

Chapter V

Computation of Income for Tax Purposes

Country	Rules regarding scope of taxable income and deductions for expenditure incurred on earning income under different heads, viz.		
	(a) Employee compensation income*	(b) Investment income*	(c) Business and professional income
Australia		<p>As from 1st July 1987, dividends paid by resident companies qualify for full-imputation credits, provided they are paid out of a qualifying dividend account made up of profits already taxed at the regular 39 per cent corporate rate. The credits are used by the recipient of such "franked" or "qualifying" dividends effectively to avoid further tax on the income. (Excess credits may be used to offset tax on other income but may not be refunded.)</p> <p>Qualifying dividends paid to nonresident recipients are free of tax (but carry no imputation credit). Stock dividends paid out of a genuine share premium reserve are not taxable.</p> <p>On foreign-sourced dividends, however, the taxpayer is granted a credit for</p>	<p>The Australian taxation system does not tax profits as such, either for companies or individuals. It taxes gross income and allows a deduction for expenses.</p> <p>The general rule on the deductibility of business expenses, or expenses incurred in gaining income other than through a business, is that a deduction is allowable for any loss or outgoing incurred in gaining or producing assessable income or in the course of carrying on business for the purpose of producing such income. A deduction is not allowable for any loss or outgoings of capital or of a capital, private or domestic nature. A business expense must be appropriate for the particular business being carried on,</p>

* Deductions admissible under these heads are dealt with in chapter XIII.

Individuals must include in their taxable income salary, wages, any allowances, gratuities, benefits, bonuses or other perquisites granted in relation to employment (e.g. subsidized rent or living accommodation, home leave, cost of living allowances, overseas allowances for expatriates, education allowances, etc.). Employment income also includes directors' fees, payments for services as a percentage of profits, as a commission on sales.

the lesser of either the Australian tax applicable or the foreign tax paid. (The foreign income is grossed up for any foreign tax paid.)

Rental and leasing income is included in the recipient's assessable income.

although it may not be essential.

In addition to deductions allowable under the general rule, there are a number of specific deductions provided for in the tax law for expenditures that would not qualify under the general rule.

Subscriptions paid to trade, business or professional associations are deductible under the general rule.

Interest is deductible if the borrowings are used in a business to produce assessable income. As for royalties, technical assistance and service fees, there is no restriction within the tax law itself regarding the deductibility of such charges, except for the general power vested in the Commissioner in relation to companies controlled by non-residents.

A company can deduct (subject to certain statutory limits and conditions) contributions to a superannuation fund for the benefit of its

employees, including directors.

A deduction is allowable only if trade debts are bad and if they are actually written off in the accounts during the year of income.

A bad debt is not allowable as a deduction to a company unless there is more than 50 per cent continuity in ownership of the shares, or the same business is carried on in both the income year in which the debt arose and the income year in which it was written off.

A deduction is allowable for repairs to property used to produce assessable income. However, to the extent the repair improves the property, the relevant expenditure is regarded as a non-deductible capital outgoing.

If a company incurs expenditure in obtaining a loan (which normally would be capital in nature), e.g. legal expenses, mortgage expenses or commitment fees, the expenditure is deductible by instalments over the term for which the money is borrowed,

Belgium

Employment income and pension income are included in the taxable income. Director's fees are taxable as earned income in the hands of the recipient.

For individuals, the gross dividend plus a tax credit of 50 per cent of the net dividend form part of the individuals' taxable income. However, from assessment year 1990 onwards, the imputation system is abolished and therefore this special tax credit is no longer available. Dividends received by a Belgian company whether from local or foreign firms are subject to withholding tax of 25%. 90% of the gross dividend is treated as definitively taxed income not subject to corporate income tax. (This percentage is reduced to 85 per cent for corporations that own shares with certain investment value).

Income from movable and immovable property is included in the aggregate income which is taxable.

subject to a maximum term of five years.

Expenses are deductible provided that they are expended to obtain or maintain the enterprise's income. There is no prohibition against payments to affiliates provided that the transaction is comparable to an arm's length transaction with a third party.

Interest payments upto a ceiling, fees and royalties are treated as deductible expenses.

