2018 International Tax Competitiveness Index: Individual Country Profiles

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Australia

Australia ranks 8th overall on the 2018 *International Tax Competitiveness Index*, the same as in 2017.

Some strengths of the Australian tax system:

- Property taxes in Australia are assessed on the value of the land rather than real estate or other improvements to land.
- The average compliance time associated with the personal income tax is relatively low at just 18 hours. The OECD average is 67 hours.
- Australia's corporate and individual taxes have an integrated treatment of dividends, alleviating the burden of double taxation on distributed earnings.
- Australia ranks well on consumption taxes due to its low VAT rate but applies it to a relatively narrow base.

Some weaknesses of the Australian tax system:

- Australia's treaty network consists of just 45 countries, when the average among OECD countries is 77.
- The corporate tax rate in Australia is 30 percent, above the OECD average (23.9 percent).
- Corporations are limited in their ability to write off investments.

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Austria

Austria ranks 10th overall on the 2018 *International Tax Competitiveness Index*, down one spot from 2017.

Some strengths of the Austrian tax system:

- Austria's international tax system is very good with a broad treaty network of 91 countries, no Controlled Foreign Corporation rules, and thin-capitalization rules that are less complex than in most countries.
- The VAT in Austria applies to a broad base and has minimal complexity for compliance and reporting.
- There are no estate or wealth taxes.

Some weaknesses of the Austrian tax system:

- Headline corporate rate of 25 percent is above the OECD average (23.9 percent).
- Corporations are limited in their ability to write off investments.
- The tax wedge on labor is the 5th highest among OECD countries.

Belgium

Belgium ranks 19th overall on the 2018 *International Tax Competitiveness Index*, six spots better than in 2017 and the biggest jump in the Index.

Some strengths of the Belgium tax system:

- Belgium has a broad treaty network, with 95 countries, and has a territorial tax system with no Controlled Foreign Corporations rules.
- Capital gains resulting from normal management of private wealth are exempt from tax.
- Belgium allows for Last-In-First-Out treatment of the cost of inventory.

Some weaknesses of the Belgium tax system:

- The corporate rate of 29.6 percent is above average among OECD countries (23.9 percent).
- Belgium levies estate and financial transaction taxes.
- The Belgian tax wedge on labor is the highest in the OECD countries with the average single worker facing a tax burden of 53.7 percent.

Canada

Canada ranks 18th overall on the 2018 *International Tax Competitiveness Index*, one spot better than in 2017.

Some strengths of the Canadian tax system:

- Consumption taxes are low, and the associated compliance burden is near the average for OECD countries.
- Canada has a partial territorial system with a full exemption for foreign dividend income and a broad treaty network, with 96 countries.
- Canada does not levy wealth or inheritance taxes.

Some weaknesses of the Canadian tax system:

- The personal tax on dividends is 39.3 percent, well above the OECD average of 24 percent.
- Canada has poor treatment of corporate losses and write-offs for investments buildings and intangibles

Chile

Chile ranks 31st overall on the 2018 *International Tax Competitiveness Index*, two spots better than in 2017.

Some strengths of the Chilean tax system:

- The VAT is at the average for OECD countries, and applies to a broad base.
- Chile provides for net operating losses to be carried forward indefinitely, allowing for corporations to be taxed on their average profitability.
- Chile has the lowest tax wedge on labor among OECD countries.

Some weaknesses of the Chilean tax system:

- Labor and consumption taxes are complex creating a serious compliance burden.
- Chile has poor treatment of corporate investments in machinery and buildings and does not allow companies to write off investment in intangibles.
- VAT compliance time is 124 hours, the most in the OECD.
- Chile has a worldwide tax system, while most countries have territorial provisions.

Czech Republic

The Czech Republic ranks 9th overall on the 2018 *International Tax Competitiveness Index*, the same as in 2017.

