Key Corporate Tax Haven Indicators

Haven Indicator 5:
Sectoral Exemptions

What is measured?

This indicator measures the availability of broad exemptions from corporate income tax (CIT). It covers exemptions applicable to companies[1] engaged in specific activities or sectors. The indicator is divided into two sub-indicators:

1. **Investment Sector:** we measure tax exemptions for companies engaged in financial and real estate investment. In this context, we analyse economic undertakings with passive income streams (capital gains, dividends and interest/rents).

2. **Active Income Sectors:** we assess tax exemptions applicable to all other economic sectors, including natural resource extraction, manufacturing, transportation and storage, and business services. We analyse situations where companies which are engaged in a specific activity, are subject to lower CIT rates.

For this indicator, only tax exemptions for corporations are considered. As such, we do not asses any exemption extended to shareholders on income received from a corporation.

The assessment includes only exemptions that are considered "broadly available" to tax residents provided they engage in a specific activity. These tax exemptions are permanent (i.e. not limited in time) and generally available to companies established in any part of the jurisdiction's territory (i.e. not limited to a specific area or zone).[2]

Importantly, only "profit-based" are penalised by this indicator. Profit-based exemptions are applicable to a tax resident company merely because the company is engaged in a specific for-profit activity. In contrast, "cost-based" exemptions are tax reductions available on the condition that the company has additional expenses. This may include hiring additional employees or investing in fixed assets or research and development.

Tax exemptions that are received by companies for added expenditures in the economy (cost-based) are not penalised. However, if a nominal amount of additional invested funds triggers a tax exemption, and there is no actual requirement for the company to expense these funds in fixed assets or to incur specific costs, then the exemption is considered profit-based (i.e. not cost-based) and is penalised both in this indicator as well as in Haven Indicator 6.Why is this important?

In other words, we analyse situations where companies engaging in a specific activity are accorded a tax rate that is lower than the headline rate[3] usually applicable by default to any economic activity, without being subject to cost or expenditure requirements.

If the lower rate is zero, we consider the exemption "full", and otherwise, the lower rate will constitute a "partial" exemption. The score is computed as follows in Table 5.1 below.

Table 5.1. Scoring Matrix Haven Indicator 5

Regulation [0 = minimum risk; 50 maximum risk. Each jurisdiction's score starts at 0, and for each exemption found, a specific credit is added (either 25, 12.5 or 6.25) according to the type of exemption applicable, up to a maximum of 50.]		**Haven Score** [0 = minimum risk; 100 maximum risk]	
		Tax Exemption Type	
		Full	Partial
1. Investment Sector (passive income)	Financial investment	+ 25	+ 12.5
	Real Estate investment	+ 25	+ 12.5
2. Active Income Sectors (13 sectors)		+ 12.5	+ 6.25

The maximum score for each of the two sub-indicators is 50. Therefore, if a jurisdiction fully exempts four or more economic sectors, it will have a 50 haven score in the second component of the indicator (active income sectors).

Furthermore, in cases where four or more economic sectors are fully exempt, then in Haven Indicator 1 we consider the lowest available corporate income tax rate applicable to any of such exempt sectors. The threshold of four exempt sectors may be reached through any combination of four fully exempt and/or eight partially exempt economic active income sectors.

Similarly, if a jurisdiction presents a tax exemption under a special entity regime; such regime will be accounted for in this indicator, insofar as the entity is allowed to undertake activities included in any of the reviewed sectors. When the number of economic sectors covered under this exempt entity regime reaches the above-mentioned threshold (i.e. four fully exempt and/or 8 partially exempt), then the exempt entity regime will be accounted for in Haven Indicator 1 as the lowest deviating CIT rate applicable to specific types of companies.

In addition, for this indicator, we do not take into account cases where a jurisdiction exempts foreign-source active income from the corporate tax base (Haven Indicator 1 lowest available corporate income tax Step 3.3). If, however, there are legal provisions that effectively exempt income in specific sectors by reclassifying domestic income as foreign income (deemed or treated by case law as foreign source income), we will consider such exemptions in this indicator.

For consistency purposes, we consider the following as equivalent: (a) a business entity is taxable under the CIT law, but if the entity is exclusively engaged in a specific activity, it is subject to lower or no tax; and (b) an entity is taxable under CIT law, but income derived from a specific activity is subject to lower or no tax.

Accordingly, this indicator covers broad activity exemptions as described above. The methodology presented below describes in further detail the coverage logic for each of the two sub-indicators: (1) Investment Sector and (2) Active Income Sectors.

(1) Investment Sector: The first sub-indicator assesses the income tax rate applicable to investment activities for entities engaged in investment that are organised as limited liability corporate entities. Tax exemptions in this sector may be given based on the special status of companies exclusively engaging in investment activities; or alternatively, tax exemptions may result from the non-taxation of principal income streams. Table 5.2 below highlights the focus of the analysis.

Table 5.2. Investment Companies Overview

Companies (legal entities, not partnerships) **engaged in:**	**Products**	**Income streams**	**Usual entity designations**
Financial investment	Securities, bonds, financial products (derivatives)	Capital gains, interest, dividends	Investment fund, investment company, collective investment vehicles, Société d'investissement à Capital Variable (SICAV), Société d’Investissement à Capital Fixe (SICAF)
Real estate investment	Immovable property	Capital gains, rent	Real Estate Investment Trust (REIT), Real Estate Investment Company

In line with the aforementioned principle of equivalence, if an investment entity is exempt or investment income streams are untaxed, or both, we consider that a tax exemption has been provided by a jurisdiction for investment activities.

The terminology used to refer to entities engaged in investment activities varies significantly under the laws of each jurisdiction. Depending on the jurisdiction, these entities or collective investment vehicles (CIV) may or may not be organised as separate legal entities:[4]

> Although a consistent goal of domestic [Collective Investment Vehicle (CIV)] regimes is to ensure that there is only one level of tax, at either the CIV or the investor level, there are a number of different ways in which States achieve that goal. (Organisation for Economic Co-operation and Development (OECD) 2017)[5]

We consider that eliminating tax at the entity-level in order to achieve only one level of tax is a harmful tax policy goal. Thus, while investor-level exemptions are excluded from this indicator, entity-level exemptions are covered as explained below.

