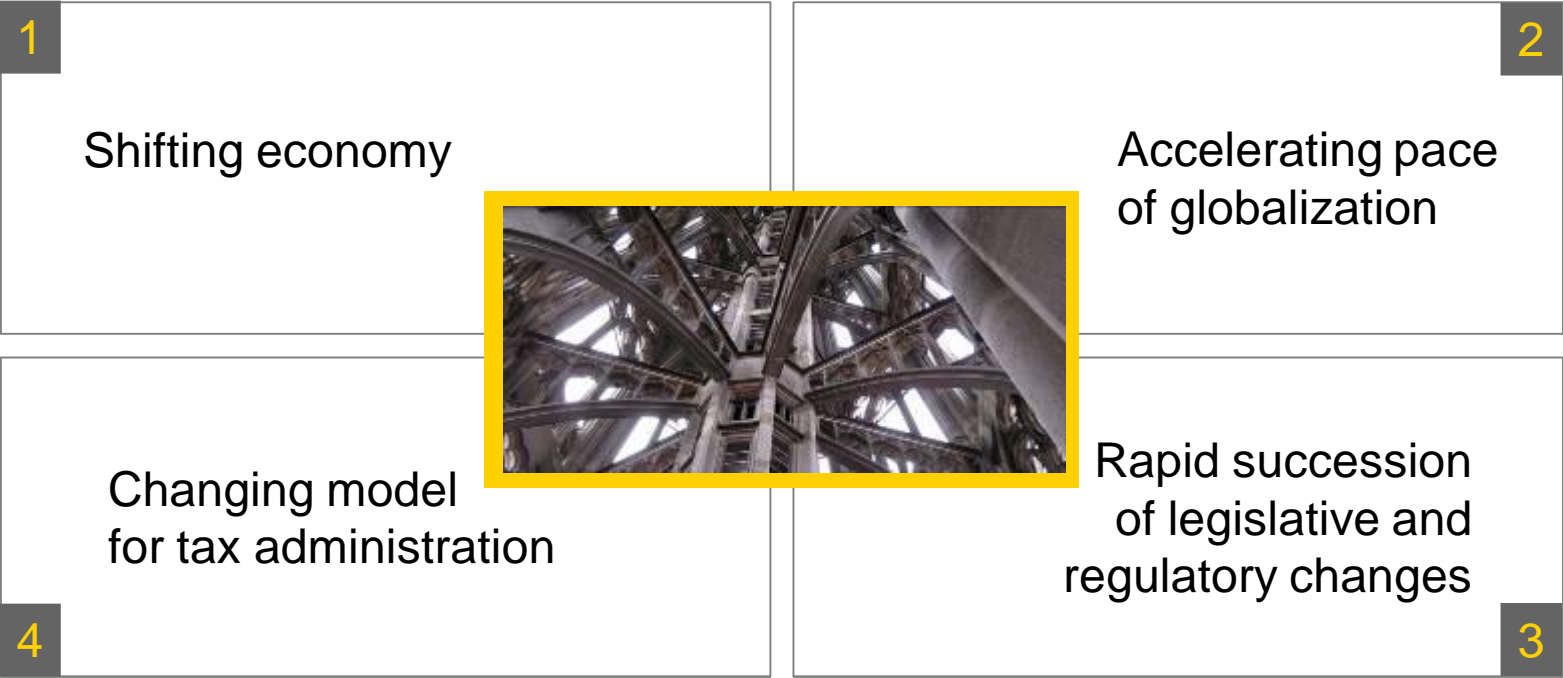


Trends in international taxation

Christopher Sanger
Global Director of Tax Policy

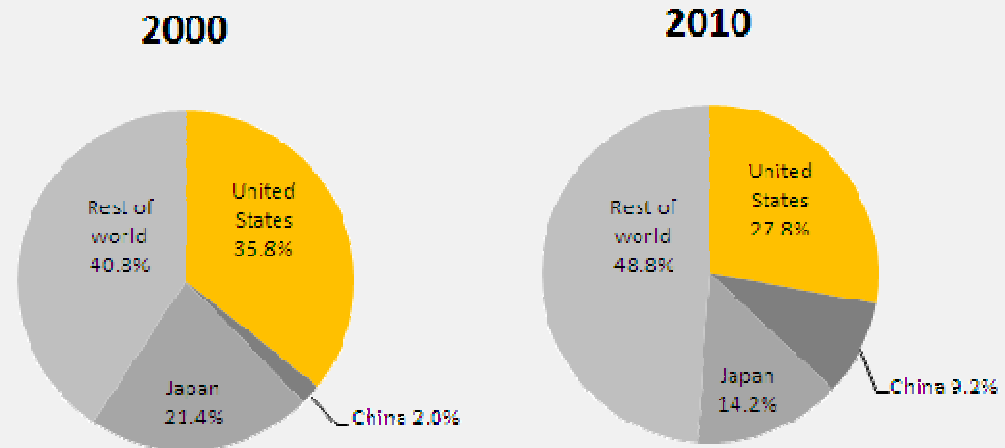
Global trends: a year (or two) to remember



