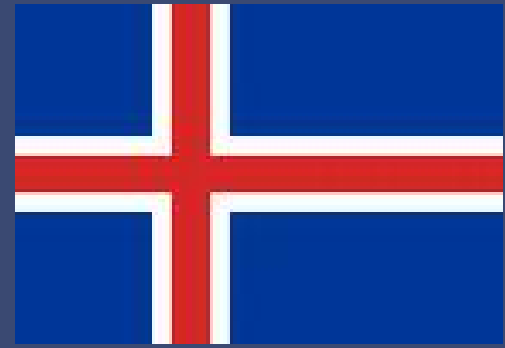


Invest in Iceland



How Iceland can
underpin FDI through tax
incentives?

May 2008

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- Chapter III. General Framework of Tax Incentives**
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Chapter I: Preamble

Section 1: Objective

Section 2: Approach

I. Preamble

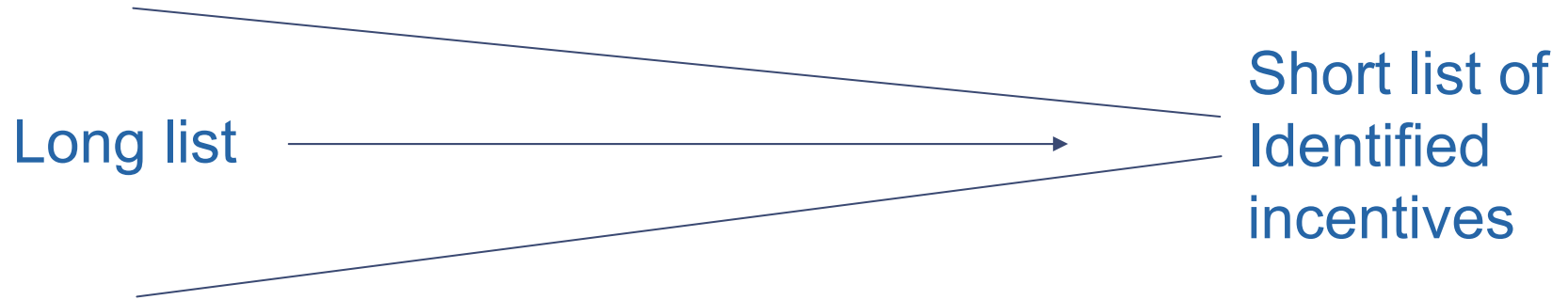
Section 1 – Objective

The drivers for direct investments were generally related to the availability of natural resources, labour forces, infrastructure, location, etc. With an increasing globalisation of the world economy, how governments regulate and tax enterprises and transactions – both within and at their borders – has become a decisive factor in choosing an investment location. This is especially true for service-type operations.

The aim of this report is to set forth tax measures that could be taken in order to increase the attractiveness of Iceland for certain types of foreign direct investments (“FDI”) considering the specific economic situation of Iceland.

I. Preamble

Section 2 – Approach



Our methodology basically consisted in the **progressive refinement** of a selected long list of potential/existing tax incentives.

Further to a screening of the tax incentives that (basically) exist in the EU zone (as far as relevant for FDI); we have developed indeed **a long list** primarily based on:

- The OECD's Report on Harmful Tax Practices (2006);
- The Report of the Code of Conduct Group(1999) (the so-called Primarolo Report);
- The Press Releases of the European Commission (in the period from 2007 to 2005) regarding the application of the state aid rules;
- Our recent experiences with (international) tax incentives.

I. Preamble

Section 2 – Approach (cont'd)

The tax incentives that we have retained in the original long list have been split in two categories of investments:

- The movable investments
- The immovable investments

This long list of tax incentives has been reduced by taking into account the identified sectors/activities Iceland wants to attract further to the outcome of the general study as well as by benchmarking it against the current tax regime of Iceland.

I. Preamble

Section 2 – Approach (cont'd)

Given the current situation on the Icelandic labour market and the actual developments in terms of international tax planning it was indeed decided further to a workshop organised on 2 April 2008 that the tax incentives for immovable investments will be dealt with in conjunction with the broader study on the remote areas.

The focus will therefore be on the tax incentives that attract movable investments. The following types of companies have been identified (**Short list of identified incentives**):

- Finance companies
- R&D companies
- Shipping companies

Finally, this report also includes some best practices in how investors can obtain (upfront) clearance from tax authorities regarding the tax treatment of their contemplated investment plans.

Chapter 2: Movable versus Immovable Investments

Section 1: Definition & Impact

Section 2: Preliminary conclusions

Section 3: Illustrative example

II. Movable vs. Immovable Investments

Section 1 – Definition & Impact

Movable investments

- “Movable investments” can be defined as those categories of investments, which require (at least in a first phase) **little (or no) expenditure** in terms of labour and/or (fixed) assets which carry out activities that are not predetermined by location. Hence, these investments can as such be “moved” quite easily and are thus less embedded.
- In order to attract this kind of investments, it is our common experience that **a low effective tax rate** (i.e., the actual amount of taxes to be paid divided by the amount of (net) income) (“ETR”) is (one of) the decisive factor(s). However, given the large amounts that are (most of the time) involved, a low effective tax rate on big amounts may generate **substantial tax revenues** (e.g., Luxembourg fund business, Dutch interest spread rulings, Belgian cost-plus rulings etc.).
- Although these investments can be (easily) attracted, the flipside of the coin is that they can also easily disappear as soon as a new (tax) opportunity emerges in other jurisdictions (cf. the (fierce) ongoing competition between a.o. the Netherlands, Luxembourg, Switzerland, Belgium, etc.).

→ **Continuous effort to stay on the tax forefront!**

II. Movable vs. Immovable Investments

Section 1 – Definition & Impact (cont'd)

Immovable investments

- “Immovable investments” can be defined as those categories of investments, which require **substantial (upfront) expenditures** in terms of labour and/or (fixed) assets. Hence, these investments are (in general) structurally embedded in the (economic) land shape of a country.
- The decision process to attract these categories is much more (mainly) **driven by non tax reasons** (e.g., location, labour cost, environment, availability of natural resources, etc.). Within this context, any (additional) tax incentive is indeed being considered as an element but not a decisive one. Sometimes it is even only a “nice-to-have” add-on.
- Immovable investments can be less easily attracted but, conversely to movable investments, their effect and corresponding impact is obviously more “anchored”. The **significant transfer costs** (including tax expenses!), which (may sometimes) surround this process, *indeed* prevent overnight shifts.
- According to a study of our colleague Fred Vossen, tax incentives intended to attract immovable investments are the least effective compared to other instruments.

→ **Less tax incentive dependent.**

II. Movable vs. Immovable Investments

Section 2 – Preliminary conclusions

- Movable investments are much more dependent on tax incentives compared to immovable investments.
- Tax incentives to attract movable investments will require a continuous monitoring & competition will not stand still.
- Movable investments will generally give rise to a bigger immediate impact.
- Immovable investments will (by nature) be more “anchored” in the economic (and thus also fiscal) land shape of the country and may have substantial side effects.

II. Movable vs. Immovable Investments

Section 3 – Illustrative example

The previous can be illustrated by Belgian Coordination Centers, (“BCC”):

- The BCC regime, which was introduced in 1983 to attract investments into Belgium, provides for a beneficial tax regime for a number of specifically allowed activities such as insurance, centralization of accounting, financing, factoring and administrative activities.
- BCC were examined by the European Commission (“EC”) and on 17 February 2003, the Commission notified the Belgian Government that it considered that the BCC regime constituted illegal State Aid, incompatible with the common market. Therefore, the EC requested the Belgian Government to stop granting any new BCC authorizations or renewing them.
- Although BCC’s are subject to Belgian corporate income tax, their taxable basis generally is low in Belgium. BCC’s are also exempt from dividend, interest and royalty withholding tax and real estate property tax. However, based on consolidated annual accounts of 2002 up to 2005, the BCC’s contributed each year an average amount of **EUR 50,000,000** of mere corporate income tax revenues to the Belgian government (**see Annex 1**). Moreover, as each BCC employs approximately 46 employees, they also provide the Belgian government with substantial revenues coming from personal taxes and social security.
- As a result of the European Commission’s decision and because the BCC regime was an incentive for **movable investments**, many of them (51) have disappeared in 2006 (**see Annex 2**).
- Alternative incentives were created to remain competitive.

Chapter 3: General Framework of Tax Incentives

Section 1: Key considerations when introducing tax incentives

Section 2: EU Tax Scene: the EEA Agreement

Section 3: EU Tax Scene: Free Movement of Capital

Section 4: EU Tax Scene: State Aid Rules

Section 5: OECD Tax Scene: Harmful Tax Practises

III. General Framework of Tax Incentives

Section 1 – Key guidelines

- Investors are attracted to tax incentives that are “easy to explain & understand”; company boards need to be convinced so keep it simple!
- Monitor impact on existing tax payers; especially in terms of competition; the aim should be to create equal level playing field.
- Being a respectful member of the EFTA; a party to the EEA Agreement as well as a member of the OECD, within the current international tax scene, any (potential) tax incentives implemented by Iceland should be able to sustain scrutiny from EU & International bodies (see infra: EU & OECD tax scene).
 - In this respect, the new Chapter 25.B of the State Aid Guidelines establishes that national investment aid may be granted to encourage the economic development of certain disadvantaged regions. Iceland has identified these regions which were notified and approved by the Authority.
 - 15% tax incentives available for disadvantages regions & only for capital investments aid not for operational aid. This is fine line if we talk about tax incentives.
- Better no tax incentives than incentives that are constantly changing. Be aware that tax incentives do not become **too much** the (steering) instrument of the ruling government in his economic/social policies. Investors are looking for stability!

