COMPARATIVE ANALYSIS OF THE CORPORATE TAX ASSESSMENT IN THE MEMBER STATES OF THE G7

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The theme of this paper is set to analyze the manner in which corporate tax is assessed in the G7 group countries. We will then consider the rates by this particular tax is levied in these countries and after that we'll compare them in the respect of these rates. The objective of this research is to identify if this tax has any influence on the economic behavior of these countries. The paper is expected to set aside to the other research studies in the field, in order to answer to some questions that other researchers could ask. The research methodology is based on some sets of tables-charts in order to get a better view upon the results of the research. The result of the paper is the image of the fiscal behavior of the studied countries.

Key words: G7 Group, fiscal policy, tax rates, income tax, fiscal competition

JEL codes: E62, F53, H21, H30

In this paper we set to study and compare the way in which the profits obtained by companies are imposed in the seven states that we have already presented, from an economic point of view. To this effect we will present a fiscal profile that was achieved in terms of the corporate tax of each country separately; then we shall gather all the information in a table-chart-type analysis system in order to make out a more accurate image of this phenomenon, the fiscalization of profits, in the member states forming the Group of Seven.

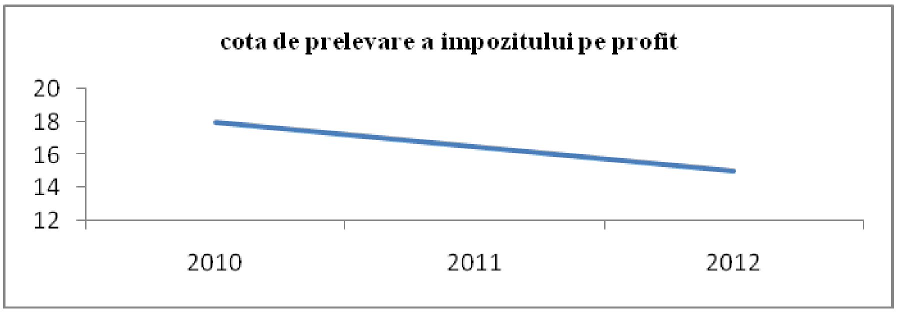
In order to achieve this, as we have already ascertained, we will bring up the tax rates of the seven member states for a dynamical comparison, so that we can detect whether there have been any changes and the way these changes have occurred in every state apart. In the end, we will proceed to placing all the information in a table, followed by a chart based on the table; then we will carry out the comparative analysis and we will try to draw some conclusions.

To start with, we will focus on **Canada**, a state which has a modern fiscal system, taking into consideration the fact that direct taxes and the consumption tax represent the most significant part of the total budgeted revenues; the consumption tax (which in Canada bears the acronym GST – Goodsand Services Tax) is the equivalent of the value added tax and has a relatively low tax rate, of only 5%. If we take into account the fact that Canada's trade exchanges with its southern neighbour, the United States, represent an overwhelming balance of the total foreign trade of this country, we can assert, without the fear of making a mistake, that the proportion of indirect taxes in the total of the budgeted revenues or in the gross domestic product can be considered as insignificant. In 2010, the corporate tax in Canada had a rate of 18%, and in 2011 it declined at 16, 5%; this year, after another reduction, it will be established at 15%.[32]

In order to have a clearer view of the dynamics of the rate of the tax type that we are tackling with in this paper, we could resort to a chart in order to illustrate these alterations. Therefore, we will make up a chart which will be analyzed afterwards.

[32] http://www.worldwide-tax.com/canada/canada-taxes.asp

The rate of the corporate tax



The source of the above-enumerated information is the source that has been already mentioned, and the chart was drafted based on the information. The really important aspect is that the reduction of the tax rate regarding the corporate tax in Canada was made after a descending, yet perfectly linear curve. This is very easily noticeable in the foregoing chart. Also, what concerns us mainly, in terms of our undertaking in this paper, is the stage we are at the moment, that is, a tax rate of 15%. These tax rates that we have mentioned are federal tax rates, considering that Canada is a federal state. Apart from these tax rates, local authorities from the provinces are also establishing a local tax of 11, 32%[33]; if we add up this tax to the federal tax rate, we will have a corporate tax of 26, 3%. According to each province, tax rates may vary between 25 and 31%. There is an even more reduced tax rate that is applied to companies for the first 500.000 Canadian dollars they gain, and this rate amounts to 15,5% (of which 11% represents the federal tax and 4,5 the local tax).