Accelerating pace of globalization

- ▶ Distinct difference in growth rates by region, accelerated by crisis. By 2015/6, emerging countries will account for 76% of all global growth.
- ▶ Economic influence is being rebalanced from west to east — and more quickly than before.
- ▶ China overtakes Japan output in Q2 2010.
- ▶ But it's not just a China story!
- ▶ New consumer markets are opening as a new economic “middle class” emerges in many countries.

Shifting composition of the Fortune Global 500



Global economic fortunes are becoming more interconnected.

The corporate income tax landscape

- ▶ Most industrialized countries have reduced corporate tax rates in order to be more competitive
 - ▶ More than 90% of OECD countries have reduced their top corporate tax rate since 2000; with Japan recently reducing rate to 35.7%, only the US and Brazil remain exceptions
 - ▶ Two-thirds of the top 50 countries have reduced their corporate tax rate in the last eight years
 - ▶ Average corporate income tax rate for the top 50 countries has fallen from 37.5% in 2000 to 31.9% in 2010, (drop of 5.6%)

- ▶ Most major countries are moving toward a territorial approach to taxation
 - ▶ 2009: UK and Japan replaced worldwide tax systems with territorial tax systems.
 - ▶ Recent US international tax proposals go against this trend.
 - ▶ Research incentives to the fore: reform, improvement and introduction for the first time

“Canada will have the lowest overall tax rate on new business investments in the G7 by 2010. And by 2012, it will offer the G7’s lowest statutory tax rate.”

“Invest in Canada” - Canadian Government

The corporate tax landscape

Sharp reductions in corporate tax rates

| Country | 2000 statutory corporate tax rate | 2011 statutory corporate tax rate | Percent change |
|----------------|-----------------------------------|-----------------------------------|----------------|
| G-7 | | | |
| Canada | 43.6 | 28.5 | (34.6) |
| France | 37.8 | 34.4 | (9.0) |
| Germany | 52.0 | 33.0 | (36.5) |
| Italy | 39.5 | 31.4 | (20.5) |
| Japan | 43.3 | 35.7 | (17.6) |
| United Kingdom | 30.0 | 26.0 | (13.3) |
| United States | 39.2 | 39.1 | (0.3) |
| BRIC | | | |
| Brazil | 34.0 | 34.0 | – |
| Russia | 35.0 | 20.0 | (42.9) |
| India | 42.0 | 34.0 | (19.0) |
| | | Foreign cos. 42.2 | |
| China | 33.0 | 25.0 | (24.2) |

Note : Includes both national and sub-national revenues. The 26% statutory corporate tax rate in the United Kingdom is effective April 1, 2011 and will drop to 23% in 2015. Japan's tax rate change from 40.7% to 35.7%, which is proposed, but not yet enacted, would become effective July 2011. France and Italy have discussed lowering their rates.