III. General Framework of Tax Incentives

Section 1 – Key guidelines (cont'd)

- To benefit from international treaties and to be credible for external and internal tax authorities, the so-called “substance” test becomes more and more to the forefront. Hence, a **minimum level of substance** in Iceland (i.e. not merely shell companies) should be available; in particular relevant for movable investments.
 - The availability of providers of (high quality) professional services (accounting, tax, legal, etc.) who can assist the companies in completing the legal, accounting and (tax/regulatory) compliance formalities, will be key in relationship to attracting movable investments.
 - Convincing the first ones to move will be the most challenging job! The reputation of Iceland in terms of international tax planning should be raised.
 - Last but certainly not least:
- **Monitor the budgetary impact (including impact on existing tax payers) in a realistic way!**

III. General Framework of Tax Incentives

Section 2 – EU Tax Scene: the EEA Agreement

- Via the EFTA membership, Iceland is a party to the Agreement creating the European Economic Area (the "EEA Agreement").
- The EEA Agreement allows non-members of the EU to participate in the Internal Market, while not assuming the full responsibilities of EU membership.
- The EEA Agreement is concerned principally with the four fundamental pillars of the Internal Market, the so-called "four freedoms", i.e. freedom of movement of goods (excluding agriculture and fisheries, which are included in the Agreement only to a very limited extent), persons, services and capital.
- As one of the primary obligations under the EEA Agreement is to ensure equal conditions of competition, the substantive competition rules of the EEA Agreement correspond to the "acquis communautaire" in this area. This covers the rules concerning cartels, abuse of dominant positions, merger control, state monopolies and state aid. Finally, the EEA Agreement also includes areas which have an impact on certain elements of company law.

III. General Framework of Tax Incentives

Section 3 – EU Tax Scene: Free Movement of Capital

- According to article 40 of the EEA Agreement, there shall be no restrictions between the contracting parties on the movement of capital belonging to persons resident in EC Member States or EFTA States and no discrimination based on the nationality or the place of residence of the parties or on the place where such capital is invested.
 - Tax payers resident in the EEA can go to the ECJ/EFTA Court when they consider that their rights under the above freedom are infringed;
E.g., 1) **the Fokus Bank Case** (Norway) – Case E-1/04 – 23 November 2004.

2) **the Czech Case - taxation of outbound dividends**: The EU Commission sent a letter of formal notice to the Czech Republic about its rules under which dividends paid to Icelandic companies are taxed more heavily than dividends paid to domestic companies, regardless of the size of the participation – IP/08/143 – 31 January 2008
- *To conclude, be aware of the impact of the (influencing) EU case law (o.a., on free movement of capital) when introducing any new tax incentives; in particular in the area of withholding taxes.*

III. General Framework of Tax Incentives

Section 4 – EU Tax Scene: State Aid Rules

- **State aid** can be defined as “an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities”.
- Article 87 of the EC Treaty provides that (tax) legislation basically constitutes state aid if certain conditions are completed such as:
 - the advantage is granted by the state or through state resources;
 - the legislation affects competition and trade between member states;
 - the legislation is selective or specific in that it favours certain undertakings or the production of certain goods.
- Article 87 of the EC Treaty generally **prohibits** state aid but, in some circumstances, the Treaty leaves room for a number of policy objectives for which state aid can be considered compatible.
- The field of (corporate) taxation has always been a useful instrument of member states to support and attract enterprises (economic activity) located in their jurisdiction in all kinds of creative ways.

III. General Framework of Tax Incentives

Section 4 – EU Tax Scene: State Aid Rules (cont'd)

- During 2007, it could be observed that the Commission was particularly looking at tax effective regimes favouring the tax treatment of so-called **passive income flows** (e.g., interest income, royalties, etc.) (movable investments) as it considers these regimes to be (potentially) distorting competition by unfairly influencing the allocation of economic activities and thus to form substantial hurdles in completing the (harmonised) Internal Market.
- *To conclude, given the above, it is hence strongly recommended to carefully review the compatibility of any tax incentives to be implemented in order to avoid (lengthy) discussions with the EU Commission. Even a potential examination by the EU Commission may already undermine the credibility of the incentive.*

III. General Framework of Tax Incentives

Section 5 – EU Tax Scene: Directives & Customs Union

- **No application** (but discussions ongoing) of the **European Directives** (Parent-Subsidiary Directive, Interest & Royalty Directives, etc.)

→ *Issue for cross border flows of income within EU zone!*

- The EEA agreement provides Iceland access to the Internal Market but this is **not a customs union**. There is no common external tariff. But if a product originates in Iceland, it can benefit from tariff preferences (reduced import duties).

III. General Framework of Tax Incentives

Section 6 – OECD Tax Scene: Harmful Tax Practises

- Being also a member of the OECD, Iceland should consider the **OECD principles and standards** in terms of a.o. fair (tax) competition, taxation of cross border transactions, exchange of information, combating tax evasion, etc.
- The OECD's Competition Committee is the world's premier source of policy analysis and advice to governments on how best to harness market forces in the interests of greater global economic efficiency and prosperity.
- The OECD seek to establish standards that encourage an environment in which fair competition can take place by promoting principles that are designed to enable each country to apply its own tax laws without the interference of practices that operate to undermine the fairness and integrity of each country's tax system.

III. General Framework of Tax Incentives

Section 6 – OECD Tax Scene: Harmful Tax Practises (cont'd)

- The OECD does not seek to dictate to any country what its tax rate should be, or how its tax system should be structured but to **minimise tax induced distortions** of financial and, indirectly, real investment flows, and to increase the confidence of taxpayers in the even handed application of tax rules.
- In 1998, the OECD published its first report heading “**The OECD’s project on harmful tax practices**” which listed some regimes considered as harmful. The main aim of this project is to identify and eliminate harmful features of preferential tax regimes in OECD member countries and indentify “tax havens” in order to obtain their commitments to the principles of transparency and effective exchange of information.

III. General Framework of Tax Incentives

Section 6 – OECD Tax Scene: Harmful Tax Practises (cont'd)

- **Recommendations:**

- It is in the own interest of Iceland to continue to cooperate within the framework of the OECD; (e.g., the bilateral agreement signed with the Isle of Man on 30 October 2007 regarding the exchange of information for tax purposes).
- Avoid becoming the new (outlawed) tax haven location for companies.

Chapter 4: Analysis of the Selected Tax Incentives

Section 1: Introduction

Section 2: Finance companies

Section 3: R&D companies

Section 4: Shipping companies

Section 1: Introduction

IV. Analysis of the Selected Tax Incentives

Section 1 – Introduction

In a **first phase** we have listed the following respective type of movable investments

➤ Type of movable investments:

- Holding Companies
- Finance Companies
- Research & Development Companies
- Shipping Companies
- Investment Funds

Based on our preliminary findings and in accordance with the Invest in Iceland Agency, we decided to eliminate Holding companies and Investment Funds.

Holding companies are unlikely to produce sufficient revenues for the government and are subject to too much competition despite the recent abolition of capital gains taxation. Investment funds could be inappropriate for Iceland due to a lack of coordination with the EU legislation and the current position of Iceland in the financial markets.

Consequently, only the following types of movable investments have been retained:

- Finance Companies
- Research & Development Companies
- Shipping Companies

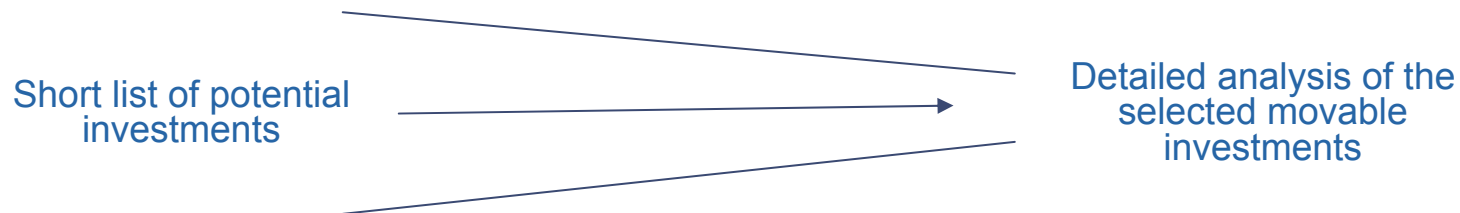
We are of the opinion that these companies have the ability to provide Iceland with substantial revenues and high quality jobs. In addition, the identified investments fit to certain extend into the current Iceland regime.

IV. Analysis of the Selected Tax Incentives

Section 1 – Introduction (cont'd)

In the second phase, we provide a strengths - weaknesses analysis of Iceland with a view to the selected movable investments.

Based on best practices in other jurisdictions, we have mapped the most important features for each selected movable investment, which potential investors will value when making a choice about the investment location. Subsequently, we have scored (in cooperation with our Icelandic colleagues) the current position of Iceland on these features using the grading of “high”, “medium”, “low” or “not available”.