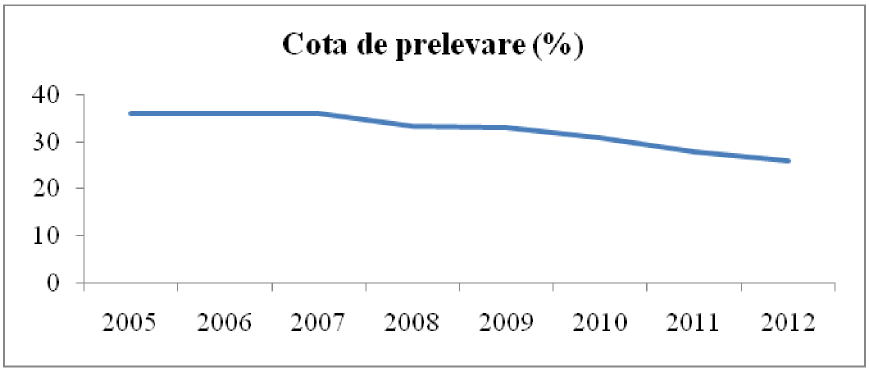
Regarding the dynamic evolution of the Canadian companies' profit assessment, we will reveal a table that contains information of the tax rates for each year, starting from 2005 and ending with 2012.

Year	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Tax rates (%)	36,1	36,1	36,1	33,5	33	31	28	26

Source: http://www.kpmg.com/global/en/whatwedo/tax/tax-tools-and-resources/pages/corporate-tax-rates-table.aspx

In order to observe the dynamics of this economic scale, we shall use the same graphic method:

[33] http://www.kpmg.com/global/en/whatwedo/tax/tax-tools-and-resources/pages/corporate-tax-rates-table.aspx



We can see from the chart that, at a general level as well, the tendency is to reduce the value of tax rates. However, we will not insist too much on this aspect, as we return to the comparison between countries and their tax rates.

The next state, in an alphabetical order, is **France** where, as we will see, the situation has not changed lately. Regarding corporate taxes, France distinguishes itself from the other states, due to the fact that the French fiscal system only takes into account profits resulted from businesses carried out on French territory; as for those profits that are not made by its residents, only those resulting from passive investing are taken into consideration in order to establish the taxable income. Therefore, all profits gained by a company, regardless of their economic (and not territorial) source, make up a single profit, from which all cost elements used for the obtaining and conservation of the profit will be subtracted.

The standard tax rate that is applied in France is 33%[34]. However, in the case of small and medium enterprises that are held by natural persons (natural persons should hold at least 75% of the company) and that have a turnover below 7.630.000 Euros, there is a special reduced tax rate of 15%. The same rate applies to small companies that make a profit which does not exceed 38.120 Euros.

The dynamics of tax rates regarding the corporate tax in France is relatively reduced; the above-mentioned tax rate is being applied since 2006; nevertheless, it wasn't very different in 2005 – 33, 83%.

Germany is a country that has taken considerable care of its public finances and has administered them in the best way possible. The fiscal policies of the German state have led to an enviable budgetary stability, but have also influenced other macroeconomic indicators such as: investments, unemployment, the current account credit etc.

At the moment, the aggregated corporate tax rate used by the German state is 29, 48%. This comprises a federal tax rate of 15% with a charge of 0,825 (regarded as solidarity tax), as well as local taxes, which may vary from 7% to 17, 2%)[35].