Some strengths of the Czech tax system:

- A below-average corporate rate of 19 percent (OECD average is 23.9 percent) with above-average cost recovery provisions.
- Taxes on labor are minimally distortive.
- The Czech Republic has a territorial tax system, exempting both foreign dividend and capital gains income for its treaty partners and other European countries.

Some weaknesses of the Czech tax system:

- Consumption taxes have a high compliance burden and apply to a relatively narrow base.
- Net operating losses cannot be carried back and can only be carried forward for five years.
- The Czech Republic levies an estate tax and transfer taxes on real estate.

Denmark

Denmark ranks 21st overall on the 2018 *International Tax Competitiveness Index*, down three spots from 2017, tied for the biggest drop in the Index.

Some strengths of the Danish tax system:

- Compliance times associated with corporate, consumption, and individual taxes are all below average among OECD countries.
- Denmark has a territorial tax system, exempting both foreign dividend and capital gains income for its treaty partners and other European countries.
- Property taxes are modest and allow costs associated with improvements to be deducted.

Some weaknesses of the Danish tax system:

- In addition to a top marginal tax rate of 55.8 percent, the personal income tax on dividends is 42 percent, well above the OECD average of 24 percent.
- Net operating losses can be carried forward indefinitely but are limited to 60 percent of taxable income.
- Denmark uses First-In-First-Out for assessing the cost of inventory for tax purposes.
- Controlled Foreign Corporation rules are among the most stringent in the OECD.

Estonia

Estonia ranks 1st overall on the 2018 *International Tax Competitiveness Index*, the same as in 2017.

Some strengths of the Estonian tax system:

- Estonia's corporate income tax system only taxes distributed earnings, allowing companies to reinvest their profits tax-free.
- The VAT applies to a broad base and has a low compliance burden.
- Property taxes only apply to the value of land.

Some weaknesses of the Estonian tax system:

- Estonia has tax treaties with just 57 countries, below the OECD average (77 countries).
- Estonia's Controlled Foreign Corporation rules are more stringent than the average OECD country.

Finland

Finland ranks 14th overall on the 2018 *International Tax Competitiveness Index*, down one spot from 2017.

Some strengths of the Finnish tax system:

- Finland has a corporate tax rate of 20 percent and a low corporate tax compliance burden.
- Corporations can deduct their property taxes.
- Finland has a territorial tax system and a broad treaty network with 86 countries.

Some weaknesses of the Finnish tax system:

- Finland levies both an estate and a financial transactions tax.
- Companies are limited in their ability to carry forward net operating losses.
- Controlled Foreign Corporation rules are among the most stringent in the OECD.
- Finland has a progressive tax system with a combined top rate on personal income of 58.3 percent.

France

France ranks 35th overall on the 2018 *International Tax Competitiveness Index*, the same as in 2017.

Some strengths of the French tax system:

- France has above-average cost recovery provisions for investments in machinery and intangibles.
- France has a broad tax treaty network with 107 countries.

Some weaknesses of the French tax system:

- France has multiple distortionary property taxes with separate levies on real estate, net wealth, estates, assets, and financial transactions.
- The tax burden on labor of 47.6 percent is among the highest for OECD countries.
- At 34.4 percent, France has the highest corporate income tax rate among OECD countries.

Germany

Germany ranks 16th overall on the 2018 *International Tax Competitiveness Index*, the same as in 2017.

Some strengths of the German tax system:

- Inventory can receive Last-In-First-Out treatment, the most neutral treatment of inventory costs.
- Germany has a broad tax treaty network with 96 countries.
- The VAT rate of 19 percent is near the OECD average (19.1 percent) and the VAT compliance burden is relatively low.

Some weaknesses of the German tax system:

- Germany has the second-highest corporate income tax rate among OECD countries at 29.8 percent.
- The personal income tax is complex with an associated compliance burden of 134 hours—the highest among OECD countries.
- Companies are limited in the amount of net operating losses they can use to offset income on future or previous tax returns.

Greece

Greece ranks 29th overall on the 2018 *International Tax Competitiveness Index*, one spot better than in 2017.