Section 2: Finance companies

2.1. Typical scheme

2.2. Ideal tax features

2.3. The Strengths – Weaknesses Analysis

2.4. Main advantages of the structure

2.5. Major observations / recommendations

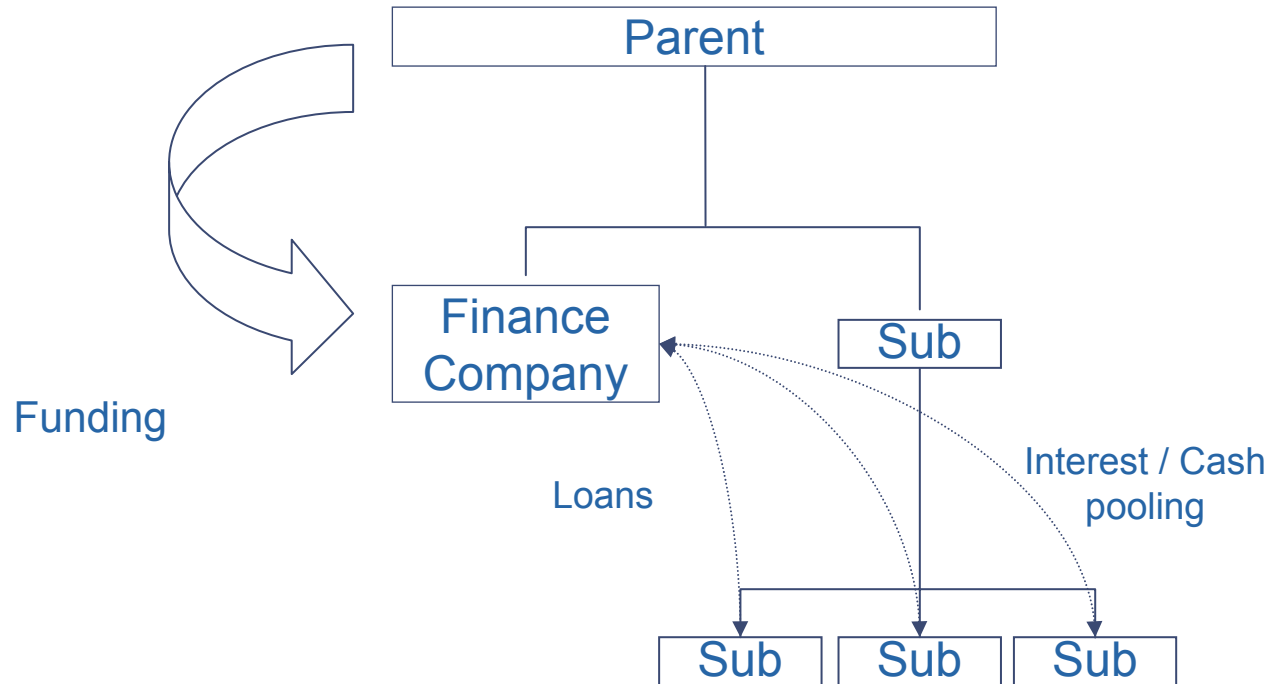
2.6. Good and Tainted examples:

- The Belgian Notional Interest Deduction (NID) regime
- The Swiss Finance Branch

IV. Analysis of the Selected Tax Incentives

Section 2 – Finance companies

2.1. Typical scheme



IV. Analysis of the Selected Tax Incentives

Section 2 – Finance companies (cont'd)

2.2. Ideal tax features

- Low set up costs (capital duties, registration fees)
- Tax effective treatment of incoming interest flows
- No net wealth tax
- Possibility to obtain upfront certainty about the “arms length” character of the interest rate (ruling practice)
- Large network of tax treaties
- No withholding tax on outgoing interest flows
- Tax effective treatment of foreign exchange results (possibility to have accounts / file tax returns in other currency)

IV. Analysis of the Selected Tax Incentives

Section 2 – Finance Companies (cont'd)

2.3. The Strengths – Weaknesses Analysis

	Finance Company (*)	High	Medium	Low	Not available
	General				
1	Strong political support for finance activities	✓			
2	Flexible environment	✓			
3	Short time to set up a company	✓			
4	Low minimal capital requirements		✓		
5	Availability of professional service providers		✓		
6	Availability of independent directors		✓		

(*) *Scoring of the current position of Iceland on these features*

IV. Analysis of the Selected Tax Incentives

Section 2 – Finance Companies (cont'd)

	Finance Company (*)	High	Medium	Low	Not available
	Tax				
1	Low nominal corporate tax rate	✓			
2	Favourable tax treatment of incoming finance income				✓
3	Absence of withholding tax on outgoing dividends under domestic tax rules			✓	
4	Absence of withholding tax on outgoing interest under domestic tax rules	✓			
5	Extensive tax treaty network			✓	
6	Application of EU Interest & Royalty Directive				✓
7	Availability of foreign tax credit		✓		
8	Use of foreign functional currency for accounting purposes	✓			
9	Use of foreign functional currency for tax compliance purposes				✓

(*) Scoring of the current position of Iceland on these features

IV. Analysis of the Selected Tax Incentives

Section 2 – Finance Companies (cont'd)

	Finance Company (*)	High	Medium	Low	Not available
	Tax				
10	Flexible domestic transfer pricing rules		✓		
11	Absence of formal transfer pricing documentation rules	✓			
12	Absence of capital tax levy on the contribution of capital	✓			
13	Absence of net wealth tax	✓			
14	Absence of stamp duty on loan agreements	✓			
15	Possibility to obtain upfront clearance from tax authorities regarding investment projects		✓		
16	Possibility to discuss upfront tax treatment of a potential investment on no-name basis		✓		
17	Limited time frame to obtain upfront clearance			✓	
18	Favourable expatriate tax regime				✓

(*) Scoring of the current position of Iceland on these features

IV. Analysis of the Selected Tax Incentives

Section 2 – Finance Companies (cont'd)

2.4. Main advantages of the structure

- Tax revenues: low effective taxation on interest income but good scope for attracting financial stream which otherwise would not touch Iceland
- Reinforce banking / capital flow system
(cf. impact BCC status for Belgium)
- Creating high-value jobs
- To promote Iceland as attractive place for business : “Snowball Effect”

IV. Analysis of the Selected Tax Incentives

Section 2 – Finance Companies (cont'd)

2.5. Major observations / recommendations

- Good general framework, low nominal tax rate, absence of withholding tax on outgoing interest payments and possibility to use foreign functional currency (for accounting purposes) are **strong assets**;

→ *But there is a need to:*

- Extend the current tax treaty network providing for 0% withholding tax on (in bound) interest payments and outgoing dividends & obtain application of the Interest & Royalty Directive and the Parent Subsidiary Directive;
- Implement a regime that lowers the effective tax rate on finance income;
- Reduce / abolish withholding tax on outgoing dividend payments;
- Improve / make more efficient the practice to obtain upfront clearance.

IV. Analysis of the Selected Tax Incentives

Section 2 – Finance Companies (cont'd)

2.6. Good and Tainted examples

Good examples

- Belgian Notional Interest Deduction Regime
- Luxembourg head office – Irish non-trading branch
- Luxembourg “mandatory redeemable preference shares”
- Swiss finance branch (in relationship to a Dutch, Luxembourg or Belgian head office)

Tainted examples

- Ireland: International Financial Services Centres (ETR: 10%)
- Netherlands: Intra-group Finance Activities (ETR: 7%)
- Belgium: Coordination Centres (ETR: 0%)
- Dutch Interest Box (still awaiting approval by EU Commission)

IV. Analysis of the Selected Tax Incentives

Section 2 – Finance Companies (cont'd)

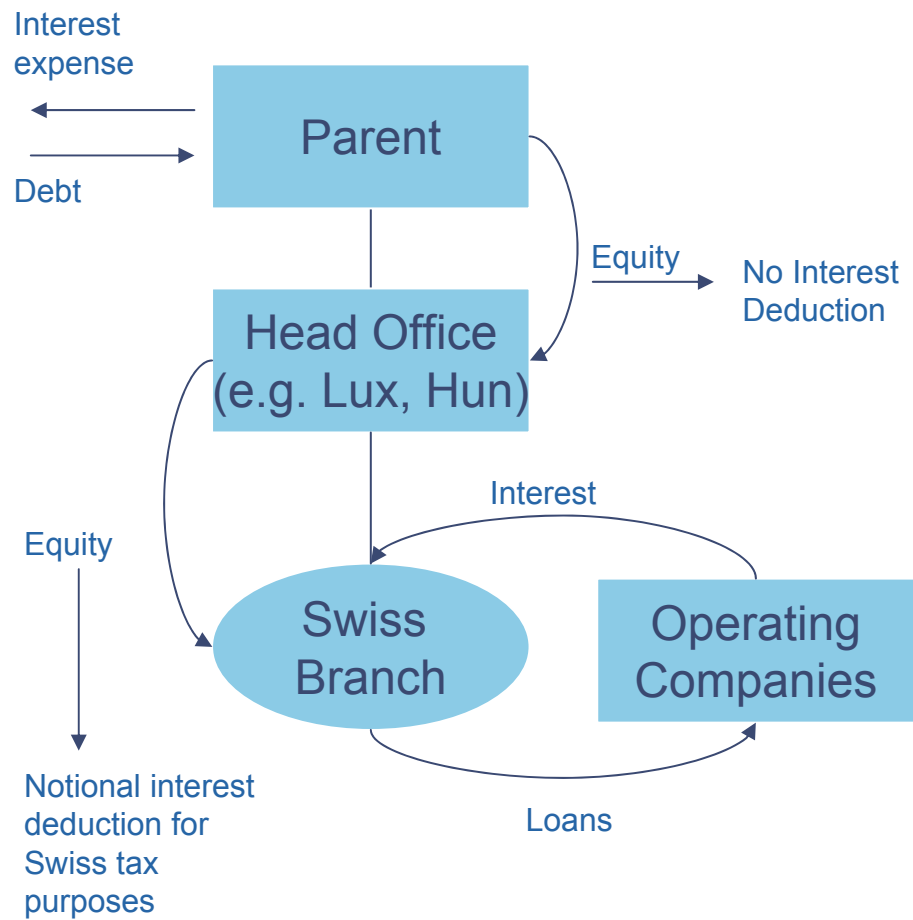
Example of the Belgian Notional Interest Deduction (NID) regime:

- Notional Interest Deduction (NID):
 - Deemed interest deduction for invested equity (no cash outlay)
 - NID base: Belgian GAAP equity – some adjustments to be made (e.g. investments in shares)
 - NID rate: Annually fixed, by reference to 10-year Belgian Government bond rate
 - NID benefits are automatic – No need for a tax ruling
 - EU compatible
- Structurally reduces Effective Tax Rate
- Particularly effective for Finance Company planning

Return on Equity / Financial return	4.30%	5.00%	6.00%	7.0%
NID rate FY31/12/2008	(4.301%)	(4.301%)	(4.301%)	(4.301%)
Taxable return on equity	0.0%	0.7%	1.7%	2.7%
Nominal Tax Rate (approx)	15%	15%	15%	15%
Effective Tax Rate (ETR)	0.0%	2.1%	4.25%	5.8%

IV. Analysis of the Selected Tax Incentives
Section 2 – Finance Companies (cont'd)

Example of a Swiss Finance Branch



IV. Analysis of the Selected Tax Incentives

Section 2 – Finance Companies (cont'd)

Example of a Swiss Finance Branch of Luxembourg company

How it works

- Swiss branch not taxed in Luxembourg but subject to an effective tax rate in Switzerland of 1-5% on branch assets.