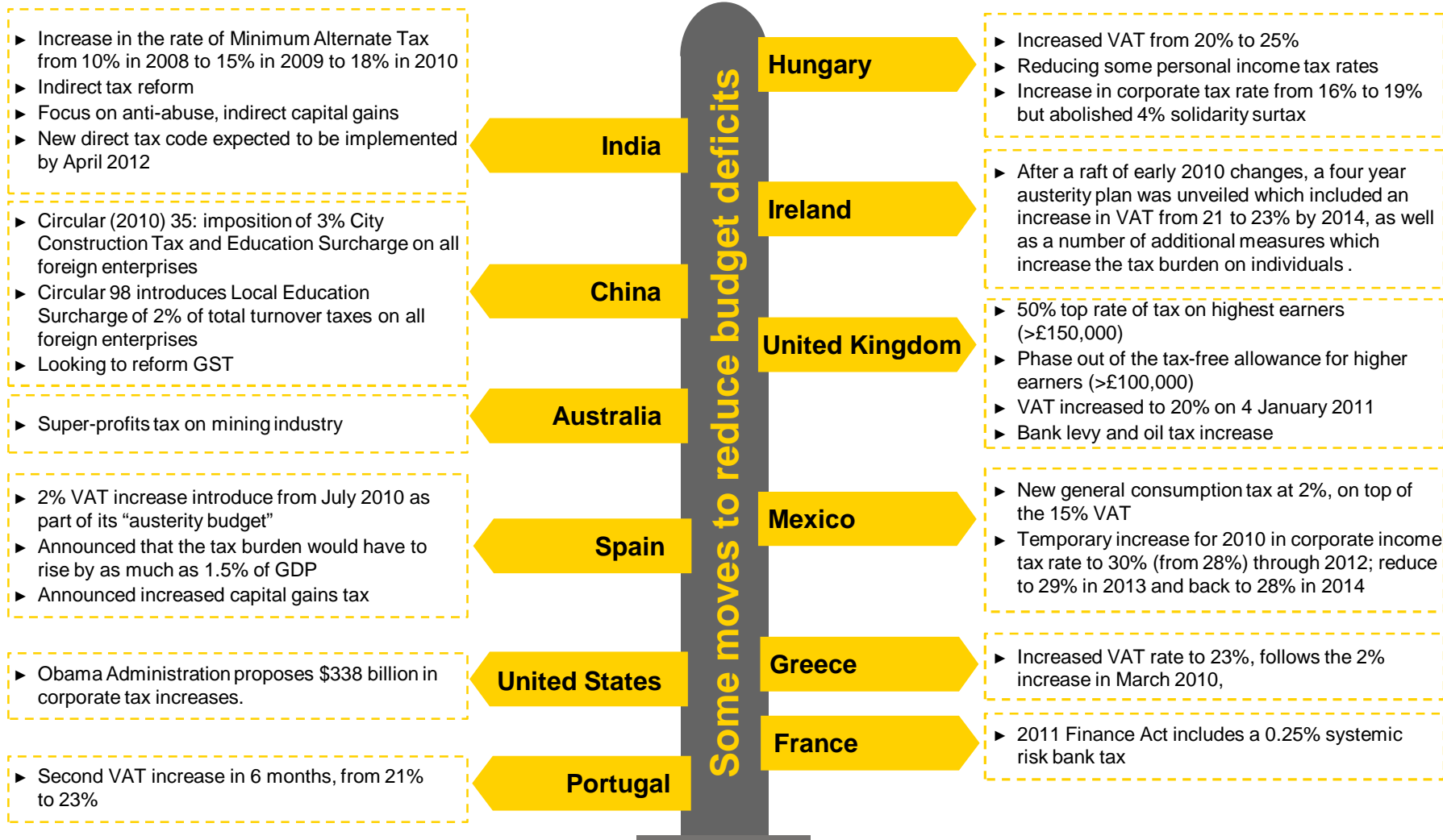
The corporate tax landscape

Comparing the taxation of foreign source income

| Top 10 countries with most Fortune global headquarters | 2011 statutory corporate tax rate ^a | Taxation of foreign-source income |
|---|--|---|
| Countries with worldwide tax regimes | | |
| US | 39.1% | Worldwide with deferral and foreign tax credit |
| China | 25.0% | Worldwide with deferral and foreign tax credit |
| Korea | 24.2% | Worldwide with deferral and foreign tax credit |
| Countries with territorial + exemption tax regimes | | |
| Japan | 35.7% | 95% dividend exemption enacted in 2009 |
| France | 34.4% | 95% dividend and branch exemption |
| Germany | 33.0% | 95% dividend exemption |
| Italy | 31.4% | 95% dividend exemption |
| UK | 26.0% | 100% dividend exemption and forthcoming branch optional exemption |
| Netherlands | 25.5% | 100% dividend and branch exemption |
| Switzerland | 21.2% | 100% dividend and branch exemption |

a: Includes both national and sub-national statutory corporate tax rates. Japan's tax rate change from 40.7% to 35.7% becomes effective April 2011.
 Source: Fortune Global 500, Ernst & Young LLP.