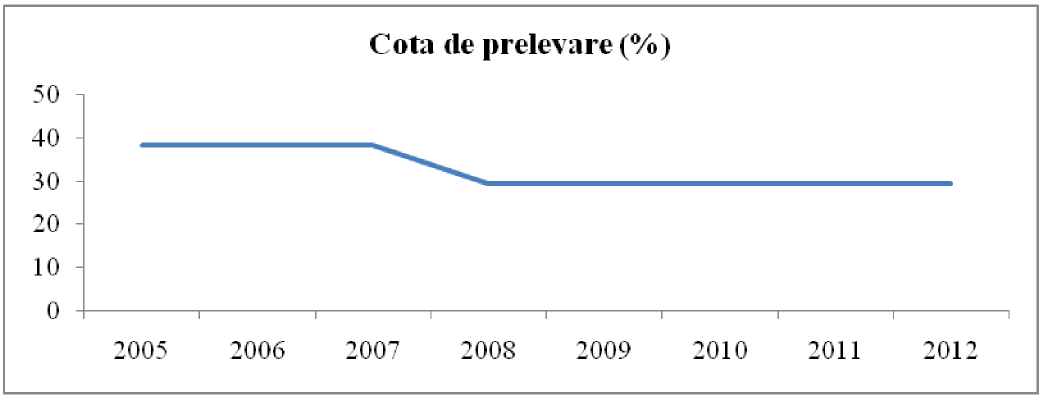
The dynamics of the tax rates in this situation is as follows:

Year	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Tax rate (%)	38.31	38.34	38.36	29.51	29.44	29.41	29.37	29.48

34 http://www.worldwide-tax.com/france/french-tax.asp
35 http://www.kpmg.com/global/en/whatwedo/tax/tax-tools-and-resources/pages/corporate-tax-rates-table.aspx

Source: http://www.kpmg.com/global/en/whatwedo/tax/tax-tools-and-resources/pages/corporate-tax-rates-table.aspx

The following chart will provide us a more accurate view on this phenomenon:



As we can see, in 2008 there was a reduction of almost 10%; afterwards, the situation has approximately remained stable.

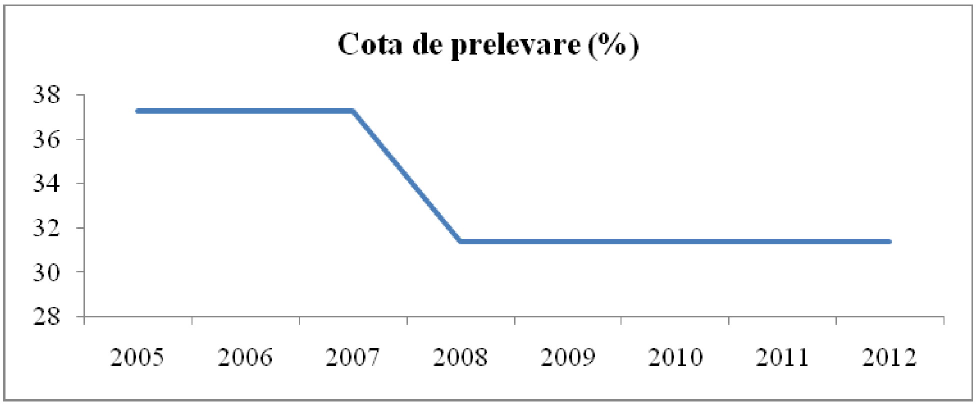
Italy, a country whose serious economic problems have drawn the attention of the large rating agencies, has a differentiated corporate tax rate: general companies pay a tax rate of 31, 4% whereas companies belonging to the field of energy, including those from the field of renewable energy, are paying an increased tax rate of 38%, from 2011 until 2013.

We can notice the dynamics of the assessment of profits in Italy by placing all the information in a table; we will then use this table to make up a chart in order to have a correct view regarding this phenomenon.

Year	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Tax rate (%)	37.25	37.25	37.25	31.4	31.4	31.4	31.4	31.4

Source: http://www.kpmg.com/global/en/whatwedo/tax/tax-tools-and-resources/pages/corporate-tax-rates-table.aspx

The chart is as follows:



Following this chart, we can see that, just like in the case of Germany, there is also a drastic reduction of the tax rates in 2008; we can also notice the range of linearities, before and after 2008.