Some strengths of the Greek tax system:

- The personal tax rate of 15 percent on dividends is below the OECD average of 24 percent.
- Greece has a partial territorial system, exempting 95 percent of foreign dividends and capital gains.
- Controlled Foreign Corporation rules in Greece are modest and only apply to passive income.

Some weaknesses of the Greek tax system:

- Greece has an above-average corporate tax rate of 29 percent (OECD average is 23.9 percent).
- Companies are severely limited in the amount of net operating losses they can use to offset future profits, and companies cannot use losses to reduce past taxable income.
- Greece has a relatively narrow tax treaty network, with just 57 countries.
- At 24 percent, Greece has one of the highest VAT rates in the OECD on one of the narrowest bases.

Hungary

Hungary ranks 13th overall on the 2018 *International Tax Competitiveness Index*, one spot better than in 2017.

Some strengths of the Hungarian tax system:

- Hungary has the lowest corporate tax rate in the OECD at 9 percent.
- Hungary has a flat personal income tax system.
- Better-than-average Controlled Foreign Corporation rules.

Some weaknesses of the Hungarian tax system:

- Companies are severely limited in the amount of net operating losses they can use to offset future profits, and companies cannot use losses to reduce past taxable income.
- Hungary has the highest VAT rate among OECD countries at 27 percent.
- Hungary levies estate, asset, and financial transaction taxes.

Iceland

Iceland ranks 25th overall on the 2018 *International Tax Competitiveness Index*, one spot down from 2017.

Some strengths of the Icelandic tax system:

- Iceland's corporate tax rate of 20 percent is below the OECD average of 23.9 percent.
- Iceland has a territorial tax system that fully exempts foreign dividends and capital gains with no country limitations.

Some weaknesses of the Icelandic tax system:

- Companies are severely limited in the amount of net operating losses they can use to offset future profits, and companies cannot use losses to reduce past taxable income.
- The VAT of 24 percent applies to a relatively narrow tax base.
- Iceland's Controlled Foreign Corporation rules apply to both passive and active income.

Ireland

Ireland ranks 20th overall on the 2018 *International Tax Competitiveness Index*, two spots better than in 2017.

Some strengths of the Irish tax system:

- Ireland has a low corporate tax rate of 12.5 percent.
- Net operating losses can be carried back one year and carried forward indefinitely allowing companies to be taxed on their average profitability.
- Ireland has no Controlled Foreign Corporation rules.

Some weaknesses of the Irish tax system:

- Ireland's personal tax rate on dividend income of 51 percent is the highest among OECD countries.
- The VAT rate of 23 percent is one of the highest in the OECD and applies to a relatively narrow tax base.
- Corporations are limited in their ability to write off investments.

Israel

Israel ranks 30th overall on the 2018 *International Tax Competitiveness Index*, one spot down from 2017.

Some strengths of the Israeli tax system:

- Israel has a below-average corporate tax rate of 23 percent (OECD average is 23.9 percent) and allows net operating losses to be carried forward indefinitely.
- Israel does not levy net wealth or estate taxes.

Some weaknesses of the Israeli tax system:

- On average, compliance with the corporate code takes 110 hours.
- The progressivity of Israel's taxes on labor means that it costs the economy $1.77 for every extra dollar of revenue that Israel raises from labor taxes.
- Israel has a worldwide tax system and a relatively narrow tax treaty network with 55 countries.

Italy

Italy ranks 34th overall on the 2018 *International Tax Competitiveness Index*, the same as in 2017.

Some strengths of the Italian tax system:

- Italy has above-average cost recovery provisions for investments in intangibles.
- Italy has a broad treaty network, with 102 countries.

Some weaknesses of the Italian tax system:

- Italy has multiple distortionary property taxes with separate levies on real estate, net wealth, estates, and financial transactions.
- The VAT rate of 22 percent applies to one of the narrowest tax bases in the OECD.
- Compliance with the personal income tax system takes 169 hours on average, highest by far in the OECD.