As mentioned above, for purposes of consistent assessment, we only assess the tax regime applicable to investment entities with legal personality that are not organised as partnerships or trusts under the law (i.e. "corporations" or "companies"). Thus, we do not cover an investment entity exemption if non-taxation derives from partnership legal form (tax-transparent) or from the merely contractual nature of the investment. We consider these contractual funds as largely equivalent to a direct investment by the investor into a portfolio. An explanatory diagram is provided in Annex 1.

Table 5.3. Scoring Matrix for Sub-Indicator – 1. Investment Sector

Sub-indicator Regulation [0 = minimum risk; 50 maximum risk. Each jurisdiction's score starts at 0, and for each exemption found, a specific credit is added (either 25 or 12.5) according to the type of exemption applicable, up to a maximum of 50.]	**Full Exemption**	**Partial Exemption**
Financial products: Companies engaged in investment activities with regards to shares, bonds, and/or derivatives are subject to a lower CIT rate and/or one or more of the main income streams are tax-exempt.	+ 25	+ 12.5
Real Estate: companies engaged in real estate investment are subject to a lower CIT rate and/or rents or real estate capital gains are tax-exempt.	+ 25	+ 12.5

If a jurisdiction allows various investment fund regimes and entities in its domestic law, the lowest tax rate available among those funds that may be organised as separate legal entities (or generally "companies") will be used in the assessment of this sub-indicator.

For example, in Spain, investment funds are considered taxable legal entities, and these are taxed at a rate of 1%.[6] Furthermore, companies investing in real estate (Sociedades de Inversión en el Mercado Inmobiliario, or SOCIMIs) are subject to a special regime, where the entity is exempt from income tax if shareholders – holding more than 5% of the capital stock – are subject to tax at a 10% rate or more.[7] In these cases, we therefore consider that "financial investment" is partially exempt, while "real estate investment" is fully exempt. The measurement is thus 12.5 + 25 = 37.5, out of a haven score of 50 maximum score.

Where investment activities are tax-exempt, usually both financial and real estate investments are covered under a single regime. When the sources we use provide no indication that real estate investment is taxed under an alternative regime, we consider that real estate investment activities are taxed under the same regime as financial investment. However, if our sources indicate restrictions or exclusions for real estate from the financial investment regime, we consider that the investment exemption covers financial investment only.

Our data sources for the assessment of investment sector tax exemptions are mainly from the International Bureau of Fiscal Documentation (IBFD) (country analyses, surveys and reports),[8] Deloitte (International Tax Highlights),[9] PricewaterhouseCoopers (Worldwide Tax Summaries)[10] and Invest Europe (Tax Benchmark Study 2018, in association with KPMG).[11]

(2) Active Income Sectors: In this sub-indicator, we measure the incidence of broad tax exemptions in specific economic sectors. We only cover exemptions that are broadly available to companies that are tax residents of the assessed jurisdiction. That is, where such exemptions are permanent and generally available to companies established in any part of the jurisdiction's territory.

For consistency purposes, we distinguish in this sub-indicator between "activities"($\mathbf{A}$ = {a, b, c, d, …}) and "sectors"($\mathbf{S}$ = { S_1, S_2, S_3, …}). We consider that a sector contains various activities ($\mathbf{S}_1$ = {a, b, c}; $\mathbf{S}_2$={d, e, f}; $\mathbf{S}_3$={g, h, …}..), which may or may not be tax-exempt under the laws of a jurisdiction. In order to achieve comparable measurements, we refer to a fixed list of economic sectors and activities, derived from the United Nations Statistics Division classification,[12] and Eurostat[13] (see Annex 2).

The aim of using this framework in Table 5.6 in Annex 2 is to avoid assessing two or more exemptions applicable to closely related activities as separate sectoral exemptions. Instead, we consider the lowest tax rate among the activities included in an economic sector as the tax exemption rate attributable to that sector.

Jurisdictions often offer alternative tax regimes under the same CIT law or a special law applicable to specific entities or activities. This is usually the case for holding companies as well as for banking or insurance sectors when these are not completely exempt. Where companies carrying out specific activities benefit from a tax base that excludes certain items of income, or that the tax is not assessed on the companies' income (eg the tax is determined in accordance with the extent of the company's expenditures), we consider that such activities are partially exempt.[14] The assessment does not cover situations where the alternative tax base is reduced because of additional deductions for business expenditures (such tax incentives are considered cost-based).

A notable exception to the above assessment of alternative regimes is retained for transportation activities (shipping), acknowledging existing international tax standards. Indeed, most jurisdictions have adopted "tonnage regimes" to determine tax for shipping activities. Under such alternative regimes, boat-owning companies must register their ships and account for their tonnage capacity. Then, a nominal tax base is determined based on registered ships' carrying capacity (tonnage). It is common for tonnage tax regimes to be regressive; that is, the higher the total tonnage of a shipping company, the lower the marginal tax will be for each additional tonne (e.g. Cyprus[15] or Latvia[16]).

Although the above "tonnage tax" is not a tax that is determined based on the company's income, we disregard such alternative regimes from assessment insofar as they cover shipping activities only. Where the tonnage regime is applicable to activities other than shipping and necessarily related activities (storage, loading, unloading), we consider that such other activities are partially exempt. For instance, in Latvia, income from accommodation, catering and casino activities on ships are covered under the tonnage regime.[17] Therefore, we consider that the "accommodation, food and recreation" sector is partially exempt.[18]

Finally, given that preferential tax regimes relating to the exploitation of intellectual property are covered under Haven Indicator 7 on patent boxes, we exclude such regimes from assessment in this Haven indicator 5.

Why is this important?

The most classical (or neoclassical) argument against tax incentives is that they create economic "distortions" that affect the "natural" allocation of capital and promote economic activity that would otherwise not have resulted from "the market".[19] For example, if investment in fossil fuels is profitable at 5% when taxed under the regular regime, and a country provides a tax incentive that makes the investment profitable at 20%, then "rational" economic actors are likely to increase their investment over and above what would have resulted if "market forces" applied equally to every type of business. However, jurisdictions are sovereign and thus can incentivise specific sectors for purposes they deem legitimate, such as for promoting green energy over fossil fuels.