Some advantages

- Well understood and vast experience
- Advanced security based
- 1-5% ETR
- Can use other 'head office' locations

Some issues to consider

- Withholding tax management (depending on location of borrower)
- Management of Parent Company CFC regime (if applicable)
- There might be an allocation of assets/profit to the 'head office'

Section 3: R&D companies

3.1. Typical scheme

3.2. Ideal tax features

3.3. The Strengths – Weaknesses Analysis

3.4. Main advantages of the structure

3.5. Major observations / recommendations

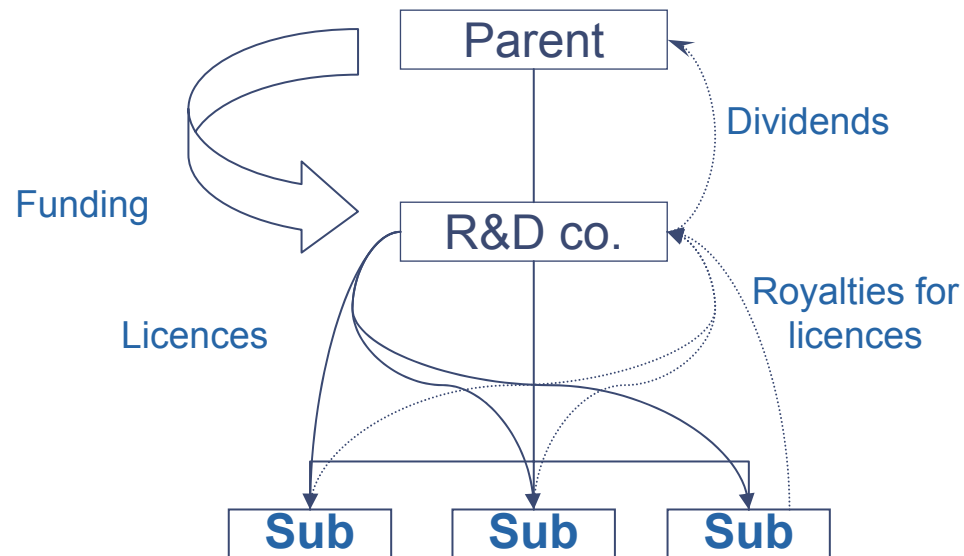
3.6. Good and Tainted examples:

- The Belgian Patent Income Deduction
- Highly competitive measure in European context

IV. Analysis of the Selected Tax Incentives

Section 3 – R&D Companies

3.1. Typical scheme



IV. Analysis of the Selected Tax Incentives

Section 3 – R&D Companies (cont'd)

3.2. Ideal tax features

- Tax effective treatment of IP / royalties income
- Additional tax deductions
- Tax effective treatment of R&D personnel
- Large network of tax treaties (No withholding tax on incoming royalties)
- No withholding tax on outgoing royalties
- Legal framework: IP protection

IV. Analysis of the Selected Tax Incentives

Section 3 – R&D Companies (cont'd)

3.3. The Strengths – Weaknesses Analysis

	R&D Company (*)	High	Medium	Low	Not available
	General				
1	Strong political support for R&D activities	✓			
2	Flexible environment	✓			
3	Short time to set up a company	✓			
4	Low minimal capital requirements		✓		
5	Availability of professional service providers		✓		
6	Availability of independent directors		✓		
7	Legal Protection and Contracts		✓		
8	Availability of highly skilled personnel (engineers, reseachers, etc.)		✓		
9	Availability of research centres			✓	

(*) *Scoring of the current position of Iceland on these features*

IV. Analysis of the Selected Tax Incentives

Section 3 – R&D Companies (cont'd)

	R&D Company (*)	High	Medium	Low	Not available
	Tax				
1	Low nominal corporate tax rate	✓			
2	Patent royalty exemption / tax favourable regime				✓
3	Possibility to write off acquired patents / know how	✓			
4	Possibility to write off acquired trademarks	✓			
5	Accelerated (tax) depreciations on patents / IP				✓
6	Tax deductions for IP costs				✓
7	Tax deductions for R&D costs				✓
8	R&D tax credit				✓
9	Tax credits for incremental expenditures on R&D				✓

(*) *Scoring of the current position of Iceland on these features*

IV. Analysis of the Selected Tax Incentives

Section 3 – R&D Companies (cont'd)

	R&D Company (*)	High	Medium	Low	Not available
	Tax				
10	Absence of withholding tax on outgoing dividends under domestic tax rules			✓	
11	Absence of withholding tax on outgoing interest under domestic tax rules	✓			
12	Absence of withholding tax on outgoing royalties under domestic tax rules			✓	
13	Extensive tax treaty network			✓	
14	Availability of foreign tax credit		✓		
15	Application of EU Interest & Royalty Directive				✓
16	Flexible domestic transfer pricing rules		✓		
17	Absence of formal transfer pricing documentation rules	✓			
18	Absence of capital tax levy on the contribution of capital	✓			

(*) Scoring of the current position of Iceland on these features

IV. Analysis of the Selected Tax Incentives

Section 3 – R&D Companies (cont'd)

	R&D Company (*)	High	Medium	Low	Not available
	Tax				
19	Absence of stamp duty on (the transfer of) intellectual property	✓			
20	Absence of net wealth tax	✓			
21	Possibility to obtain upfront clearance from tax authorities regarding investment projects		✓		
22	Possibility to discuss upfront tax treatment of a potential investment on no-name basis		✓		
23	Limited time frame to obtain upfront clearance			✓	
24	Favourable expatriate tax regime				✓
25	Tax deductions for employing researchers				✓

(*) *Scoring of the current position of Iceland on these features*

IV. Analysis of the Selected Tax Incentives

Section 3 – R&D Companies (cont'd)

3.4. Main advantages of the structure

- Tax revenues: low ETR on large amounts = huge tax revenues for Iceland
- Government expenditure: creating high-value jobs
- To promote Iceland as attractive place for business : snowball effect

IV. Analysis of the Selected Tax Incentives

Section 3 – R&D Companies (cont'd)

3.5. Major observations / recommendations

- Good general framework and low nominal tax rate are **strong assets**;
→ But there is a need to:
- Lower/abolish withholding tax on outgoing dividends / royalties to non-residents;
- Extend the current tax treaty network providing for 0% withholding tax on royalty / dividend payments;
- Implement a regime that lowers the effective tax rate on royalty income;
- Improve / make more efficient the practice to obtain upfront clearance.

IV. Analysis of the Selected Tax Incentives

Section 3 – R&D Companies (cont'd)

3.6. Good and Tainted examples

Good examples:

- Belgium, Luxembourg, Spain & The Netherlands: The Patent Box regime
- Spain: Corporate tax credit for R&D
- France: Young Innovative Company – status: temporarily relief from certain social costs + exemption from income tax
- UK: 125% deduction for R&D expenses, plus a 175% deduction for R&D expenditures exceeding a base amount of prior-year R&D spending (called “super deductions”)
- Norway: tax subsidy scheme

Tainted example:

- France:
 - **Fournier Case:** Tax credit of 50% of the incremental amount of R&D expenses compared to average amount of preceding two years, but limited to R&D carried out in France only

IV. Analysis of the Selected Tax Incentives

Section 3 – R&D Companies (cont'd)

The Belgian Patent Income Deduction

- **80% deduction, calculated on gross “patent” income**

- ⇒ Maximum 20% of gross patent income is taxable
- ⇒ Effective Tax Rate of maximum **6.8%**
- ⇒ Uncapped

- **Further lowering of Effective Tax Rate possible:**

In addition to Patent Income Deduction:

- ⇒ Operating costs of company are normally tax deductible (few exceptions)
- ⇒ Patent development costs may be tax-amortized over useful life
- ⇒ Notional Interest Deduction benefits
- ⇒ R&D incentives: Increased R&D investment deduction (currently 14.50% / 21.50%)

- **Entry into force: Financial Years 31/12/2007 – New patents**

IV. Analysis of the Selected Tax Incentives

Section 3 – R&D Companies (cont'd)

Highly competitive measure in European context

	Belgium	Ireland	Switzerland	Netherlands	France
Effective Tax Rate	0% to max 6.8%	0%	1-3%	10%	15%
Intellectual Property	Patents and extended patent certificates	Patent and extended patent certificates	All Intellectual Property	Self-developed patents, IP similar to patents, and plants breeder's rights (excl. marketing intangibles)	Patent and extended patent certificates
Capping to amount of deduction or exemption	No cap	EUR 5 million	No cap	Limited to 4 times the development costs	No cap
Other R&D incentives	Yes	Yes	Yes	Yes	Yes

Section 4: Shipping companies

4.1. Ideal tax features

4.2. The Strengths – Weaknesses Analysis

4.3. Main advantages of the structure

4.4. Major observations / recommendations

4.5. Good examples:

- Example of good implementation: the Belgian regime

IV. Analysis of the Selected Tax Incentives

Section 4 – Shipping Companies

4.1. Ideal tax features

- Low effective tax rate ($< 1\%$)
- Fixed minimum period (e.g. 10 years renewable)
- No ordinary taxation on capital gains

IV. Analysis of the Selected Tax Incentives

Section 4 – Shipping Companies (cont'd)