Japan

Japan ranks 26th overall on the 2018 *International Tax Competitiveness Index*, three spots down from 2017, tied for the biggest drop in the Index.

Some strengths of the Japanese tax system:

- Japan has a low VAT rate of 8 percent applied to a broad base.
- Japan's personal income tax rate on dividends is 20.3 percent, below the OECD average of 23.9 percent.

Some weaknesses of the Japanese tax system:

- Japan has poor cost recovery provisions for business investments.
- Japan has a hybrid international tax system with a 95 percent exemption for foreign dividends and no exemption for foreign capital gains.
- Companies are severely limited in the amount of net operating losses they can use to offset future profits, and companies cannot use losses to reduce past taxable income.

Korea

Korea ranks 17th overall on the 2018 *International Tax Competitiveness Index*, two spots down from 2017.

Some strengths of the Korean tax system:

- Korea has a low VAT of 10 percent that is applied to a relatively broad base.
- Korea has a broad treaty network, with 93 countries.
- Business investments in machinery receive better-than-average treatment for corporate write-offs.

Some weaknesses of the Korean tax system:

- Korea has multiple distortionary property taxes with separate levies on real estate, estates, and financial transactions.
- The personal income tax rate on dividends is 40.3 percent.
- Companies are severely limited in the amount of net operating losses they can use to offset future profits or reduce past taxable income.

Latvia

Latvia ranks 2nd overall on the 2018 *International Tax Competitiveness Index*, one spot better than in 2017.

Some strengths of the Latvian tax system:

- Latvia's corporate income tax system only taxes distributed earnings, allowing companies to reinvest their profits tax-free.
- Corporations can deduct property taxes when calculating taxable income.
- Latvia's taxes on labor are generally flat allowing the government to raise revenue from taxes on workers with very few distortions.

Some weaknesses of the Latvian tax system:

- Latvia's network of tax treaties includes 61 countries, a relatively low number.
- The VAT of 21 percent applies to approximately half of the potential tax base.

Luxembourg

Luxembourg ranks 4th overall on the 2018 *International Tax Competitiveness Index*, the same as in 2017.

Some strengths of the Luxembourg tax system:

- Business investments in machinery, buildings, and intangibles receive better-than-average tax treatment.
- Luxembourg has a territorial tax system exempting both foreign dividends and capital gains with no country limitations.

Some weaknesses of the Luxembourg tax system:

- Companies are limited in the amount of net operating losses they can use to offset future profits and are unable to use losses to offset past taxable income.
- Luxembourg has several distortionary property taxes with separate levies on real estate, estates, and assets.

Mexico

Mexico ranks 28th overall on the 2018 *International Tax Competitiveness Index*, one spot down from 2017.

Some strengths of the Mexican tax system:

- The personal income tax rate on dividends is 17.1 percent, below the OECD average of 24 percent.
- Corporations can deduct property taxes when calculating taxable income.

Some weaknesses of the Mexican tax system:

- Compliance time associated with corporate and consumption taxes is greater than 100 hours.
- Companies are limited in the amount of net operating losses they can use to offset future profits and are unable to use losses to offset past taxable income.
- Mexico has a higher-than-average corporate tax rate of 30 percent (the OECD average is 23.9 percent).
- Mexico has a worldwide tax system and a narrow tax treaty network, with 58 countries.

Netherlands

The Netherlands ranks 5th overall on the 2018 *International Tax Competitiveness Index*, the same as in 2017.

Some strengths of the Dutch tax system:

- The Netherlands has above-average provisions for corporations to write off investments in machinery.
- The Netherlands has a territorial tax system exempting both foreign dividends and capital gains and a broad tax treaty network, with 97 countries.
- Corporations can deduct property taxes when calculating taxable income.

Some weaknesses of the Dutch tax system:

- The Netherlands has a progressive tax system with a combined top rate on personal income of 52.3 percent.
- The VAT of 21 percent applies to less than half of the potential tax base.
- Companies are limited in the amount of net operating losses they can use to offset future profits or reduce past taxable income.