The data collected in this indicator allows a comparison between existing permanent tax incentives in different economic sectors. We assess every sector under the same harmfulness standard even though the promotion of certain activities can be clearly more harmful for environmental or social reasons. This is because we consider that all profit-based incentives are harmful. We focus on tax reductions that are available to corporations that merely engage in a specific economic activity or are licensed or registered under a specific regime. These incentives are particularly harmful because it is much easier for multinational corporations to allocate profits to a tax-exempt company if the exemption regime does not ensure that the exemption applies to income resulting from domestic economic activity. By contrast, cost-based incentives are meant to ensure that the tax incentive applies only to companies effectively engaged in the domestic economy, by investing in fixed assets, hiring employees, or supporting research and development.

Indeed, the International Monetary Fund (IMF) differentiates between these two types of incentives and indicates the harmfulness of profit-based incentives compared with cost-based incentives. In its 2014 report, the IMF emphasises that cost based incentives "[…] may generate investments that would not otherwise have been made […]" whereas profit based incentives tend to "[…] make even more profitable investment projects that would be profitable, and hence undertaken, even without the incentive".[20] Thus, while cost based tax incentives may also be harmful, particularly in cases where the expenditure requirement is not properly enforced, this indicator focuses only on profit-based incentives.

Although the OECD started to monitor the harmfulness of special tax regimes more than 20 years ago, tax competition and lobbyists managed to block attempts at progress. In its 1998 report, the OECD established the "Guidelines on Harmful Preferential Tax Regimes". This report highlighted two key criteria to identify harmful tax regimes: "no or low effective tax rates" and "ring-fencing".[21] In addition, the report focuses on tax regimes that are "usually targeted specifically to attract those economic activities which can be most easily shifted […], generally financial and other services activities", even though this was not considered as a criteria of harmfulness .[22]

However, by the time of the 2008 financial crisis, harmful tax regimes had increased in number and intensity. In 2012, an IMF study found evidence that "[f]or special regimes, […] the 'race to the bottom' has long taken place, with effective tax rates close to zero".[23] The authors also make the following remark:

> [S]pecial regimes which reduce effective tax rates to close to zero remain widespread. In countries where these are present, the normal relationships break down. Increasing tax rates does not boost revenues, not even in the short term. The most likely explanation is that profits then shift to the special regimes, either because investment takes place there, or through some profit transfer scheme. In those countries investment cannot be encouraged through lowering tax rates either. This is because any tax-sensitive investment probably already takes place only under the special regime, so that the standard tax rate becomes irrelevant.[24]

Where exemptions are widespread, the standard tax rate becomes irrelevant. In this regard, the findings of this Haven Indicator 5 are astonishing. In our sample of 64 jurisdictions, which includes all European Union member states and dependent territories, 10 jurisdictions apply no or zero corporate tax, 5 others present permanent exemptions in all economic sectors, and a further 4 jurisdictions apply a wide range of harmful exemptions covering several economic sectors. Together, nearly 30% of the jurisdictions we assessed present widespread profit-based tax exemptions in all or nearly all economic sectors. Among these 19 jurisdictions, more than 70% are European Union member states or European Union-dependent jurisdictions.[25]

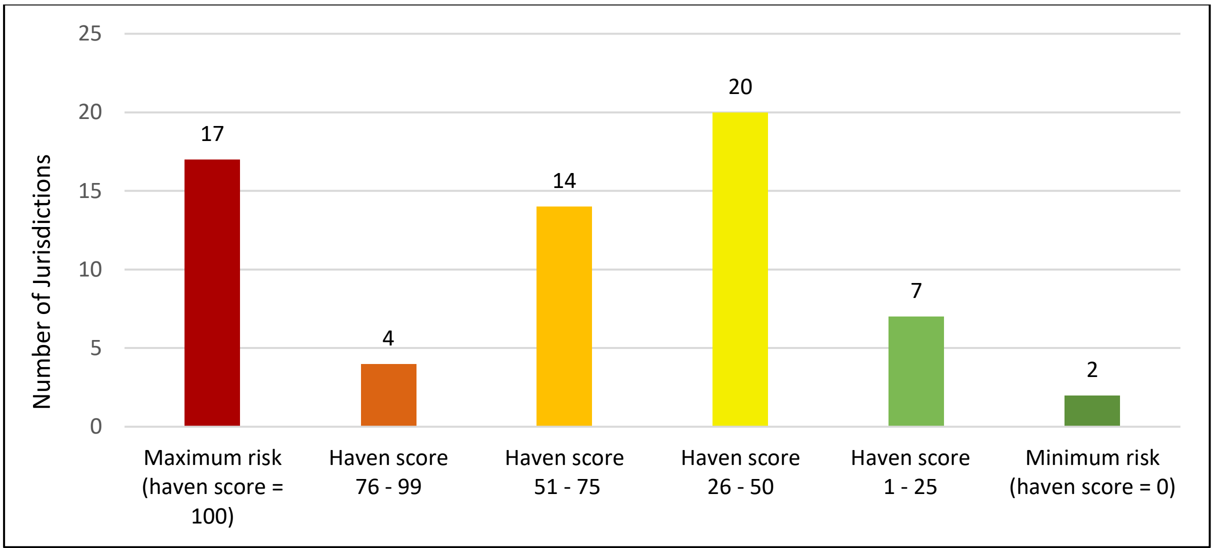
The OECD has been monitoring the abolishment of harmful tax practices. Today, it considers that providing tax exemptions to "geographically mobile financial and other services activities" is a "key factor" in identifying a harmful regime.[26] Yet, curiously, neither the absence of all corporate income taxation nor the non-taxation of particularly mobile activities is consistently considered to be "harmful" by the OECD.[27] As a result, a number of regimes fall through the cracks. In particular, the OECD 2019 monitoring report on harmful tax practices does not recognise the harmfulness of the most common exemptions available: that is, those applicable to investment activities, banking and insurance and business services.[28] Indeed, we found that profit-based exemptions applied to financial investment in 86% of the jurisdictions we assessed and 64% applied full exemptions. In addition, about 30% of our sample jurisdictions imposed no tax on certain banking and insurance activities or business services activities.[29]

Precisely because these activities are "geographically mobile services activities", which can be carried out cross-border, a policy decision has to be made internationally. Either policymakers openly accept that multinationals engaging in such activities should remain untaxed, or we ensure that jurisdictions abolish all profit-based exemptions. In our view, it would be wise for the OECD's Forum on Harmful Tax Practices to consistently abolish all zero or near zero tax regimes applicable to mobile activities and to adopt the profit-based criteria of harmfulness, as emphasised by the IMF in its 2014 report.[30] Furthermore, the Forum needs to pay particular attention to jurisdictions that replace one harmful tax practice for another.[31] Such loophole-building intentions may eventually render the process largely ineffective.