Tax increases outside corporate tax



Changing model for tax administration

Acting internationally

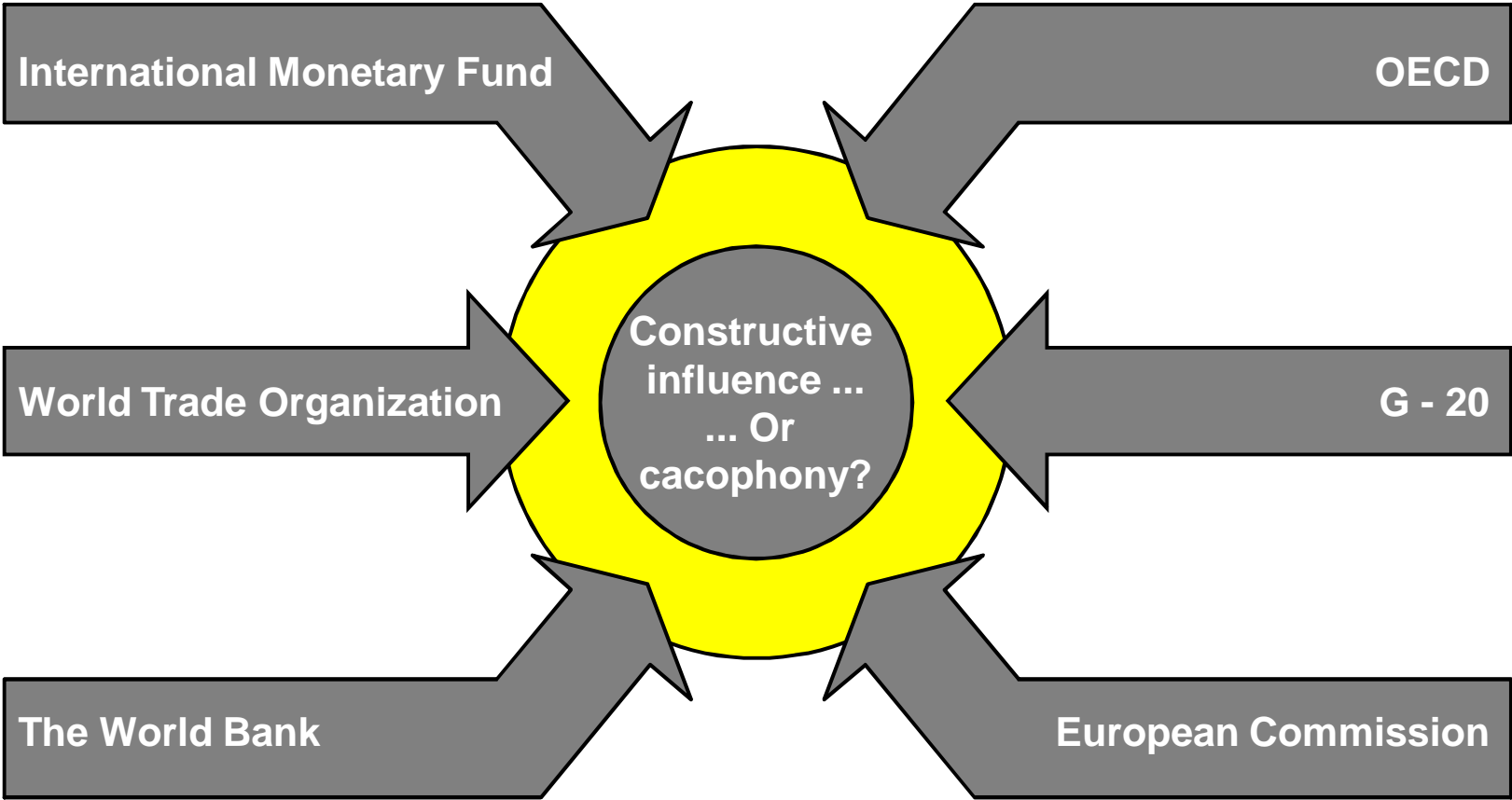
- ▶ Tax administrators are being asked to police the current tax base more forcefully
 - ▶ Playing catch-up in a rapidly globalizing world
 - ▶ Under pressure to get “fair share” of global tax pie
 - ▶ Sharpening focus on closing the “tax gap”
 - ▶ Having to work smarter, more collaboratively and more efficiently

“This is also an excellent opportunity to look forward to what I see as the next rung in the evolutionary ladder of international tax administration: the progression from cooperation to coordinated action on global tax issues. As you can see, we’re moving from just cooperation and sharing of information to the very early stages of planning actual coordinated efforts among countries.”