New Zealand

New Zealand ranks 3rd overall on the 2018 *International Tax Competitiveness Index*, one spot down from 2017.

Some strengths of the New Zealand tax system:

- New Zealand allows corporate losses to be carried forward indefinitely, allowing businesses to be taxed on their average profitability.
- The VAT of 15 percent applies to nearly the entire potential tax base.
- New Zealand property taxes apply just to the value of land rather than real estate or other improvements to the land.

Some weaknesses of the New Zealand tax system:

- New Zealand has an above-average corporate tax rate of 28 percent (the OECD average is 23.9 percent) and poor cost recovery provisions for business investments.
- New Zealand has a narrow tax treaty network, with 40 countries.

Norway

Norway ranks 15th overall on the 2018 *International Tax Competitiveness Index*, two spots better than in 2017.

Some strengths of the Norwegian tax system:

- Norway allows corporate losses to be carried forward indefinitely and to offset taxable income in the past two years, allowing businesses to be taxed on their average profitability.
- Compliance time associated with corporate, consumption, and individual taxes is below average in Norway.

Some weaknesses of the Norwegian tax system:

- Corporations are limited in their ability to write off investments.
- Norway has a progressive tax system with a combined top rate on personal income of 46.7 percent.
- Norway applies its Controlled Foreign Corporation rules to both passive and active income.

Poland

Poland ranks 33rd overall on the 2018 *International Tax Competitiveness Index*, one spot down from 2017.

Some strengths of the Polish tax system:

- Poland has a below-average corporate tax rate of 19 percent (OECD average is 23.9 percent).
- Poland's taxes on labor are generally flat allowing the government to raise revenue from taxes on workers with very few distortions.

Some weaknesses of the Polish tax system:

- Poland has multiple distortionary property taxes with separate levies on real estate, estates, assets, and financial transactions.
- Companies are severely limited in the amount of net operating losses they can use to offset future profits and are unable to use losses to reduce past taxable income.
- Companies can only write off 33.8 percent of the cost of industrial buildings.

Portugal

Portugal ranks 32nd overall on the 2018 *International Tax Competitiveness Index*, one spot down from 2017.

Some strengths of the Portuguese tax system:

- Corporations can deduct their property taxes from their taxable income.
- Portugal has a territorial tax system, exempting foreign dividend and capital gains income for most countries.

Some weaknesses of the Portuguese tax system:

- Portugal has a high corporate tax rate of 31.5 percent.
- Companies are limited in the amount of net operating losses they can use to offset future profits and are unable to use losses to reduce past taxable income.
- The VAT of 23 percent applies to less than half of the potential tax base.

Slovak Republic

The Slovak Republic ranks 11th overall on the 2018 *International Tax Competitiveness Index*, one spot down from 2017.

Some strengths of the Slovakian tax system:

- The personal income rate on dividends is very low at 7 percent.
- Slovakia has better-than-average tax treatment of business investment in machinery, buildings, and intangibles.

Some weaknesses of the Slovakian tax system:

- Companies are limited in the amount of net operating losses they can use to offset future profits and are unable to use losses to reduce past taxable income.
- The VAT of 20 percent applies to less than half of the potential tax base.
- The Slovak Republic has a relatively narrow tax treaty network, with 67 countries, and only a partial territorial tax system.

Slovenia

Slovenia ranks 22nd overall on the 2018 *International Tax Competitiveness Index*, two spots down from 2017.

Some strengths of the Slovenian tax system:

- Slovenia has a 19 percent corporate tax rate, below the OECD average (23.9 percent).
- Slovenia's 22 percent VAT applies to a relatively broad base.

Some weaknesses of the Slovenian tax system:

- Slovenia's progressive personal income tax system has a combined top rate of 61 percent.
- Slovenia has a relatively narrow tax treaty network, with 58 countries, and only a partial territorial tax system.