Some expenses are only deductible in part:-

1) 3/4 of the running expenses of motor cars and minivans other than financing costs and petrol which remain fully deductible, except that this disallowance does not apply to taxies, driving schools and hire companies;

2) restaurant expenses for 50%;

3) expenses for public relations for 50% with a few exceptions.

Within specified limits and under certain conditions, gifts are deductible.

Denmark	<p>Danish law does not contain an enumeration of various sources of income which are taxable. It merely distinguishes as far as ordinary income is concerned, between personal income and income from capital, whereby personal income is deemed to include all taxable income which is not income from capital. Personal income includes employment income.</p>	<p>Interest income receivable is considered taxable income.</p> <p>Dividends received from Danish companies, in which the recipient holds less than a 25 per cent interest and dividends from overseas are subject to corporation tax. Dividends received from Danish companies, in which a company holds more than a 25 per cent interest, are exempt from corporation tax. Dividends from wholly owned foreign subsidiaries may be tax exempt where the Danish parent company is taxed jointly with the subsidiaries.</p> <p>Dividends distributed by a Danish corporation are subject to a 30% withholding tax, which is final for non-residents.</p> <p>The tax on dividends received by shareholders will be 30% on the first Dkr. 30,000 p.a. and 45% on the excess, effective from 1991.</p> <p>Income from movable and immovable property is included in the taxable income.</p>	<p>Directors' fees are deductible from assessment year 1991.</p> <p>Foreign taxes which are not eligible for the foreign tax credit may be deducted as a business expense.</p> <p>Royalties and service fees constitute business income and are taxable.</p> <p>Expenses are generally deductible if they are incurred in order to "obtain, ensure and maintain" the income. Capital expenditures are not deductible except for fixed assets costing D.K. 1,800 or less per unit, or with an estimated economic lifetime below three years. There are no territorial limits and no prohibitions, as such, against payments to affiliates.</p> <p>All interest paid to banks and third parties whether domestic or foreign, is deductible for tax purposes.</p> <p>Royalties and service fees are deductible if paid in arm's length transactions. Foreign exchange losses are deductible.</p> <p>Net taxable income is arrived at by adjusting the accounting profits for non-taxable income</p>
----------------	--	--	--

			and non-deductible items, various tax reliefs such as allowance on inventories, investment allowance and substituting book depreciation by tax depreciation.
Federal Rep. of Germany	<p>Wages paid to employees, expense allowance received by an employee from his employer and all remuneration paid to a resident director are taxable.</p> <p>Generally, pensions and widow's and orphan's allowances are fully taxable; however, a tax-free allowance is granted. (40% subject to a maximum of DM 4,800 p.a.)</p>	<p>Investment income must be included in the taxpayer's tax return at its gross amount if it is subject to withholding taxes. Interest, royalties and dividends constitute business income if received by a corporate enterprise and are subject to corporation profits tax at normal rates.</p> <p>Interest on certain government bonds may be exempt from tax. For dividends (and other distributions) paid by resident companies, resident shareholders are entitled to a "special tax credit" corresponding with the rate of (36%) corporate income tax on distributions; non-residents are not entitled to this credit.</p>	<p>As a rule, for individuals all business-related expenses and income-connected expenses are deductible. There are no general standard deductions for business-related expenses, but individuals with income arising mainly from independent occupations.</p> <p>A company can deduct all business expenses (i.e., operating expenses) that are directly connected with taxable income. Deductions for expenses in connection with the production of tax-exempt income may, however, be limited.</p> <p>One half of all benefits and compensation paid to members of the supervisory board in relation to their supervisory services is not deductible.</p>
Indonesia	<p>Wages and salaries, commissions, bonuses, pensions or other compensation for work performed are included in the taxable in-</p>	<p>Investment income is included in the income subject to tax.</p> <p>Dividends from stocks traded on the Jakarta Stock Market and those from certificates yielding no more than</p>	<p>Taxable net income is defined as gross income minus the costs of soliciting, collecting and maintaining revenues the costs of material & wages, fees, interest, rent, royalty, travel</p>

come. Company-provided housing, clothing, transportation, meals, etc. and overseas and other allowances are included in an employee's income if they are deducted as costs in the employer's tax calculations.

Rp. 960,000 p.a. are exempt from income tax.