4.2. The Strengths – Weaknesses Analysis

	Shipping Company (*)	High	Medium	Low	Not available
	General				
1	Strong political support for shipping activities		✓		
2	Flexible environment	✓			
3	No requirement for ships to be registered locally		✓		
4	Short time to set up a (shipping) company	✓			
5	Low minimal capital requirements		✓		
6	Short time to obtain shipping licence		✓		
7	Availability of professional service providers		✓		
8	Availability of providers of shipping management activities		✓		
9	Availability of independent directors		✓		
10	Legal Protection and Contracts		✓		

(*) Scoring of the current position of Iceland on these features

IV. Analysis of the Selected Tax Incentives

Section 4 – Shipping Companies (cont'd)

	Shipping Company (*)	High	Medium	Low	Not available
	Tax				
1	Low corporate tax rate	✓			
2	Accelerated depreciation of vessels				✓
3	Possibility to roll over capital gains on the transfer of vessels	✓			
4	Possibility to account for large scale repair and maintenance work provisions				✓
5	Availability of investment tax credits				✓
6	Availability of tonnage tax scheme		✓		
7	Possible to have other income (e.g., finance income) than tonnage taxed income under tonnage tax scheme			✓	
8	Certainty to benefit from the tonnage tax system for a long renewable period		✓		
9	Broad definition of qualifying sea vessels & shipping activities (including construction vessels, drilling vessels and rigs, cable-laying vessels, etc.)			✓	
10	Compliant with EU State Aid Guidelines for Maritime Transport		✓		

(*) Scoring of the current position of Iceland on these features

IV. Analysis of the Selected Tax Incentives

Section 4 – Shipping Companies (cont'd)

	Shipping Company	High	Medium	Low	Not available
	Tax				
11	Low notional profit tax rate for top scale (above 25,000 tons)		✓		
12	Capital gains can benefit from tonnage tax system as well			✓	
13	Absence of withholding tax on outgoing dividends under domestic tax rules			✓	
14	Absence of withholding tax on outgoing interest under domestic tax rules	✓			
15	Absence of withholding tax on outgoing royalties under domestic tax rules			✓	
16	Absence of withholding tax on outgoing lease payments for shipping companies	✓			
17	Extensive tax treaty network			✓	
18	Availability of foreign tax credit		✓		
19	Application of EU Interest & Royalty Directive				✓

(*) Scoring of the current position of Iceland on these features

IV. Analysis of the Selected Tax Incentives

Section 4 – Shipping Companies (cont'd)

	Shipping Company (*)	High	Medium	Low	Not available
	Tax				
20	Absence of capital tax levy on the contribution of capital	✓			
21	Absence of stamp duty on (the transfer of) of (shipping) property			✓	
22	Absence of net wealth tax	✓			
23	Flexible domestic transfer pricing rules		✓		
24	Absence of formal transfer pricing documentation rules	✓			
25	Possibility to obtain upfront clearance from tax authorities regarding investment projects		✓		
26	Possibility to discuss upfront tax treatment of a potential investment on no-name basis		✓		
27	Limited time frame to obtain upfront clearance			✓	
28	Favourable expatriate tax regime				✓

(*) Scoring of the current position of Iceland on these features

IV. Analysis of the Selected Tax Incentives

Section 4 – Shipping Companies (cont'd)

4.3. Main advantages of the structure

- Tax revenues: low ETR on large amounts
- Government expenditure: reducing local unemployment
- To promote Iceland as attractive place for business : snowball effect

IV. Analysis of the Selected Tax Incentives

Section 4 – Shipping Companies (cont'd)

4.4. Major observations / recommendations

- Good general framework and low nominal tax rate are **strong assets**;
→ But there is a need to:
- Make tonnage tax regime more attractive;
- Exempt capital gains on the sale of ships;
- Extend the current tax treaty network in order to assure that Iceland has the sole right to tax the income related to vessels;
- Extend the current tax treaty network providing for 0% withholding on (in bound) interest payments and outgoing dividends & obtain application of the Interest & Royalty Directive and the Parent Subsidiary Directive;
- Improve / make more efficient the practice to obtain upfront clearance.

IV. Analysis of the Selected Tax Incentives

Section 4 – Shipping Companies (cont'd)

4.5. Good examples

- Belgium: Tonnage tax regime
- Luxembourg: Shipping regime
- Malta: Shipping regime
- Norway: New tonnage tax model
- Poland: Shipping regime
- Sweden: Shipping regime
- The Netherlands: Shipping regime
- UK: Shipping regime

IV. Analysis of the Selected Tax Incentives

Section 4 – Shipping Companies (cont'd)

Example of good implementation: the Belgian regime

- **Key convincing points:**
 - The applicability is guaranteed through an advance decision for an initial period of 10 years (with an automatic renewal);
 - The first country to introduce a low rate of EUR 0,05/ton for the tonnage in excess of 40,000 tons;
 - Broad definition of (sea) shipping activities including management.
- **Impact:** according to the *UNCTAD Maritime Review* 2006, the Belgian commercial fleet became number 9 in the European ranking in 2006 (which is better than established maritime countries like France, The Netherlands, Spain, Sweden and Portugal)!!

Chapter 5: Best Practises in how Investors can Obtain Upfront Security

Section 1: Background

Section 2: Ideal features

Section 3: Ways to organise the procedure

Section 4: Some Belgian statistics

Section 5: View of the EU Commission

Section 6: Conclusion

V. Best Practises in how Investors can Obtain Upfront Security

Section 1 – Background

- With an increasing globalization of the world economy, there is no doubt that both tax rates and tax compliance costs matter for investors when choosing investment locations.
- However, with the emergence of corporate governance rules/guidelines and more stringent financial reporting standards (e.g. FIN 48, etc.), (multinational) companies also seek more and **more (upfront) security** regarding their (global) fiscal position. (Smooth) procedures that allow investors to obtain this are therefore highly valued by investors. “We accept to pay a certain amount of taxes (*not too much though*), but above all we need to be sure about the amount in advance”, is a frequently heard comment in discussions with international business people.
- Some countries (e.g., The Netherlands, Luxembourg, Switzerland, Belgium) even use this feature to profile themselves as an attractive investment location. One can read for instance on the website of the Netherlands Foreign Investment Agency that “the possibility of obtaining an advance tax ruling is one of the most attractive features of Dutch tax law”.

V. Best Practises in how Investors can Obtain Upfront Security

Section 2 – Ideal features

- Global scope: procedure covers **any tax aspect** related to an investment project ranging from registration duties (if any) to direct as well as indirect taxes.
- Procedure results in **legally binding written agreement**.
- **Time-frame** to complete the procedure is (rather) short (2 to 3 months maximum).
- Security granted for a (renewable) **period of a number a years** (e.g. 5 years) with justified exceptions (e.g. depreciation % for entire economical lifetime of assets).
- Procedure allows for **(no-name) pre-filing phase**, i.e., investor (advisor) can openly discuss the case at hand prior to the deposit of a formal request.

V. Best Practises in how Investors can Obtain Upfront Security

Section 2 – Ideal features (cont'd)

- Persons involved in the handling of the procedure at the side of the authorities have **common business sense and are open for dialogue**.
- **Consistent view** on the presented tax issues; issuance of general views.
- Generally the procedure is completed prior to any investment being executed but **flexible attitude/cooperation towards timing of implementation** through “letter of intent” feature; i.e., letter setting forth understanding / preliminary agreement.
- Application of a low fixed fee in order to avoid non-appropriate requests (e.g. EUR 1,000).
- Filing & negotiation can be done in English.

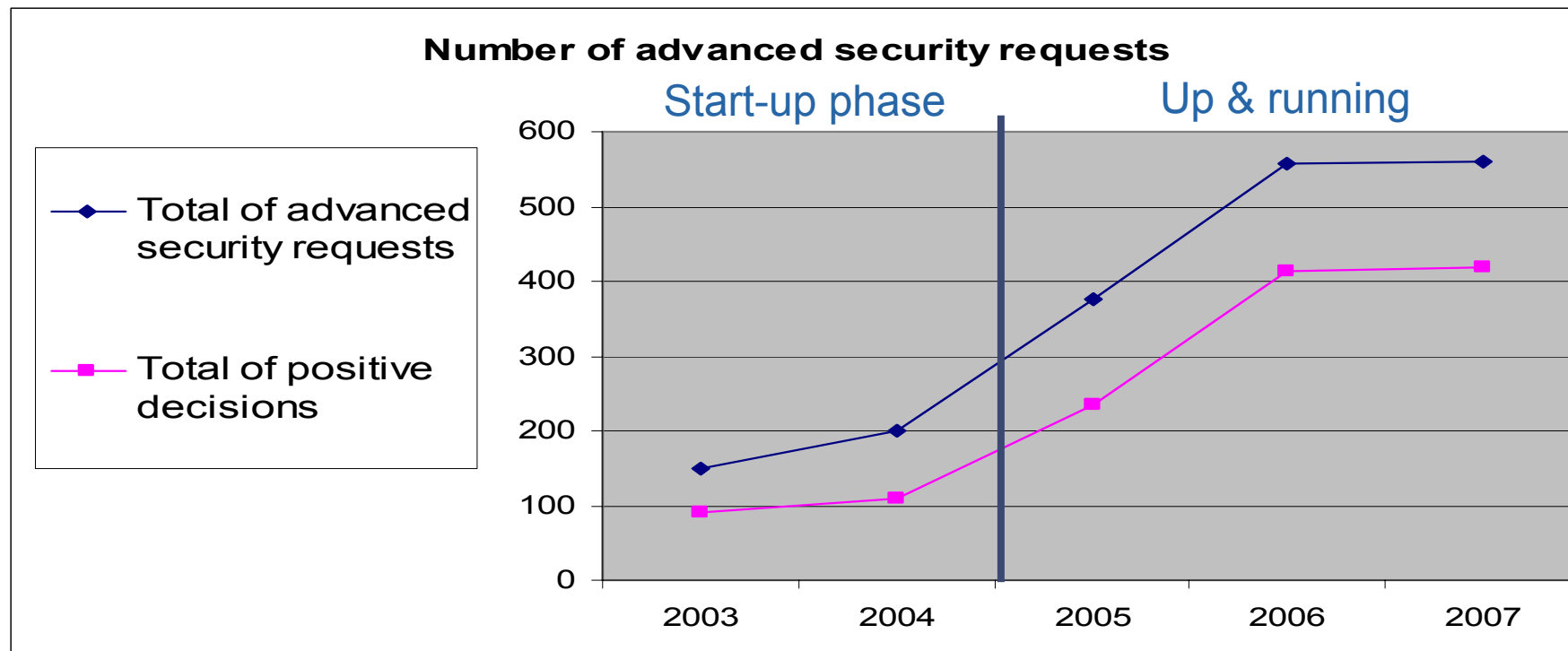
V. Best Practises in how Investors can Obtain Upfront Security