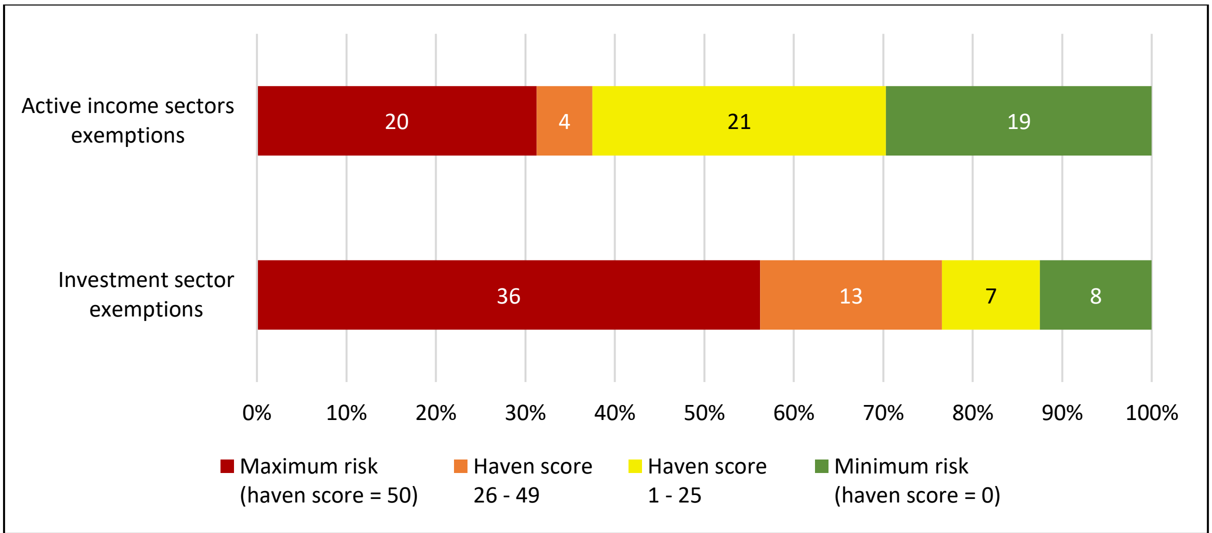
Finally, constituencies and lawmakers should require governments to publish estimates of tax losses caused by each exemption regime and to ensure that tax incentives in the extractives sector are abolished as soon as possible.[32]

Results Overview

Graph 5.1. Sectoral Exemptions Overview



Graph 5.2. Sectoral exemptions - Investments Sector and Active Sectors



Results Detail

Table 5.4. Sectoral Exemptions – Haven Indicator Scores

ISO	Country Name	Final Score	Passive Income Exemptions Score	Active Income Exemptions Score
AD	Andorra	63	50	13
AI	Anguilla	100	N/A	N/A
AW	Aruba	75	25	56
AT	Austria	38	38	0
BS	Bahamas	100	N/A	N/A
BE	Belgium	50	38	13

Haven Indicator 5: Sectoral Exemptions

ISO	Country Name	Final Score	Passive Income Exemptions Score	Active Income Exemptions Score
BM	Bermuda	100	N/A	N/A
BW	Botswana	69	50	19
VG	British Virgin Islands	100	N/A	N/A
BG	Bulgaria	56	50	6
KY	Cayman Islands	100	N/A	N/A
CN	China	44	0	44
HR	Croatia	38	38	0
CW	Curacao	81	50	31
CY	Cyprus	31	25	6
CZ	Czech Republic	38	38	0
DK	Denmark	56	50	6
EE	Estonia	100	50	156
FI	Finland	50	50	0
FR	France	75	50	25
GM	Gambia	13	13	0
DE	Germany	50	50	0
GH	Ghana	56	38	25
GI	Gibraltar	50	50	0
GR	Greece	31	25	6
GG	Guernsey	100	N/A	N/A
HK	Hong Kong	81	38	44
HU	Hungary	63	50	13
IE	Ireland	63	50	13
IM	Isle of Man	100	N/A	N/A
IT	Italy	63	50	0
JE	Jersey	100	N/A	N/A
KE	Kenya	50	50	0
LV	Latvia	100	50	150
LB	Lebanon	100	50	81
LR	Liberia	0	0	0
LI	Liechtenstein	38	38	0
LT	Lithuania	6	0	6
LU	Luxembourg	63	50	13
MO	Macao	38	0	38
MT	Malta	31	25	6
MU	Mauritius	100	50	163
MC	Monaco	100	50	163
MS	Montserrat	100	50	163
NL	Netherlands	75	50	25
PA	Panama	100	50	88
PL	Poland	0	0	0
PT	Portugal (Madeira)	25	25	0

ISO	Country Name	Final Score	Passive Income Exemptions Score	Active Income Exemptions Score
RO	Romania	6	0	6
SM	San Marino	38	38	0
SC	Seychelles	88	38	50
SG	Singapore	88	38	106
SK	Slovakia	6	0	6
SI	Slovenia	63	50	13
ZA	South Africa	50	38	13
ES	Spain	50	50	0
SE	Sweden	13	13	0
CH	Switzerland	56	50	6
TW	Taiwan	50	38	13
TZ	Tanzania	6	0	0
TC	Turks and Caicos Islands	100	N/A	N/A
AE	United Arab Emirates (Dubai)	100	N/A	N/A
GB	United Kingdom	38	38	0
US	USA	50	50	0