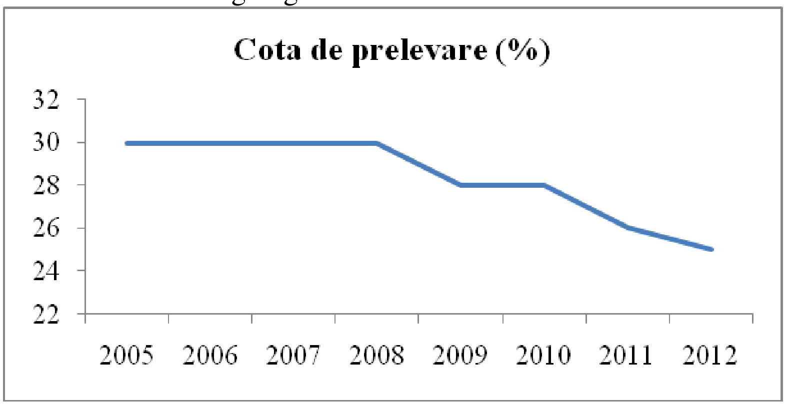
Japan has a tax rate of 38, 01%, starting from April 1st 2012[36], a tax rate which will remain unaltered for three years; afterwards, it will be reduced to 36, 64%. As far as the assessment of corporate taxes is concerned, Japan is a conservative country, if we take into account the fact that up until this year it had a 40, 69% tax rate for a relatively long period of time (at least from 2005, which is the base year for our study) and now it will have a stable tax rate for three years, which will eventually be reduced. We will not insist upon this subject with tables and charts, as it would be useless, just like in the case of France.

The **United Kingdom of Great Britain and Northern Ireland** has announced its intention of reducing the corporate tax rate, just like Germany and Italy, but unlike these countries, the tax rate will be reduced with 1% every year, so that on April 1st 2014, it will reach 23%. This year, the tax rate was 26% until April, and by next year, on March 31st, it will reach 25%. The dynamics of the assessment of profits in this case is quite interesting and this is noticeable in the following table which contains information from the above-mentioned source. The table will be followed by a chart.

Year	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Tax rate (%)	30	30	30	30	28	28	26	25

Source: http://www.kpmg.com/global/en/whatwedo/tax/tax-tools-and-resources/pages/corporate-tax-rates-table.aspx

The chart based on the foregoing table is as follows:



We can easily notice in this chart that, again, starting from 2008, there have been significant reductions of the tax rates regarding corporate taxes.

The last country that we are going to analyze from this perspective is the **United States of America.** The situation is very simple in this country. There is a 40% tax rate which has been established a long time ago and it has been unaltered from 2005. In effect, the American system is different from those of all the other countries, since in this case we are dealing with a progressive tax, which is established at a federal level, but which has all the local attributes as well. Therefore, the tax rate in this case is the above-mentioned: 40%.

[36] http://www.kpmg.com/global/en/whatwedo/tax/tax-tools-and-resources/pages/corporate-tax-rates-table.aspx

The following table contains the income ranges as well as the afferent tax rates:

Taxable income	Maximum amount	Tax rate
0	50.000	15
50.000	75.000	25
75.000	100.000	34
100.000	335.000	39
335.000	10.000.000	34
10.000.000	15.000.000	35
15.000.000	18.333.333	38
18.333.333	-	35

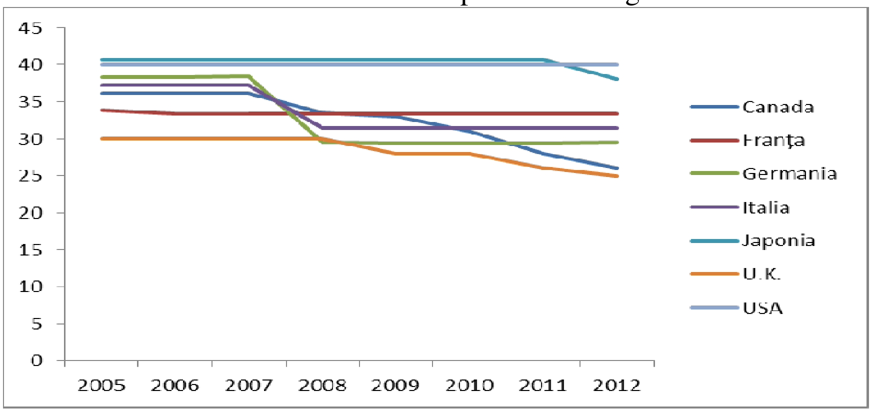
Source: http://www.worldwide-tax.com/us/us_taxes.asp

As we can see, this assessment pattern at a federal level is equitable and promotes a progressive tax, differentiated on levels of taxing.
We will not insist on this aspect, but we will proceed with the comparative analysis of corporate tax rates that are applied in the seven member states of the G7. First of all, we will study the comparative dynamics of this tax during the period of time we have already mentioned – between 2005 and 2012.
Once again, we will use the table-chart system, in hope that we will achieve interesting results for our study.

