

Corporate Capital Gains Taxation in Europe

March 23, 2007

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Capital Gains Taxation in Europe

- 16 out of 27 EU member states have a partial or full exemption for disposal of shares (Bulgaria, Czech Republic, Greece, Hungary, Latvia, Malta, Poland, Portugal, Romania, Slovakia and Slovenia do not).
- 14 out of the 16 member states provide a partial or full exemption for both disposals of domestic and foreign held shareholdings (only Spain and Austria do not).
- Territories that have recently introduced exemptions include UK, Ireland, Germany and France.

United Kingdom – Corporate Capital Gains tax exemption

- Introduced - April 2002
- Overview of Rules - full exemption if within the rules:
- i) 10% shareholding requirement needed;
 - ii) 12 month holding period requirement.
- if the rules apply, there is no relief for capital losses
- General comments - estimated cost by UK Revenue of the relief:
- 2003 – GBP70m
 - 2004 - GBP130m
 - 2005 - GBP150m

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United Kingdom (continued)

Other observations:

- Evidence that the substantial shareholdings exemption has facilitated a number of transactions. This includes:
 - The disposal of the Automobile Association (AA) by Centrica plc in the UK;
 - The disposal of Hygena by MFI plc (A UK furniture retailer).
- The exemption has also facilitated internal reorganizations and cash repatriation transactions.
- UK groups are more amenable to holding foreign companies directly from the UK:
 - see also changes to UK double tax relief (from 2001) and 0% WHT on dividends under UK/US treaty (from 2003).
- Increased tension between asset v share transactions:
 - note that tax relief for acquisitions of intangibles introduced in April 2002.

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Ireland – Corporate Capital Gains tax exemption

- Introduced - 2004
- Overview of Rules - capital gain exempt if within the rules:
- i) holding of at least 5% of shares;
 - ii) holding shares for at least 12 months; and
 - iii) the subsidiary is a trading company.
- General comments - Irish Revenue estimated cost of EUR10m per year as noted in the 2004 budget speech.

Germany – Corporate Capital Gains tax exemption

- Introduced - current rules introduced in 2002
- Overview of Rules - generally, 95% of capital gain on share disposal is exempt.
- General comments - the intention was that corporate capital gains exemptions would allow groups (particularly banks and financial institutions) to unwind inefficient cross shareholdings.

France – Corporate Capital Gains tax exemption

- Introduced - January 2007
- Overview of Rules - 95% of capital gain exempt if within the rules:
- i) 5% shareholding requirement needed; and
 - ii) holding shares for at least 24 months.
- General comments - the exemption was introduced in stages:
- 19% rate on capital gains in 2004
 - 15% rate on capital gains in 2005
 - 8% rate on capital gains in 2006