Interest from savings schemes like TASKA (Time Insurance Savings) and TABANAS (National Development Savings) derived by residents of Indonesia is exempt from Income tax.

expenses, bad debts, insurance premiums administration costs and levies (except income tax), depreciation and amortization approved pension funds, and losses sustained in the operational process.

Insurance premiums paid for the benefit of employees are tax deductible for the company, provided the premiums are taxable to the employees.

Fringe benefits of recreational as well as social or personal character are non-deductible.

Japan

Taxable employment income includes salaries, wages, pensions, bonuses and other allowances of a similar nature (e.g. overseas living allowances, children's educational allowances, etc.) and annuities paid by the social insurance system and the qualified pension.

Retirement income is taxed

With effect from accounting periods beginning on or after 1 April, 1990, dividends received by a domestic corporation in respect of a shareholding of at least 25% in another domestic corporation are generally exempt from corporation tax. If the shareholding is less than 25%, 80% of the dividends is generally exempt and 20% is included in taxable income.

Debt-for-equity swap profits are not considered taxable income.

Interest and dividends are or may be taxed separately from other incomes under the special Taxation

In general, all costs, expenses, and losses incurred during an accounting period are tax deductible unless otherwise provided for in the laws.

Royalty and interest payments are treated as operating expenses and are deductible.

Deductions can be taken for a bad-debt reserve, a price-fluctuation reserve and several other reserves.

Income such as rents, professional fees, etc. are also aggregated with other sources of

separately from other incomes under the Income Tax Law, but 50% is deducted after subtracting a special deduction.

Measures Law temporarily.
Income from immovable and movable property is taxable.

income after deduction of necessary costs and expenses.

Korea

Employment income includes wages and salaries, labour allowance, family allowance, inflation allowance, duty allowance, technical allowance, health allowance, research allowance, over-time work allowance, commutation allowance, food allowance, housing allowance, clothing allowance, stipend or fixed monthly allowance for travel expenses, insurance premium paid on behalf of employees, entertainment allowance, and other allowances of similar nature.

All interest not subject to tax withholding must be included in gross income.

Corporate tax is not levied on interest from national savings association deposits and on income derived from property in charitable trusts.

Dividends paid to shareholders are subject to withholding tax.

Intercompany dividends on common stock are included in taxable income when such dividends are declared.

Stock dividends upto 50 per cent of total dividends are permitted, and are taxable.

Income from movable and immovable property is taxable.

Gross income consists of gains, profits, income from trade and commerce, dealings in property, rents, royalties, service fees, and income derived from any transactions carried on for gain or profit.

Taxable profits are defined as gross proceeds (less any sales returns, allowances or discounts) less the cost of goods sold or services provided and other amounts that are allowable as deductions.

In general, expenses which decrease the assets of the corporation are deductible, except the refund of capital or stocks, appropriation of surplus and other prescribed items, subject to requirements of documentary support. An exception to documentation requirements exists with respect to "confidential expenses", the amount

of which is limited to 1 per cent of issued capital plus 0.05 per cent of gross revenue.

Interest incurred in the normal operation of an enterprise is deductible so long as the related loan is used for business purposes.

Payment of royalties and service fees relating to production or manufacturing technology must be included in the cost of production.

Insurance premiums paid to a local or foreign insurance company are deductible if the business enterprise is the listed beneficiary.

All taxes, other than income tax plus surtaxes, are deductible.

Such rural sideline income as prescribed by Presidential Decree, i.e. income derived from husbandry, fish farming, straw products and others operated by farmers and fishermen as sideline activities, is exempted upto W 2.4 million a year. This ceiling does not apply to income from husbandry.

income includes any wages, salary, leave pay, fee, pension, commission, bonus, gratuity, perquisite, value of any benefits to the employee, any allowance so granted for the benefit of the employee, any retirement gratuity, any sums received in commutation of pension, any amount paid from an approved provident fund to an employee at the time of his retirement, rental value of residence provided rent-free, excess of the rental value over the rent paid where residence is provided by an employer at a rent less than rental value, any sum received as compensation for the loss of any office or employment, value of holiday warrant or passage and any amount paid from a regulated

full amount falling due whether paid or not. No deductions are allowed for expenses in earning interest income.

Interest receivable by an individual from National Savings Certificates, Deposits in the National Savings Bank, in NRFC accounts or FCBU, etc. are exempt.

Dividend income is taxable. However certain dividends, such as those declared by a tax holiday company, are exempt.