	2005	2006	2007	2008	2009	2010	2011	2012
Canada	36.1	36.1	36.1	33.5	33	31	28	26
France	33.83	33.33	33.33	33.33	33.33	33.33	33.33	33.33
Germany	38.31	38.34	38.36	29.51	29.44	29.41	29.37	29.48
Italy	37.25	37.25	37.25	31.4	31.4	31.4	31.4	31.4
Japan	40.69	40.69	40.69	40.69	40.69	40.69	40.69	38.01
The U.K.	30	30	30	30	28	28	26	25
The USA	40	40	40	40	40	40	40	40

Source: http://www.kpmg.com/global/en/whatwedo/tax/tax-tools-and-resources/pages/corporate-tax-rates-table.aspx

Based on the information from the table we will draw up the following chart:

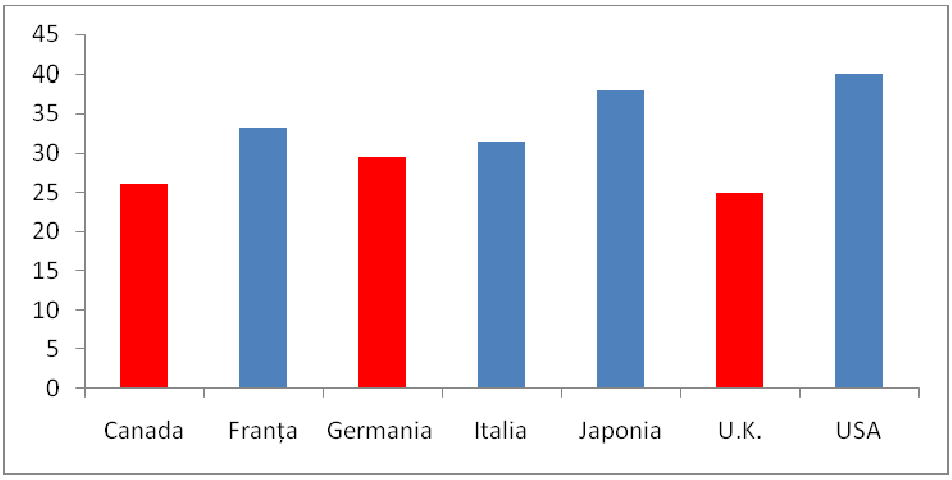


In this chart we can relatively easily notice that most of the analyzed countries have acted in a concerted manner, for the reduction of corporate tax rates. Notable exceptions: the United States, France and Japan; the latter has also chosen to reduce the tax rate, but only starting with this year.

Regarding the other member states of the G7, there is a concern in terms of reducing tax rates, starting with 2008, the year that marked the beginning of the financial crisis, with its significantly negative effects. The only explanation that comes in our minds as we are studying the foregoing chart is that these countries have tried to limit the proportions of the disaster by incenting consumership, allowing taxpayers (legal persons) to dispose of supplementary funds.
At this point in our discussion, we bring about the notion of fiscal competition, which seems to be quite obvious in this situation. We are not asserting that the G7 member states are competing one against the other; on the contrary, they have acted in a concerted manner precisely to avoid any kind of fiscal competition between them.
As we have already mentioned, we will try to analyze now this form of assessment, taking only into account the tax rates that are being applied in the member states of the G7; for that purpose we shall once again draw up a table, followed by a chart.

Country	Tax rate (%)
Canada	26
France	33.33
Germany	29.48
Italy	31.4
Japan	38.01
The U.K.	25
The USA	40

And the chart is as follows:



On this chart we can see vertices as well as lower values. Among the vertices we have the United States and Japan, whereas Canada, Germany and the UK (coloured) are the states with the lower values.
However, if we analyzed the situation in terms of fiscal competition between these countries, we could assert that the best prepared states are the ones situated in the lower parts of the chart, whereas the others might become vulnerable from this point of view. Choosing to reduce fiscal pressure is obviously a difficult thing, because all the financial resources that the state needs in order to perform its duties have to be ensured, but, if we take into consideration the obstacle called budgetary deficit and if we balance it with the advantages resulting from drawing foreign investments, the subsequent reducing of unemployment, the increase of the population's standard of living, as well as the improvement of the other macroeconomic indicators, things could take a turn for the better from this point of view.

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