IRS Commissioner and OECD FTA Chairman Douglas Shulman, speaking before the OECD and BIAC, 8 June 2010

Increasing role of international organisations

Changing the dynamics of policy making



Looking to the future

The new challenges in international taxation

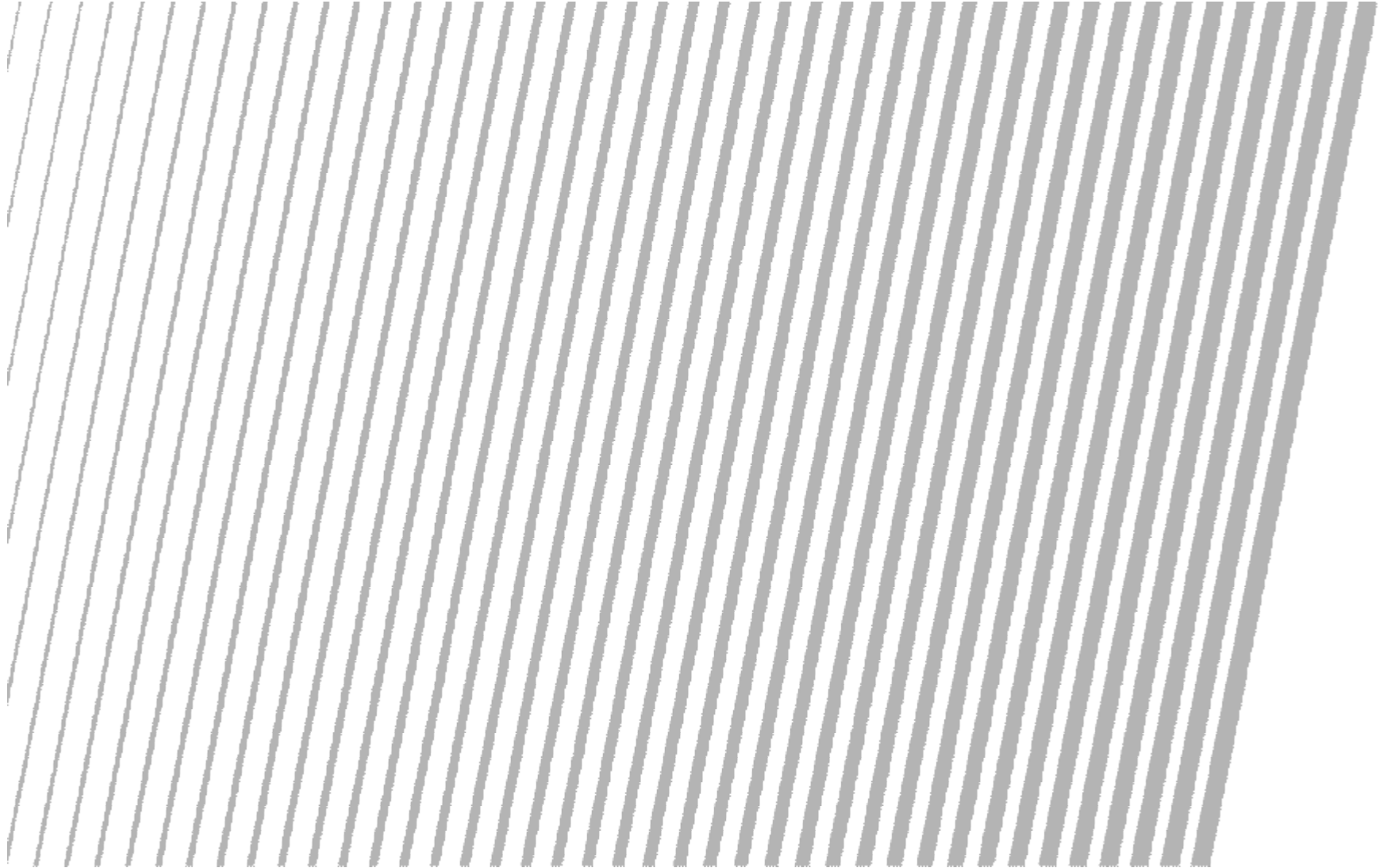
- ▶ Taxation choices increasingly governed by competitive environment.
- ▶ Greater alignment of interests between different governments
- ▶ .. but still areas for tax competition: tax rates or tax base?
- ▶ Focus by some on removing source of competition (CCCTB)
- ▶ Global norm in taxing international activities.
- ▶ International pressure has proved to be successful ...
- ▶ ... but not in all areas (environmental, bank levies)

Key policy **messages**

- ▶ No longer acting in a vacuum
- ▶ Can shape the future
- ▶ Needs engagement
- ▶ Takes longer
- ▶ Benefits are there



Thank you!



Speaker

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