Section 3 – Ways to organise the procedure

- **Procedure with local tax inspector**: agreement is obtained with local tax inspector
 - Pro: Informal, rapidness, direct link between people involved in auditing the company;
 - Contra: Risk of different views on same issues & procedure.
 - **Procedure with centralised body**: agreement is obtained with centralised body that is set up to deal with these requests
 - Pro: Harmonised view on tax issues presented & procedure, allows specialisation (transfer pricing, shipping companies, etc.).
 - Contra: Risk of more formal procedure involving more time + need to assure link/communication between centralised body and teams conducting tax audit.
- **In practice: combination of both procedures: e.g., the Swiss, Dutch and Belgian model**

V. Best Practises in how Investors can Obtain Upfront Security

Section 4 – Some Belgian statistics



	2003	2004	2005	2006	2007
Total of advanced security requests	150	200	375	558	560
Total of positive decisions	90	110	234	414	420
Percentage of positive decisions	60%	55%	62.4%	74.2%	75%

V. Best Practises in how Investors can Obtain Upfront Security

Section 5 – View of the EU Commission

- According to the European Commission, transparency is key.
- In a communication dated 26 February 2007, the European Commission encouraged the use of advance agreements between tax administrations and tax payers for transfer pricing purposes.
- The European Commission indeed considers that advance agreements are an efficient tool for dispute avoidance with valuable advantages for both parties and thus resulting in a better tax environment within the EU.

V. Best Practises in how Investors can Obtain Upfront Security

Section 6 – Conclusion

- For potential investors, (upfront) security is as important as a low rate.
- Legal security on tax treatment is a **strong incentive in its-self**:
 - Legal security for both parties (i.e. tax authorities & tax payers)
 - Easy for tax audits
 - Less litigations & court cases
 - Incentive for green field & brown field investors
 - Controllable, manageable and cost-efficient incentive

Next Step?



Define strategy how these incentives can be brought to market:

- Which sectors / investors could be targeted in particular?
- How this could be done?
- Which elements will be critical in this process?

Annexes

- Annex 1: BCC: Annual Accounts 2005-2006
- Annex 2: BCC: Number of employees
- Annex 3: Overview of the European tonnage tax regimes
- Annex 4: Overview of nominal corporate tax rates in EU countries
- Annex 5: Overview of (maximum) withholding tax rates with respect to dividends, interest and royalty payments based on the tax treaties concluded by Iceland with its treaty partners

Annex 1. BCC: Annual Accounts 2005-2006

Annex 2. BCC: Number of employees

Annex 3. Overview of the European tonnage tax regimes

Annex 4.

Overview of nominal corporate tax rates in EU countries

Annex 5.

Overview of (maximum) withholding tax rates with respect to dividends, interest and royalty payments based on the tax treaties concluded by Iceland with its treaty partners



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Annual Accounts 2006-2005_Dec-2007
BALANCE SHEET

BALANCE SHEET AFTER APPROPRIATION COORDINATION CENTERS	CODES	FINANCIAL YEAR 2006 140 CCs Amounts in units of EUR	FINANCIAL YEAR 2005 191 CCs Amounts in units of EUR
ASSETS			
<u>FIXED ASSETS</u>	20/28	€ 45.187.873.450	€ 43.269.830.000
FORMATION EXPENSES	20	€ 3.450.740	€ 466.000
INTANGIBLE FIXED ASSETS	21	€ 52.313.205	€ 31.525.000
TANGIBLE FIXED ASSETS	22/27	€ 96.700.770	€ 119.778.000
. Land and buildings	22	€ 19.285.832	€ 28.590.000
. Plant, machinery and equipment	23	€ 16.070.182	€ 18.022.000
. Furniture and vehicles	24	€ 24.195.312	€ 36.722.000
. Leasing and similar rights	25	€ 12.128.613	€ 9.753.000
. Other tangible assets	26	€ 6.182.416	€ 10.653.000
. Assets under construction & advance payments made	27	€ 18.838.419	€ 16.039.000
FINANCIAL FIXED ASSETS	28	€ 45.035.408.734	€ 43.118.063.000
. Affiliated enterprises	280/1	€ 44.872.583.928	€ 42.997.801.000
. - Participating interests	280	€ -	€ -
. - Amounts receivable	281	€ 44.872.583.928	€ 42.997.801.000
. Other enterprises linked by participating interests	282/3	€ 6.495.560	€ 10.929.000
. - Participating interests	282	€ 13.000	€ -
. - Amounts receivable	283	€ 6.482.560	€ 10.929.000
. Other financial assets	284/8	€ 156.330.247	€ 109.333.000
. - Shares	284	€ -	€ -
. - Amounts receivable and cash guarantees	285/8	€ 156.330.247	€ 109.333.000
<u>CURRENT ASSETS</u>	29/58	€ 194.127.164.326	€ 235.716.337.000
AMOUNTS RECEIVABLE AFTER MORE THAN ONE YEAR	29	€ 44.595.455.917	€ 44.907.724.000
. Trade debtors	290	€ 2.210.846	€ 133.395.000
. Other amounts receivable	291	€ 44.593.245.071	€ 44.774.329.000
STOCKS AND CONTRACTS IN PROGRESS	3	€ -	€ -
AMOUNTS RECEIVABLE WITHIN ONE YEAR	40/41	€ 123.196.142.879	€ 157.430.864.000
. Trade debtors	40	€ 8.640.113.416	€ 10.781.711.000
. Other amounts receivable	41	€ 114.556.027.462	€ 146.649.155.000
CURRENT INVESTMENTS	50/53	€ 21.298.426.356	€ 27.382.861.000
. Own shares	50	€ -	€ -
. Other investments	51/53	€ 21.298.426.356	€ 27.382.861.000
CASH AT BANK AND IN HAND	54/58	€ 3.239.591.857	€ 3.743.787.000
DEFERRED CHARGES AND ACCRUED INCOME	490/1	€ 1.797.549.323	€ 2.251.102.000
TOTAL ASSETS	20/58	€ 239.315.036.780	€ 278.986.167.000