Spain

Spain ranks 27th overall on the 2018 *International Tax Competitiveness Index*, one spot down from 2017.

Some strengths of the Spanish tax system:

- Spain provides for net operating losses to be carried forward indefinitely, allowing for corporations to be taxed on their average profitability.
- Spain has a territorial tax system that exempts both foreign dividends and capital gains income from taxation.

Some weaknesses of the Spanish tax system:

- The VAT of 21 percent applies to less than half of the potential tax base.
- Spain has multiple distortionary property taxes with separate levies on real estate, net wealth, and estates.
- Corporations are limited in their ability to write off investments.

Sweden

Sweden ranks 7th overall on the 2018 *International Tax Competitiveness Index*, the same as in 2017.

Some strengths of the Swedish tax system:

- Sweden provides for net operating losses to be carried forward indefinitely, allowing for corporations to be taxed on their average profitability.
- Sweden has a territorial tax system that exempts both foreign dividends and capital gains income from taxation.
- Sweden has a broad tax treaty network, with 81 countries.

Some weaknesses of the Swedish tax system:

- Sweden's personal dividend tax rate is 30 percent, above the OECD average (23.9 percent).
- Sweden has a progressive personal income tax and a combined top rate of 60 percent.

Switzerland

Switzerland ranks 6th overall on the 2018 *International Tax Competitiveness Index*, the same as in 2017.

Some strengths of the Swiss tax system:

- Switzerland has above-average cost recovery provisions for investments in machinery, buildings, and intangibles.
- Switzerland has a broad treaty network, with 93 countries.
- The Swiss VAT of 7.7 percent applies to a broad base and has very low compliance costs.

Some weaknesses of the Swiss tax system:

- Switzerland has multiple distortionary property taxes with separate levies on real estate, net wealth, estates, assets, and financial transactions.
- Companies are limited in the amount of net operating losses they can use to offset future profits and are unable to use losses to reduce past taxable income.

Turkey

Turkey ranks 12th overall on the 2018 *International Tax Competitiveness Index*, the same as in 2017.

Some strengths of the Turkish tax system:

- Turkey has a territorial tax system exempting foreign dividends and capital gains income.
- The personal income tax on dividends is 17.5 percent, below the OECD average (24 percent).

Some weaknesses of the Turkish tax system:

- Companies are limited in the amount of net operating losses they can use to offset future profits and are unable to use losses to reduce past taxable income.
- Turkey's VAT rate of 18 percent applies to just 42 percent of the potential tax base.

United Kingdom

The United Kingdom ranks 23rd overall on the 2018 *International Tax Competitiveness Index*, down two spots from 2017.

Some strengths of the U.K. tax system:

- The corporate income tax rate is 19 percent, below the OECD average (23.9 percent).
- The U.K. has a territorial tax system exempting both foreign dividend and capital gains income.
- The U.K. tax treaty network with 131 countries is the broadest in the OECD.

Some weaknesses of the U.K. tax system:

- The personal income tax rate on dividends is 38 percent, well above the OECD average (24 percent).
- Corporations are prohibited from writing off any costs of buildings or industrial structures.
- The VAT of 20 percent applies to less than half of the potential consumption tax base.
- The U.K. has multiple distortionary property taxes with separate levies on real estate, estates, assets, and financial transactions.

United States

The United States ranks 24th overall on the 2018 *International Tax Competitiveness Index*, four spots better than in 2017.

Some strengths of the U.S. tax system:

- The U.S. provides full expensing for business investments in machinery.
- Consumption taxes are very low in the U.S. with states levying an average sales tax rate of 7 percent.

Some weaknesses of the U.S. tax system:

- The U.S. has a progressive income tax with a top rate of 46 percent, including payroll and personal income taxes.
- The U.S. has a partial territorial system and does not exempt foreign capital gains income—it ranks as one of the most onerous international tax systems of any OECD nation.
- The real property tax burden is among the highest in the OECD.