Final Score					
Maximum Risk (Haven Score 100)	Haven Score 76 - 99	Haven Score 51 - 75	Haven Score 26 - 50	Haven Score 1 - 25	Minimum Risk (Haven Score 0)
Component score					
Maximum Risk (Haven Score 50 or more)	Haven score 26-49		Haven Score 1-25		Minimum Risk (Haven Score 0)

Table 5.5. Assessment Logic Haven Indicator 5

Info_ID	Text_Info_ID	Answers (Codes applicable for all questions: -2: Unknown; -3: Not Applicable)	Valuation Haven Score
524	Real Estate Investment (passive): Are there any (partial) tax exemptions applicable to collective investment companies investing in real estate?	0: None: No, there are no specific exemptions; 1: Partial: Yes, there are partial tax exemptions.; 2: Full: Yes, there are full tax exemptions.	0: +0 1: +12.5 2: +25

525	Other Investment (passive): Are there any (partial) tax exemptions applicable to collective investment companies investing in assets other than real estate?	0: None: No, there are no specific exemptions; 1: Partial: Yes, there are partial tax exemptions; 2: Full: Yes, there are full tax exemptions.	0: +0 1: +12.5 2: +25
526	Extractives (active): Are there any (partial) tax exemptions applicable to companies active in the extractives sector (oil, gas, mining)?	0: None: No, there are no specific exemptions; 1: Partial: Yes, there are partial tax exemptions; 2: Full: Yes, there are full tax exemptions.	0: +0 1: +6.25 2: +12.5 (Maximum across ID526-538 of +50)
527	Agriculture and farming (active): Are there any (partial) tax exemptions applicable to companies active in the agricultural and farming sector?	0: None: No, there are no specific exemptions; 1: Partial: Yes, there are partial tax exemptions; 2: Full: Yes, there are full tax exemptions.	0: +0 1: +6,25 2: +12.5 (Maximum across ID526-538 of +50)
528	Manufacturing (active): Are there any (partial) tax exemptions applicable to companies active in the manufacturing sector?	0: None: No, there are no specific exemptions; 1: Partial: Yes, there are partial tax exemptions; 2: Full: Yes, there are full tax exemptions.	0: +0 1: +6.25 2: +12.5 (Maximum across ID526-538 of +50)
529	Construction (active): Are there any (partial) tax exemptions applicable to companies active in the construction sector?	0: None: No, there are no specific exemptions; 1: Partial: Yes, there are partial tax exemptions; 2: Full: Yes, there are full tax exemptions.	0: +0 1: +6.25 2: +12.5 (Maximum across ID526-538 of +50)
530	Infrastructures (active): Are there any (partial) tax exemptions applicable to companies active in the infrastructures sector?	0: None: No, there are no specific exemptions; 1: Partial: Yes, there are partial tax exemptions; 2:	0: +0 1: +6.25

		Full: Yes, there are full tax exemptions.	2: +12.5 (Maximum across ID526-538 of +50)
531	Transportation and storage (active): Are there any (partial) tax exemptions applicable to companies active in the transportation and storage sector?	0: None: No, there are no specific exemptions; 1: Partial: Yes, there are partial tax exemptions; 2: Full: Yes, there are full tax exemptions.	0: +0 1: +6.25 2: +12.5 (Maximum across ID526-538 of +50)
532	Distribution (active): Are there any (partial) tax exemptions applicable to companies active in the distribution sector?	0: None: No, there are no specific exemptions; 1: Partial: Yes, there are partial tax exemptions; 2: Full: Yes, there are full tax exemptions.	0: +0 1: +6.25 2: +12.5 (Maximum across ID526-538 of +50)
533	Accommodation, food and recreation (active): Are there any (partial) tax exemptions applicable to companies active in the accommodation, food and recreation sector?	0: None: No, there are no specific exemptions; 1: Partial: Yes, there are partial tax exemptions; 2: Full: Yes, there are full tax exemptions.	0: +0 1: +6.25 2: +12.5 (Maximum across ID526-538 of +50)
534	Information and telecom (active): Are there any (partial) tax exemptions applicable to companies active in the information and telecom sector?	0: None: No, there are no specific exemptions; 1: Partial: Yes, there are partial tax exemptions; 2: Full: Yes, there are full tax exemptions.	0: +0 1: +6.25 2: +12.5 (Maximum across ID526-538 of +50)
535	IT services (active): Are there any (partial) tax exemptions applicable to companies active in the IT services sector?	0: None: No, there are no specific exemptions; 1: Partial: Yes, there are partial tax exemptions; 2:	0: +0 1: +6.25 2: +12.5

		Full: Yes, there are full tax exemptions.	(Maximum across ID526-538 of +50)
536	Banking and insurance (active): Are there any (partial) tax exemptions applicable to companies active in the banking and insurance sector?	0: None: No, there are no specific exemptions; 1: Partial: Yes, there are partial tax exemptions; 2: Full: Yes, there are full tax exemptions.	0: +0 1: +6.25 2: +12.5 (Maximum across ID526-538 of +50)
537	Professional and technical services (active): Are there any (partial) tax exemptions applicable to companies active in the professional and technical services sector?	0: None: No, there are no specific exemptions; 1: Partial: Yes, there are partial tax exemptions; 2: Full: Yes, there are full tax exemptions.	0: +0 1: +6.25 2: +12.5 (Maximum across ID526-538 of +50)
538	Business services (active): Are there any (partial) tax exemptions applicable to companies active in the business services sector?	0: None: No, there are no specific exemptions; 1: Partial: Yes, there are partial tax exemptions; 2: Full: Yes, there are full tax exemptions.	0: +0 1: +6.25 2: +12.5 (Maximum across ID526-538 of +50)