Annual Accounts 2006-2005_Dec-2007
BALANCE SHEET

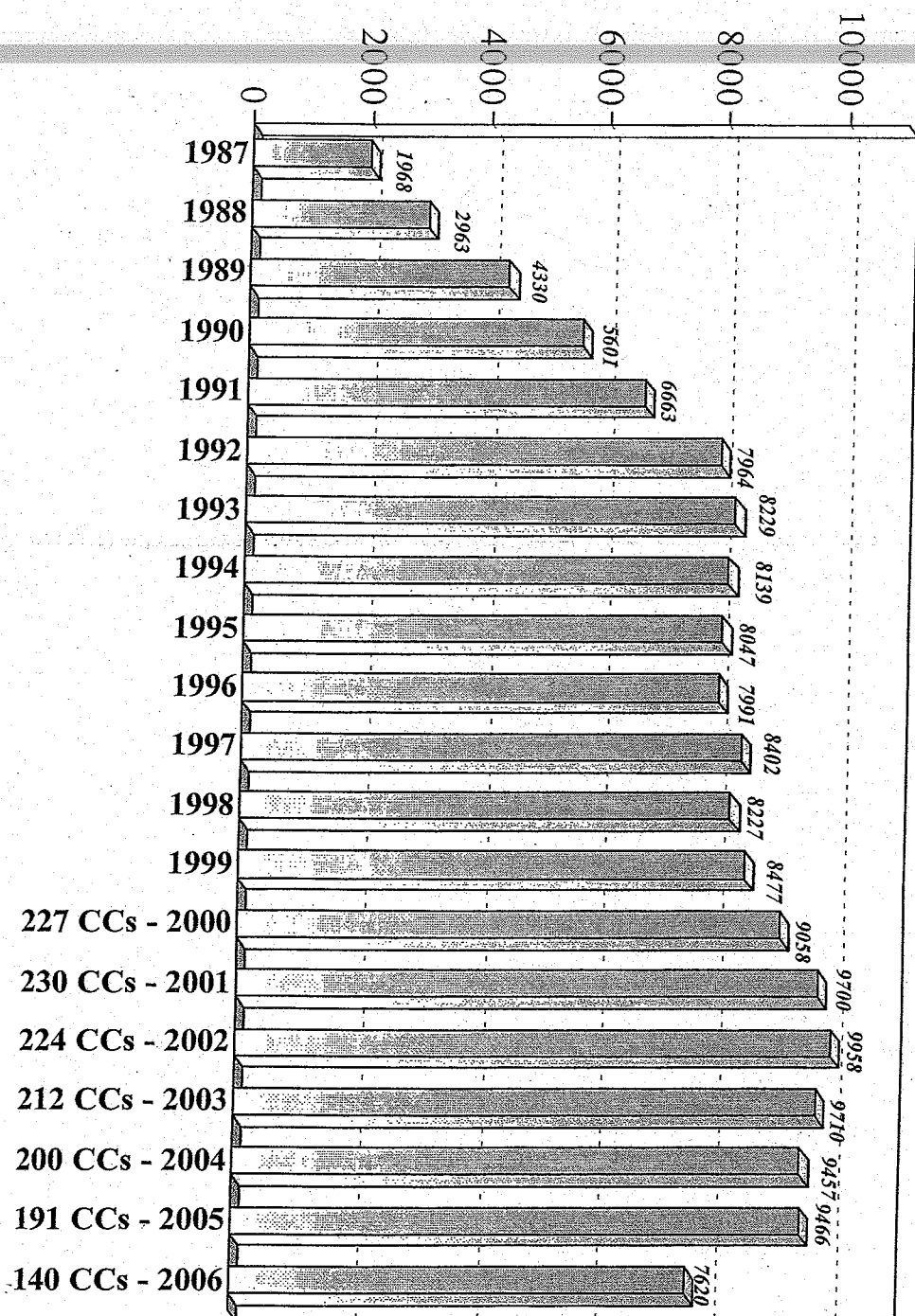
BALANCE SHEET COORDINATION CENTERS	CODES	FINANCIAL YEAR 2006	FINANCIAL YEAR 2005
		140 CCs	191 CCs
		Amounts in units of EUR	in €
EQUITY AND LIABILITIES			
<u>EQUITY</u>	10/15	€ 147.929.619.923	€ 174.829.717.000
CAPITAL	10	€ 118.007.738.322	€ 143.470.542.000
. Issued capital	100	€ 120.231.417.486	€ 148.598.796.000
. Uncalled capital	101	€ 2.223.679.164	€ 5.128.254.000
SHARE PREMIUM ACCOUNT	11	€ 8.951.574.863	€ 9.321.466.000
REVALUATION SURPLUS	12	€ -	€ -
RESERVES	13	€ 2.850.230.834	€ 5.530.672.000
. Legal reserve	130	€ 2.011.957.354	€ 2.424.128.000
. Reserves not available	131	€ 42.428.155	€ 67.232.000
- In respect of own shares held	1310	€ -	€ -
- Other	1311	€ 42.428.155	€ 67.232.000
. Untaxed reserves	132	€ -	€ -
. Available reserves	133	€ 795.845.325	€ 3.039.313.000
ACCUMULATED PROFITS (LOSSES) (+)/(-)	14	€ 18.119.918.006	€ 16.506.344.000
INVESTMENT GRANTS	15	€ 160.900	€ 699.000
ADVANCE TO ASSOCIATES ON THE SHARING OUT OF THE ASSETS	19	€ -	€ -
<u>PROVISIONS AND DEFERRED TAXES</u>	16	€ 77.035.850	€ 88.556.000
PROVISIONS FOR LIABILITIES AND CHARGES	160/5	€ 77.035.850	€ 88.556.000
. Pensions and similar obligations	160	€ 43.328.022	€ 50.553.000
. Taxation	161	€ 160.181	€ 160.000
. Major repairs and maintenance	162	€ -	€ -
. Other liabilities and charges	163/5	€ 33.547.647	€ 37.843.000
DEFERRED TAXES	168	€ -	€ -
<u>AMOUNTS PAYABLE</u>	17/49	€ 91.308.381.004	€ 104.067.892.000
AMOUNTS PAYABLE AFTER MORE THAN ONE YEAR	17	€ 9.287.783.910	€ 8.874.347.000
. Financial debts	170/4	€ 9.031.416.023	€ 8.395.305.000
- Credit Institutions, leasing and other similar obligations	172/3	€ 3.365.033.123	€ 3.525.656.000
* Leasing and similar obligations	172	€ 12.454.412	€ 10.023.000
* Credit institutions	173	€ 3.352.578.711	€ 3.515.633.000
- Other loans	174/0	€ 5.666.382.900	€ 4.869.649.000
* Subordinated loans	170	€ 1.258.056.000	€ 601.972.000
* Unsubordinated debentures	171	€ 1.835.688.000	€ 2.219.807.000
* Other loans	174	€ 2.572.638.900	€ 2.047.870.000
. Trade debts	175	€ -	€ -
- Suppliers	1750	€ -	€ -
- Bills of exchange payable	1751	€ -	€ -
. Advances received on contracts in progress	176	€ -	€ -
. Other amounts payable	178/9	€ 256.367.887	€ 479.042.000
AMOUNTS PAYABLE WITHIN ONE YEAR	42/48	€ 81.190.197.218	€ 93.951.892.000
. Current portion of amounts payable after more than one year falling due within one year	42	€ 3.569.601.803	€ 2.856.778.000
. Financial debts	43	€ 48.497.981.982	€ 54.032.766.000
- Credit institutions	430/8	€ 6.363.346.771	€ 7.304.669.000
- Other loans	439	€ 42.134.635.211	€ 46.728.097.000
. Trade debts	44	€ 3.464.607.766	€ 3.860.539.000
- Suppliers	440/4	€ 3.464.607.766	€ 3.860.539.000
- Bills of exchange payable	441	€ -	€ -
. Advances received on contracts in progress	46	€ 16.537.515	€ 2.431.000
. Taxes, remuneration and social security	45	€ 288.785.044	€ 325.416.000
- Taxes	450/3	€ 84.908.886	€ 87.248.000
- Remuneration and social security	454/9	€ 203.876.153	€ 238.168.000
. Other amounts payable	47/48	€ 25.352.682.112	€ 32.873.964.000
DEFERRED CHARGES AND ACCRUED INCOME	492/3	€ 830.400.874	€ 1.241.655.000
TOTAL LIABILITIES	10/49	€ 239.315.036.780	€ 278.986.166.000

INCOME STATEMENT COORDINATION CENTERS	CODES	FINANCIAL YEAR 2006		FINANCIAL YEAR 2005	
		140 CCs		191 CCs	
		Amounts in units of EUR		Amounts in units of EUR	
OPERATING INCOME	70/74	€	1.841.611.873	€	2.209.253.000
. Turnover	70	€	1.096.016.748	€	1.372.486.000
. Stocks and work and contracts in progress: increase (decrease) (+)/(-)	71	€	-	€	-
. Own construction capitalised	72	€	3.020.062	€	2.690.000
. Other operating income	74	€	742.575.057	€	834.076.000
OPERATING CHARGES	60/64	€	1.729.739.689	€	2.054.976.000
. Goods for resale, raw and auxiliary materials services and miscellaneous	60/61	€	804.464.239	€	892.268.000
. Raw materials, consumables	60	€	959.005	€	928.000
. Purchases	600/8	€	959.005	€	928.000
. Stocks: decrease (increase) (+)/(-)	609	€	-	€	-
. Services and other goods	61	€	803.505.234	€	891.340.000
. Remuneration, social security and pensions (+)/(-)	62	€	843.469.092	€	1.069.461.000
. Depreciation of and other amounts written down formation expenses, intangible and tangible fixed assets	630	€	34.970.124	€	44.593.000
. Amounts written down stocks, contracts in progress and trade debtors: appropriations (write-backs) (+)/(-)	631/4	€	11.983.005	€	5.645.000
. Provisions for risks and charges: appropriations (uses and write-backs) (+)/(-)	635/7	€	5.393.196	€	3.648.000
. Other operating charges	640/8	€	29.460.033	€	39.357.000
. Operating charges carried to assets as restructuring costs (-)	649	€	-	€	-
OPERATING PROFIT (LOSS) (+)/(-)	9901	€	111.873.185	€	154.276.000
FINANCIAL INCOME	75	€	17.738.684.071	€	24.662.925.000
. Income from financial fixed assets	750	€	1.985.909.592	€	1.863.842.000
. Income from current assets	751	€	7.153.643.629	€	7.991.381.000
. Other financial income	752/9	€	8.599.131.847	€	14.807.701.000
FINANCIAL CHARGES	65	€	11.497.690.954	€	17.409.978.000
. Debt charges	650	€	3.325.756.277	€	3.201.351.000
. Amounts written down on current assets except stocks, contracts in progress and trade debtors: appropriations (write-backs) (+)/(-)	651	€	(3.815.821)	€	14.801.000
. Other financial charges	652/9	€	8.175.750.493	€	14.193.825.000
GAIN (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXES (+)/(-)	9902	€	6.352.866.302	€	7.407.218.000
EXTRAORDINARY INCOME	76	€	11.663.459	€	11.164.000
. Write-back of depreciation and of amounts written down intangible and tangible fixed assets	760	€	415.690	€	2.059.000
. Write-back of amounts written down financial fixed assets	761	€	-	€	2.050.000
. Write-back of provisions for extraordinary liabilities and charges	762	€	-	€	816.000
. Gains on disposal of fixed assets	763	€	4.129.284	€	3.520.000
. Other extraordinary income	764/9	€	7.118.485	€	2.719.000
EXTRAORDINARY CHARGES	66	€	1.627.991	€	7.599.000
. Extraordinary depreciation of and extraordinary amounts written down formation expenses, intangible and tangible fixed assets	660	€	406.801	€	2.772.000
. Amounts written down financial fixed assets	661	€	-	€	-
. Provisions for extraordinary liabilities and charges: appropriations (uses) (+)/(-)	662	€	(91.562)	€	2.834.000
. Losses on disposal of fixed assets	663	€	192.655	€	726.000
. Other extraordinary charges	664/8	€	1.120.098	€	1.267.000
. Extraordinary charges carried to assets as restructuring costs (-)	669	€	-	€	-
GAIN (LOSS) FOR THE PERIOD BEFORE TAXES (+)/(-)	9903	€	6.362.901.770	€	7.410.783.000
TRANSFER FROM DEFERRED TAXES	780	€	-	€	-
TRANSFER TO DEFERRED TAXES	680	€	-	€	-
INCOME TAXES (+)/(-)	67/77	€	124.655.306	€	48.705.000
. Income taxes	670/3	€	127.393.653	€	52.474.000
. Adjustment of income taxes and write-back of tax provisions	77	€	2.738.347	€	3.769.000

