international tax handbooks are increasingly rich in details about doing cross-border investment. Conversely, in the current project much needed complementary information is being gathered about the details of national policies towards small and medium sized businesses. After several updates, this preliminary report now contains ample information on twenty OECD member countries and gives a detailed picture of the institutional differences and similarities. The hope is that this picture provides useful for the further discussion of tax policies towards SMEs within the International Tax Dialogue.

APPENDIX

41. If not noted differently, this report translates local currencies into US$using the exchange rates listed below.

Table 21. Exchange rates

Country (currency)*	Exchange rate (currency/US$)	Exchange rate (US$/currency)
Australia (Australian dollar)	1.2762	0.7836
Austria (Euro)	0.7693	1.2999
Belgium (Euro)	0.7693	1.2999
Canada (Canadian dollar)	1.1740	0.8518
Czech Republic (Czech Koruna)	21.4332	0.0468
Denmark (Danish krone)	5.7342	0.1744
Germany (Euro)	0.7693	1.2999
Greece (Euro)	0.7693	1.2999
Ireland (Euro)	0.7693	1.2999
Italy (Euro)	0.7693	1.2999
Japan (Yen)	120.44	0.0083
Mexico (Mexican peso)	10.9483	0.0913
New Zealand (New Zealand dollar)	1.4385	0.6952
Norway (Norwegian krone)	6.3682	0.15703
Poland (Euro)	0.7693	1.2999
Slovak Republic (Slovak koruna)	26.7336	0.0374
Spain (Euro)	0.7693	1.2999
Sweden (Swedish krona)	6.9832	0.1432
United Kingdom (Pound Sterling)	0.5104	1.9592

Source: ECB data base and http://www.oanda.com/convert/fxhistory.
* Exchange rates reflect the monthly average in January 2007.

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