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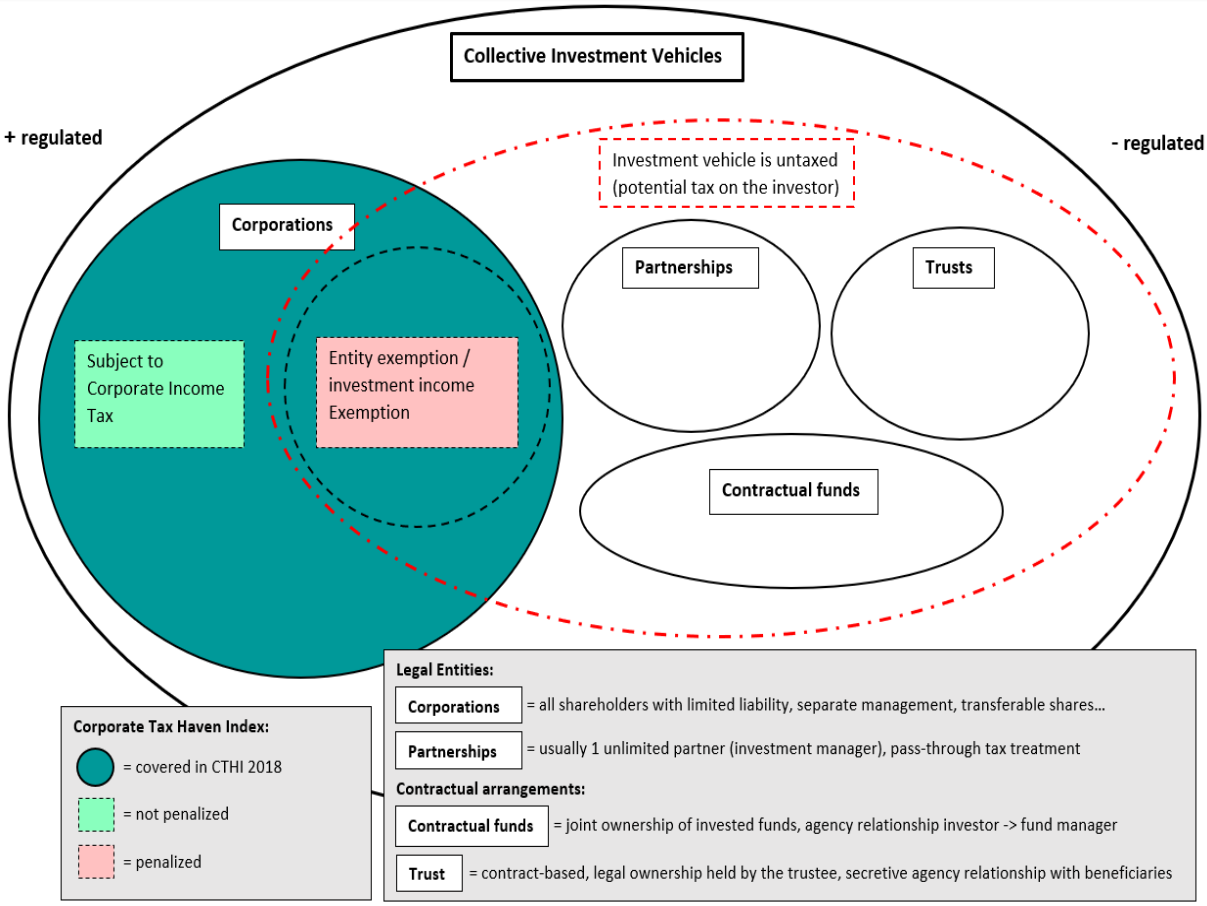
ANNEX 1. Investment Sector (sub-indicator 1) coverage diagram

Figure 5.1. Typology of Collective investment vehicles



ANNEX 2. Economic sectors and activities classification

Table 5.4 provides an overview of the classification of economic sectors and activities used in the Corporate Tax Haven Index. The classification derives from the United Nations Statistics Division's sectoral classification (Rev4 2008) and the European Commission Eurostat's statistical classification of economic activities in the European Community (NACE Rev.2, 2008).

Two notable differences are the following: 1) investment activities are separated from the more functional side of finance (Banking and Insurance); and 2) natural resource extractive activities (Extractives) are separated from other raw material producing activities (Agriculture and Farming). Sector designated A-F are excluded from analysis due to usual direct control by public authorities, or informality.

Table 5.6. Classification of economic sectors and activities

	Economic Sector	Includes
1	Investment activities	• Financial investment: fund and asset management, trade, brokerage • Real estate investment: Buying/selling real estate, renting/operating real estate, agencies and intermediation
2	Extractives	• Mining, crude/gas extraction, quarrying • Water collection • Maritime fishing, hunting, natural forest logging • Support services (excl. processing)
3	Agriculture and farming	• Cultivation, forestry (cultivation/logging) • Farming (land, fisheries) • Related services (excl. processing)
4	Manufacturing	Processing of raw materials: Food products, beverages, textiles, apparel, wood products, paper products, printing, reproduction of recorded media, refined petroleum products, chemicals (non-pharma), pharmaceuticals, rubber/plastic products, other non-metallic prods., basic metals, metal products (excl. machinery), hardware and optical prods., electrical equipment, machinery, motor vehicles, other transport equipment, furniture, other manufacturing (jewels, coins, instruments, games, medical instruments..), repair/installation of machinery
5	Construction	• Construction of buildings • Specialised construction services (demolition, drilling, electrical, plumbing)
6	Infrastructures	• Energy: Electric power generation/distribution, fuel distribution (incl. pipelines) • Water: treatment, supply, sewerage (excl. collection)