INCOME STATEMENT COORDINATION CENTERS	CODES	FINANCIAL YEAR 2006	FINANCIAL YEAR 2005
		140 CCs	191 CCs
		Amounts in units of EUR	Amounts in units of EUR
GAIN (LOSS) FOR THE PERIOD (+)/(-)	9904	€ 6.238.245.465	€ 7.362.079.000
TRANSFER FROM UNTAXED RESERVES	789	€ -	€ -
TRANSFER TO UNTAXED RESERVES	689	€ -	€ -
GAIN (LOSS) TO BE APPROPRIATED	9905	€ 6.238.245.465	€ 7.362.077.000

APPROPRIATIONS AND TRANSFERS			
PROFIT (LOSS) TO BE APPROPRIATED (+)/(-)	9906	€ 20.529.404.862	€ 21.438.979.000
. Gain (loss) to be appropriated (+)/(-)	9905	€ 6.238.245.465	€ 7.362.077.000
. Profit (loss) brought forward (+)/(-)	14P	€ 14.291.159.393	€ 14.076.901.000
TRANSFERS FROM CAPITAL AND RESERVES	791/2	€ 241.595.136	€ 2.803.625.000
. from capital and share premium account	791	€ 22.285.662	€ 1.410.000.000
. from reserves	792	€ 219.309.474	€ 1.393.625.000
TRANSFERS TO CAPITAL AND RESERVES	691/2	€ 442.496.330	€ 998.856.000
. to capital and share premium account	691	€ -	€ -
. to legal reserve	6920	€ 203.493.775	€ 264.955.000
. to other reserves	6921	€ 239.002.556	€ 733.901.000
PROFIT (LOSS) TO BE CARRIED FORWARD (+)/(-)	14	€ 18.119.918.006	€ 16.506.344.000
PARTNERS' CONTRIBUTION IN RESPECT OF LOSSES	794	€ -	€ -
PROFIT TO BE DISTRIBUTED	694/6	€ 2.208.586.662	€ 6.737.403.000
. Dividends	694	€ 2.208.454.662	€ 6.691.061.000
. Directors' or managers' entitlements	695	€ 132.000	€ 342.000
. Other beneficiaries	696	€ -	€ 46.000.000

Number of employees



December 2007

Source: Annual Accounts National
Bank of Belgium - FORUM 187

Annex 3. Overview of the European tonnage tax regimes

<u>Dutch model</u>	<u>Norwegian model</u>	<u>Greek model</u>
Countries that implemented the model		
Belgium Denmark France Germany Italy Ireland Poland The Netherlands Spain UK (Sweden)	Norway Finland	Greece Cyprus Malta
Calculation method		
Derived profit based on net tonnage, taxed with corporate income tax 4 size groups Belgium: 5 size groups	Flat rate selective tax, based on net tonnage Norway: 3 size groups Finland: 4 size groups	Taxable gross tonnage multiplied by a tax rate corresponding to the age of the vessel, 5 size groups, 5 age categories Cyprus: 30% discount for vessels <10 yrs old. Also 30% discount if ships management is carried out in Cyprus. Malta: 7 groups, age correction

Annex 3. Overview of the European tonnage tax regimes (cont'd)

<u>Dutch model</u>	<u>Norwegian model</u>	<u>Greek model</u>
Activities in the system		
<p>Operation of merchant ships in international commerce.</p> <p>Most other countries have some restrictions here</p> <p>Belgium and The Netherlands also includes management activities</p>	Shipping operations only.	<p>Ownership qualifies, not activities</p> <p>Cyprus/Malta: Shipping and ship-management will qualify</p>
Deferred tax liabilities		
<p>Evaluated entry into system. Disappear after 10 years.</p> <p>UK: No deferred tax liabilities.</p>	<p>Norway: No deferred tax liabilities</p> <p>Finland: Deferred tax liabilities do not disappear</p>	No deferred tax liabilities

Annex 3. Overview of the European tonnage tax regimes (cont'd)

<u>Dutch model</u>	<u>Norwegian model</u>	<u>Greek model</u>
Flag of vessel		
EU- Flag requirement Netherlands: Flag requirement in exceptional cases only, but not applicable in 2007 Germany: registry requirement Denmark: No requirement	EU/EEA Flag requirement Finland: only Finnish flag vessels in international traffic	Greece: Greece flagged vessels only Cyprus: Cyprus flagged vessels only Malta: No flag requirement
Legal structure		
Companies as well as individuals can be tonnage taxed Denmark: Only legal entities	Only companies and then they can only own ships and capital	The ownership of Greek flagged vessels triggers tonnage tax liability. Income from shipping activities is tonnage taxed. Payment of these taxed profits are exempt from further taxation. Cyprus: Shipping companies flying the Cypriot Flag are exempt from dividend tax Malta: Company must qualify as 'Shipping Organization'.

Annex 3. Overview of the European tonnage tax regimes (cont'd)

<u>Dutch model</u>	<u>Norwegian model</u>	<u>Greek model</u>
Length of stay within the system		
10 years, renewable Netherlands: opt in year 1 and every 10th year Belgium: Opt at any time Poland: 5 years	1 year at a time Finland: 10 years	Mandatory system. Shipping activities always qualify. Cyprus/: optional system Malta: Malta registered ships are bound to pay tonnage tax
Qualifying Ships		
Owned and bareboat chartered ships, used in international shipping. Dredging and fishing ships are in principle excluded	Operating systems in international Traffic. Also applies to drilling rigs and construction vessels	Greece: Any vessel Malta: Qualifying tonnage tax ships only

Annex 3. Overview of the European tonnage tax regimes (cont'd)

<u>Dutch model</u>	<u>Norwegian model</u>	<u>Greek model</u>
Capital Gains		
<p>Capital gains on the sale of ships, buildings and equipment are part of the tonnage tax</p> <p>Some countries have a claw back</p> <p>Denmark, France, and Spain – capital gains tax paid on ships sold</p>	<p>No capital gains taxes paid as long as the money remains in the company</p>	<p>capital gains are not taxed</p>
T/C versus owned or bare-boat chartered ships		
<p>NL: No requirements</p> <p>Denmark allows max. 80% of the fleets tonnage on T/C</p> <p>Belgium and the UK allow max. 75% of the fleets tonnage on T/C</p>	<p>75% of the ships under the tonnage tax can be on T/C</p> <p>Finland allows only 50% T/C and then only EU-flagged</p>	<p>Greece: Owned ships only qualify</p> <p>Cyprus/Malta: No requirements</p>

Annex 4: Overview of nominal corporate tax rates in EU countries

Corporate Income Tax Rates (%) in the European Union, Selected Years						
Annex 2: Overview of nomin	1995	2000	2004	2005	2006	2007
Austria	34	34	34	25	25	25
belgium	40.2	40.2	34	34	34	34
Denmark	34	32	30	30	28	28
Finland	25	29	29	26	26	26
France	36.7	36.7	35.4	35.4	34.4	33.3
Germany	56.8	51.6	38.3	38.6	38.6	38.6
Greece	40	40	35	35	29	25
Ireland	40	24	12.5	12.5	12.5	12.5
Italy	52.2	41.3	37.3	37.3	37.3	37.3
Luxembourg	35	35	30.4	30.4	30.4	29.6
Netherlands	35	35	34.5	34.5	31.5	25.5
Portugal	39.6	35.2	27.5	27.5	27.5	27.5
Spain	35	35	35	35	35	32.5
Sweden	28	28	28	28	28	28
United Kingdom	33	30	30	30	30	30
EU-10 New member State	1995	2000	2004	2005	2006	2007
Czech Republic	41	31	28	26	24	24
Cyprus	25	29	15	10	10	10
Estonia	26	26	26	24	22	22
Hungary	19.6	19.6	17.7	17.5	17.5	16
Latvia	25	25	15	15	15	15
Lithuania	25	25	15	15	15	15
Malta	35	35	35	35	35	35
Poland	40	30	19	19	19	15
Slovakia	40	29	19	19	19	19
Slovenia	25	25	25	25	25	25
Bulgaria				15	15	10
Romania			25	16	16	16
Average EU-15	38	35.3	31.4	30.1	29.8	28.7
Average new EU-10	30.6	27.4	21.5	20.6	20.2	19.6
Average EU-25	35	32.1	27.4	26.2	25.8	25.2

Source: WEINER, Joann M., 2007, "Approaching an EU Common Consolidated Tax Base", *Tax Notes International*, 14 May 2007, p.656

Annex 5: Overview of (maximum) withholding tax rates with respect to dividends, interest and royalty payments based on the tax treaties concluded by Iceland with its treaty partners

Treaties of Iceland	Whithholding tax		
Countries	Dividends	Interest	Royalties
Belgium	5 or 15	10	0
Canada	5 or 15	10	10
China	5 or 10 or 5	10	10 (a)
Czech Republic	5 or 15	0	10
Denmark	15	0	0
Estonia	5 or 15	10	5 or 10 (b)
Faroe Islands	15	0	0
Finland	15	0	0
France	5 or 15	0	0
Germany	5 or 15	0	0
Greenland	5 or 15	0	15
Hungary	5 or 10	0	10
Ireland	5 or 15	0	10
Latvia	5 or 15	10	5 or 10 (a)
Lithuania	5 or 15	10	5 or 10 (a)
Luxembourg	5 or 15	0	0
Malta	5 or 15	0	5
The Netherlands	0 or 15	0	0
Norway	15	0	0
Poland	5 or 15	10	10
Portugal	10 or 15	10	10
Russia	5 or 15	0	0
Slovakia	5 or 10	0	10
Spain	5 or 15	5	5
Sweden	15	0	0
Switzerland	5 or 15	0	0
United Kingdom	5 or 15	0	0
United States	5 or 15	0	0
Vietnam	10 or 15	10	10
Iceland domestic rates	15	0	0

(a) For industrial, commercial, and scientific equipment royalties, the 10 percent applies to the adjusted amount of royalties (70 percent of the gross amount of the royalties)

(b) The 5 percent rate applies to industrial, commercial, and scientific equipment royalties. The 10 percent rate applies in other cases.