An individual is exempt from income tax on dividends received upto a maximum of Rs. 12,000/- for an assessment year.

Where land and improvements thereon are let by the owner, the owner is charged to tax on the gross rent less rates paid by the owner.

Income from letting of commercial premises by a company is treated as business income and is taxed.

Rentals from movable property are taxed as business income or as income from other sources.

does not provide a list of allowable expenses but 3 tests are provided by the Act:

- Is it an expense incurred by the assessee in the production of the income?

- Is it specially authorised to be deducted?

- Is the deduction prohibited under the Inland Revenue Act?

Thus, generally, all outgoings and expenses actually incurred by the assessee in the production of income are deductible unless specifically excluded.

The net income after deducting all allowable expenses from the gross income only is taxed. In computing the net income, however, certain expenses are disallowed and adjustments made for such disallowable expenses (S. 23 & 24). Interest on loans and other debts is generally deductible in arriving at the income for corporation profits tax. Payments of royalties for the use of patents, copyrights, secret processes, formulas and the like are deductible by the paying company from

provident fund.

income.

Deduction is also allowed for annuity, ground rent and losses (including unabsorbed depreciation).

U.K.

Income is charged under Sch.E in respect of any office or employment on emoluments therefrom. Emoluments include all salaries, fees, wages, perquisites and profits whatsoever.

Investment (unearned) income is combined with earned income to arrive at taxable income.

Dividends and other distributions received from UK resident companies are excluded from the tax base in computing a company's taxable profits; these are regarded as "franked" for corporation tax purposes and are not subject to further taxation in the hands of a corporate recipient.

Firms may deduct from gross trading profits all expenditures that are "wholly and exclusively laid out for the purposes of the trade".

Municipal and other indirect taxes are deductible.

"Short interest" (broadly interest on loans of less than one year) and U.K. bank interest are generally deductible by trading companies in computing trading income. Other interest may be deducted from profits only if it qualifies as a "charge on income".

Changes on income comprising principally annual interest, royalties for the use of a U.K. patent, mineral rents and royalties, covenanted donations, which are not deductible in computing the profits arising from a particular source, are deducted from a company's total profits from all

sources.

U.S.A.

Earned income includes wages, salaries, commissions, tips, net profit from self-employment and money received as compensation for personal services rendered. It also includes any part of a scholarship or fellowship grant that must be included in gross income.

All compensation for personal services, no matter what the form of payment, must be included in gross income. The amount of compensation to be reported on the return is the gross amount before any reductions for withheld income tax or social security taxes, dues, insurance or other deductions by the employer.

Interest is includable in gross income, except for interest on obligations of a state, a U.S. possession or any political sub-division of either of the foregoing. Private-activity bond (industrial development bond) interest may also be exempt.

A corporate distribution of earnings and profits to its shareholders is includable in gross income as a dividend. However, a corporation is entitled to certain special deductions, including a deduction with respect to dividends received from certain corporations. A deduction is generally allowed equal to 80 per cent of the dividends received from taxable domestic corporations. Dividends received from a foreign corporation will also qualify for this deduction if at least 10 per cent of its stock (by vote and value) is owned by a domestic corporation.

Rental income is taxable and may be offset by deductions claimed for depreciation, mortgage interest, and repair and maintenance costs.

Corporations are entitled to deduct ordinary and necessary expenses paid or incurred during the taxable year in the conduct of their business. Some expenses, although ordinary and necessary from a business standpoint, are not deductible, e.g. illegal bribes and kickbacks. Other expenses, e.g. charitable contributions and business gifts, are deductible subject to limitation.

Capital expenditures are generally deductible only through depreciation, depletion or amortization over the useful life of the property, or as the basis of property in determining gain or loss.

There are no territorial limits on business expenses. Payments to affiliates are deductible if they reflect an arm's-length charge.

A corporation may generally deduct all interest paid or accrued during the taxable year. However, insufficient capitali-

sation may result in the treatment of debt as equity, with a resulting denial of a deduction for related interest payments.

Royalties and service fees are deductible.

Remuneration for employee services is deductible.

Insurance premiums are generally deductible. However, insurance premiums on the life of a key employee are not deductible if the corporation is the beneficiary of the policy. Self-insurance reserves are not deductible.