	Economic Sector	Includes
		• Waste: collection, disposal, waste management, remediation • Civil infrastructure (construction & operation): construction of roads, rails, dams, airports, seaports, construction of Energy/water/waste facilities.
7	Transportation and storage	• Land (passenger, freight), water (passenger, freight), air (passenger, freight, space), warehousing (storage, support/incidental activities in transport, cargo handling), postal and courier activities
8	Distribution and wholesale	• Wholesale/ retail of goods: raw materials (incl. precious metals), food and beverages, vehicle products, household, information technology (IT) equipment ⇨ including **mail/internet order retail** sales (incl. warehousing if integrated) • Buy/sell intermediation: distribution centres, export services, sales agents
9	Accommodation, food services and recreation	• Hotels, accommodation, • Food and beverage service activities, • Recreation (amusement parks, gaming, gambling, excluding internet platforms)
10	Information and Telecommunications	• Publishing: books, directories, journals, software, games… (Excluding direct sales by the publisher through the internet => retail) • Audio-visual production and publishing: sound and video (including integrated production/dissemination by the publisher through the internet) • News and Broadcasting: Incl. Radio/TV, news agencies, newspapers (incl. print and digital) • Telephone/Internet service providers: access to internet/telephone service (including cable/satellite network construction & maintenance)
11	Information technology (IT) services	• Internet platforms: digital intermediation, incl. online gaming (income: usually subscription based, fee based, advertisement or other data monetizing) (excluding internet based retail) • Internet-related services: (server hosting, could computing, website maintenance, cybersecurity) • Other IT services (programming, implementation, data processing and analysis)
12	Banking and Insurance	• Banking: including deposits, credit, monetary intermediation, leasing • Insurance: insurance and reinsurance, excluding social security

	Economic Sector	Includes
		• <u>Auxiliary activities</u>: if integrated, including financial market administration, risk and damage evaluation, back office processing (if differentiated, auxiliary activities are considered within Business Services)
13	Professional & Technical Services	**[All advisory, professional activities other than IT]** • <u>Law; Tax; accounting; financial advisory</u> (financial services other than core banking, insurance and investment activities, trust & company services, excl. fund/asset management) • <u>Technical</u>: architectural, engineering, testing and analysis, hardware/software consultancy, R&D (natural sciences and engineering, biotech, social sciences); • <u>Marketing/advertisement</u>: advisory (excluding online advertisement platforms); • <u>Other professional</u> (design, photo, translation…); • Medical/veterinary services.
14	Business Services / Intermediation	**[business function outsourcing, B2B]** • <u>Management services</u>: external management (excl. Fund management) • <u>Rental and leasing activities</u>: vehicles, machinery, equipment (including charters)/ leasing of intellectual property and similar products (IP/licensing) • <u>Employment activities</u> (human resources and temporary employment agencies), • <u>Security and investigation</u> (private security, security systems, investigation), • <u>Services to buildings and landscaping</u>, • <u>Auxiliary support services</u> (office support, call centres, conventions, credit rating, packaging)
A	Public administration and defence; compulsory social security	• Social services, foreign affairs, defence, justice, fire services, social security…
B	Education	• Including sports and recreation
C	Human health and social work activities	• Human health (hospitals, medical, specialist, dental), residential care (nursing, disability, rehabilitation, elderly), social work (excl. accommodation, childcare)
D	Arts, entertainment and recreation	• Creative/performing arts, libraries/museums, sports (incl. sports clubs)
E	Membership organisations and	• Membership organisations (economic groupings, trade unions, religious groups, political organisations…), international organisations

	Economic Sector	Includes
	extraterritorial bodies	
F	Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	• Domestic personnel, production for own use

[1] Consistent with current coverage in the Corporate Tax Haven Index, the term "company" or "corporation" refers to business undertakings organised in the form of a legal entity that is distinct from its owners. The index covers for-profit corporate entities that offer limited liability to all shareholders/members but are a separate legal entity for business purposes. In contrast, transparent or pass-through entities (eg trusts and partnerships) are generally not considered "corporations" and thus are not covered in the corporate income tax. Although the tax regimes associated to for-profit transparent entities may be used for tax evasion, these entities are excluded from assessment for the Corporate Tax Haven Index.

[2] In contrast, exemptions that are limited to a specific territory (economic zones) and/or time (tax holidays) are measured in Haven Indicator 6. In addition, this Haven Indicator 5 excludes cases of exemptions resulting from a patent box regime or exclusively relating to capital gains. These are covered in Haven Indicators 7 and 4, respectively.

[3] By "headline rate" we refer to the lowest available CIT rate applicable to any sector or activity that is not subject to a special rate under the law. This rate is taken into account in Haven Indicator 1, usually using the rate provided by the OECD, and in some cases applying technical corrections and adjustments when the tax rate that is broadly applicable to large corporate taxpayers is different than the one published by the OECD.

[4] According to the OECD: "The determination of whether a CIV should be treated as a 'person' begins with the legal form of the CIV, which differs substantially from country to country and between the various types of vehicles. In many countries, most CIVs take the form of a company. In others, the CIV typically would be a trust. In still others, many CIVs are simple contractual arrangements or a form of joint ownership" (The Organisation for Economic Co-operation and Development (OECD), *Model Tax Convention on Income and on Capital: Condensed Version 2017*, 18 December 2017, 63 <https://www.oecd.org/tax/treaties/model-tax-convention-on-income-and-on-capital-condensed-version-20745419.htm> [accessed 27 May 2019]).

[5] The Organisation for Economic Co-operation and Development (OECD), *Model Tax Convention on Income and on Capital*, 64.)

[6] Á. de la Cueva González-Cotera & D. Jiménez Real, Spain - Corporate Taxation sec. 1., Country Analyses IBFD, 2019, https://research.ibfd.org/#/doc?url=/document/cta_es_s_1. [accessed 7 April 2019].

[7] Á. de la Cueva González-Cotera & D. Jiménez Real, Spain - Corporate Taxation sec. 1., Country Analyses IBFD, 2019, https://research.ibfd.org/#/doc?url=/document/cta_es_s_1. [accessed 7 April 2019].

[8] IBFD, *Tax Research Platform: Country Surveys, Country Analyses, Country Key Features*, Accessed 2018-2019, 2018 <https://research.ibfd.org/> [accessed 9 May 2019].

[9] https://dits.deloitte.com/#TaxGuides; [accessed 9 May 2019]

[10] https://www.pwc.com/gx/en/asset-management/assets/pdf/worldwide-reit-regimes-2017.pdf; [accessed 12 March 2019].

[11] https://www.investeurope.eu/media/722513/ie_tax-benchmark-study-2018.pdf; [accessed 8 March 2019].

