

Answers

- a) The imputation system is neutral both towards legal form of the organisation as the system provides for full relief of economic double taxation (provided shareholder, parent company, subsidiary, subsidiary etc. are all resident in the same country) and towards financing (is the subsidiary financed with equity provided by the parent company (through share capital) or debt (a loan provided to the subsidiary). If the classical system is applicable there is no relief of economic double taxation and it makes a difference if the parent company provides extra share capital or a loan to its subsidiary.

Classical system 100% Equity

Profit Subsidiary:	2000
CIT 25%:	<u>500</u>
Distribution	1500
= Profit Parent	1500
CIT 25%:	<u>375</u>
	1175
Total CIT	875

Classical system 100% debt

Profit	2000
Interest	<u>2000</u>
Taxable profit	0
CIT	0
Dividend	0
Income tax on interest: 50%	1000
Total tax (CIT + IT)	1000

Imputation system 100% equity

Profit	2000
CIT 25%	<u>500</u>
Dividend	1500
+ Imputation credit	<u>500</u>
Taxable profit	2000
Income tax 50% x 2000	1000
But imputation credit of 500	- <u>500</u>
	CIT is treated as prepayment of IT in imputation system
Income tax to be paid	500
Total tax CIT 500 + IT 500	1000 = 50% x profit

Imputation system: 100% debt

Profit	2000
Interest	<u>2000</u>
Net profit	0
Income tax on interest 50% x 2000	1000
Total tax	1000

- b) The UK may offer similar allowances to the incentives for R&D provided for in NL tax law, being,
- the R&D Allowance (RDA: art. 3.52 ITA '01. This is a super deduction (effective 1 January 2012). Taxpayers are allowed a super deduction of 160% (rate for 2014) of qualifying non-wage expenses directly attributable to qualified research activities.

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- the Innovation Box (art. 12b CITA'01): Development costs and losses on the exploitation of IP that are allocated to the “innovation box” can be deducted against qualifying income. Beginning in 2010, the effective tax rate for income attributable to qualifying inventions (net of the invention’s development cost) allocated to the “innovation box” is reduced to 5%.