[12] *International Standard Industrial Classification of All Economic Activities (ISIC)* (New York, 2008) <https://unstats.un.org/unsd/publication/SeriesM/seriesm_4rev4e.pdf>.

[13] EUROSTAT, *Statistical Classification of Economic Activities in the European Community*, NACE Rev. 2 (Luxembourg, 2008) <https://ec.europa.eu/eurostat/documents/3859598/5902521/KS-RA-07-015-EN.PDF>.

[14] In some cases, it would take a team of accountants and tax lawyers to ascertain whether the alternative regime is 'preferable' to the regular CIT regime for a specific company. However, it is reasonable to assume that if an alternative regime is not structured as a minimum tax, payable in the absence of a CIT tax liability, then such a regime is likely to lower the tax liability of covered activities, in comparison to the statutory CIT rate.

[15] PricewaterhouseCoopers (PWC), *Cyprus Shipping: A Sea of Opportunities*, April 2018 <https://www.pwc.com.cy/en/publications/assets/cyprus-shipping-a-sea-of-opportunities-april-2018.pdf> [accessed 5 April 2019].

[16] Z.G. Kronbergs, *Latvia - Corporate Taxation* sec. 1.9.4.2., Country Analyses IBFD, 2019, https://research.ibfd.org/#/doc?url=/linkresolver/static/cta_lv_s_1.9.4.2.#cta_lv_s_1.9.4.2. [accessed 5 April 2019].

[17] Z.G. Kronbergs, *Latvia - Corporate Taxation* sec. 1.9.4.2., Country Analyses IBFD, 2019,

https://research.ibfd.org/#/doc?url=/linkresolver/static/cta_lv_s_1.9.4.2.#cta_lv_s_1.9.4.2. [accessed 5 April 2019].

[18] The harmfulness of such uncomprehensive coverage is apparent from the following example. A Latvian company owns a fleet of casino boats, where customers spend their gambling money over the year. At the end of the tax year, the company pays tax in proportion of the tonnage of its casino boats. However, the income from gambling operations is completely unrelated to the tonnage of the ship. Thus, a large portion of the gambling income potentially remains untaxed.

[19] Council of Economic Advisors, *Economic Report of the President (2007)* (2007), 18, 63–70 <https://www.govinfo.gov/app/details/ERP-2007> [accessed 27 May 2019].

[20] International Monetary Fund, *Spillovers in International Corporate Taxation*, 9 May 2014, 20 <https://www.imf.org/external/np/pp/eng/2014/050914.pdf> [accessed 23 May 2019].

[21] Organisation for Economic Co-operation and Development, *Harmful Tax Competition: An Emerging Global Issue* (1998), 25 <https://www.oecd-ilibrary.org/taxation/harmful-tax-competition_9789264162945-en> [accessed 27 May 2019].

[22] Organisation for Economic Co-operation and Development, *Harmful Tax Competition: An Emerging Global Issue*, 25.

[23] Junhyung Park and others, *A Partial Race to the Bottom : Corporate Tax Developments in Emerging and Developing Economies* (January 2012), 22 <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/A-Partial-Race-to-the-Bottom-Corporate-Tax-Developments-in-Emerging-and-Developing-Economies-25675> [accessed 25 May 2019].

[24] Junhyung Park and others, *A Partial Race to the Bottom : Corporate Tax Developments in Emerging and Developing Economies* (January 2012), 21 <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/A-Partial-Race-to-the-Bottom-Corporate-Tax-Developments-in-Emerging-and-Developing-Economies-25675> [accessed 25 May 2019].

[25] The jurisdictions that apply no or zero corporate tax are the following: Anguilla (UK), Bahamas (UK), Bermuda (UK), British Virgin Islands (UK), Cayman Islands (UK), Guernsey (UK), Isle of Man (UK), Jersey (UK), Turks and Caicos Islands (UK), and United Arab Emirates. Jurisdictions effectively applying permanent exemptions in all economic sectors: Estonia (European Union member state), Latvia (European Union member state), Monaco (FR), Mauritius, and Montserrat (UK). Jurisdictions applying a very wide range of harmful permanent exemptions, covering several economic sectors are: Aruba (NL), Lebanon, Panama, and Singapore.

[26] OECD, *Harmful Tax Practices - 2018 Progress Report on Preferential Regimes: Inclusive Framework on BEPS: Action 5*, 2019, 13 <https://doi.org/10.1787/9789264311480-en> [accessed 20 May 2019].

[27]OECD, *Harmful Tax Practices - 2018 Progress Report on Preferential Regimes: Inclusive Framework on BEPS: Action 5*, 38.

[28] OECD, *Harmful Tax Practices - 2018 Progress Report on Preferential Regimes: Inclusive Framework on BEPS: Action 5*.

[29] It is worth noting that incentives providing full tax exemptions often create an additional risk factor, in cases where non-taxable companies are not required to submit tax returns or other regulatory filings.

[30] International Monetary Fund, *Spillovers in International Corporate Taxation*.

[31] 'Letters Seeking Commitment on the Replacement by Some Jurisdictions of Harmful Preferential Tax Regimes with Measures of Similar Effect' (2019) <https://data.consilium.europa.eu/doc/document/ST-5981-2019-INIT/en/pdf>.

[32] China, for example, provides full tax exemption to companies engaged in ocean fishing and natural forest logging (see https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-chinahighlights-2019.pdf; [accessed 9 May 2019], and http://taxsummaries.pwc.com/ID/Peoples-Republic-of-China-Corporate-Tax-credits-and-incentives; [accessed 9 May 2019]. The Netherlands and Greece cover oil rig and floating drills under a "special" tax regime, where these activities are subject to regressive tax rates under a nominal "tonnage tax" regime. (see H-J. van Duijn & K. Sinnige, Netherlands - Corporate Taxation sec. 12., Country Analyses IBFD [accessed 9 May 2019], URL: https://research.ibfd.org/#/doc?url=/document/cta_nl_s_12.; and : S. Papademetriou & G. Kerameus, Greece - Corporate Taxation sec. 12., Country Analyses IBFD [accessed 9 May 2019], URL: https://research.ibfd.org/#/doc?url=/document/cta_gr_s_12.;

