2 Statutory corporate income tax rates

Key insights

- Statutory corporate income tax (CIT) rates have been decreasing on average over the last two decades, although considerable variation among jurisdictions remains. The average combined (central and sub-central government) STRs for all covered jurisdictions was 21.1% in 2023, compared to 28.2% in 2000.
- Of the 141 jurisdictions covered in the 2023 data, 27 had corporate tax rates equal to or above 30% in 2023, with Colombia and Malta having the highest corporate tax rate at 35.0%.[1]
- In 2023, 12 jurisdictions had no corporate tax regime or a CIT rate of zero. Two jurisdictions, Barbados (5.5%) and Hungary (9%), had a positive corporate tax rate less than 10%. Hungary, however, also has a local business tax, which does not use corporate profits as its base. This is not included in Hungary's statutory tax rate, but it does mean that businesses in Hungary are subject to a higher level of tax than its statutory tax rate (STR) reflects.
- Comparing corporate tax rates between 2000 and 2023, 111 jurisdictions had lower tax rates in 2023, while 15 jurisdictions had the same tax rate, and 15 had higher tax rates (Andorra; Benin; Chile; the Cook Islands; Djibouti; Dominica; Honduras; Hong Kong, China; Jordan; the Maldives; Mongolia; Mauritania; Oman and Papua New Guinea).
- The largest increases between 2000 and 2023 were in Benin (30 percentage points (p.p.)) and Togo (27 p.p.). Benin and Togo did not previously have a corporate tax regime and introduced one during this time period.
- Comparing 2000 and 2023, 14 jurisdictions – Aruba, Barbados, Belize, Bosnia and Herzegovina, Bulgaria, Democratic Republic of the Congo, Germany, Gibraltar, Guernsey, India, Isle of Man, Jersey[2], Paraguay and Tunisia – decreased their corporate tax rates by 20 p.p. or more. During this time, Guernsey, Jersey and the Isle of Man eliminated preferential regimes and reduced their standard corporate tax rates to zero and Barbados reduced its standard corporate tax rate to 5.5% after eliminating its preferential regime.
- From 2022 to 2023, the combined STR decreased in four jurisdictions (Aruba, Austria, Korea and St. Vincent and the Grenadines) and there were four increases across the 141 jurisdictions covered (Morocco, Sri Lanka, Türkiye and the United Kingdom).
- The jurisdictions with the largest decreases in the combined corporate tax rate between 2022 and 2023 were Aruba and Türkiye (both decreasing by 3 p.p.).

Statutory CIT rates show the headline tax rate faced by corporations and can be used to compare the standard tax rate on corporations across jurisdictions and over time. As STRs measure the marginal tax that would be paid on an additional unit of income, in the absence of other provisions in the tax code, they are often used in studies of base erosion and profit shifting (BEPS) to measure the incentive that firms have to shift income between jurisdictions.

Standard statutory CIT rates, however, do not give a full picture of the tax rates faced by corporations in a given jurisdiction. The standard CIT rate does not reflect any special regimes or rates targeted to certain industries or income types, nor does it take into account the breadth of the corporate base to which the rate applies. Further information, such as the data on effective corporate tax rates and intellectual property (IP) regimes in the *Corporate Tax Statistics* database, is needed to form a more complete picture of the tax burden on corporations across jurisdictions.

The Corporate Tax Statistics database reports statutory tax rates for resident corporations at the:

- central government level;
- central government level exclusive of any surtaxes;
- central government level less deductions for subnational taxes;
- sub-central government level;
- combined (central and sub-central) government level.

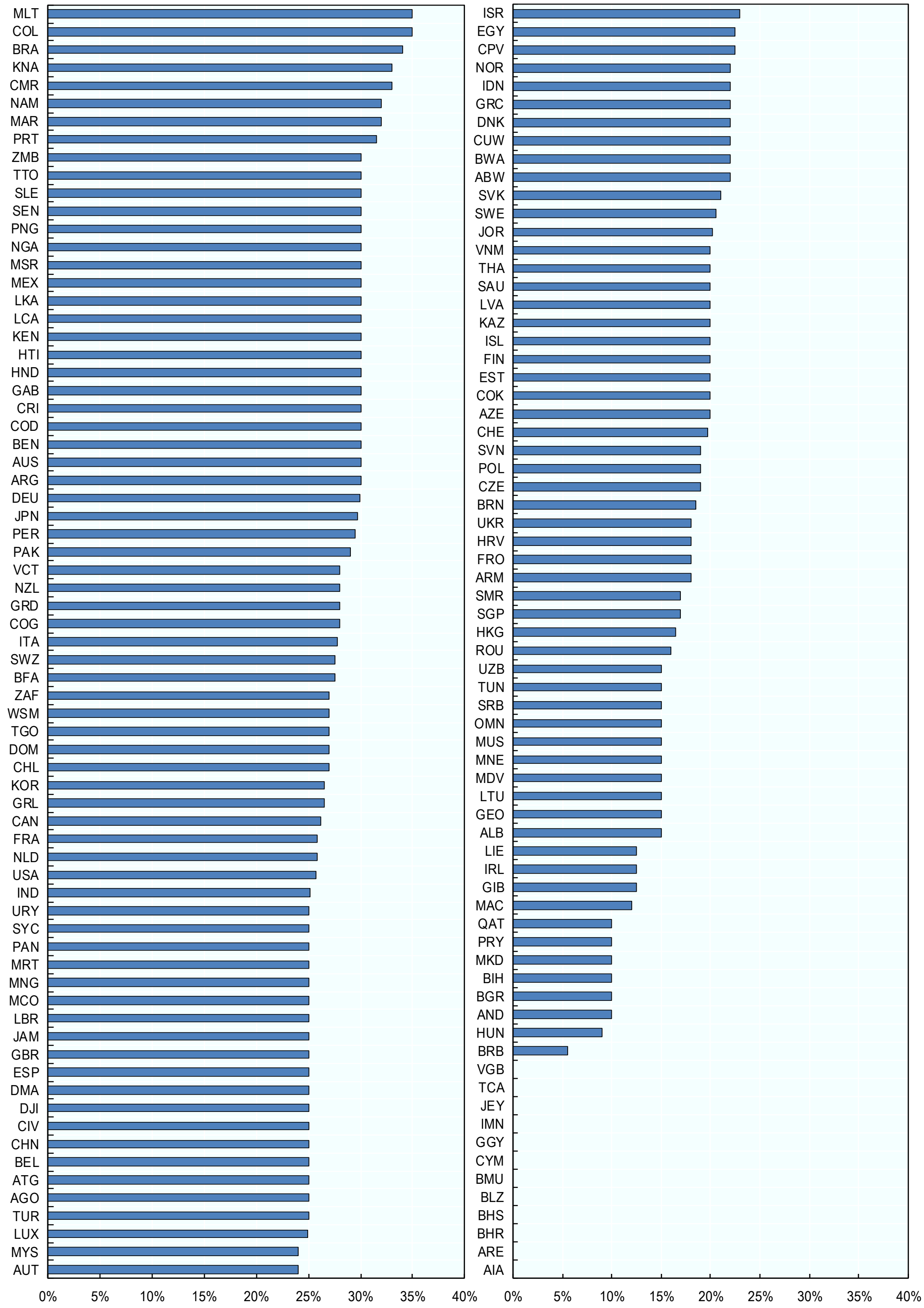
The standard rate, which is not targeted at any particular industries or income type, is reported. The top marginal rate is reported if a jurisdiction has a progressive corporate tax system. Other special corporate taxes that are levied on a base other than corporate profits are not included.

Most of the downward movement in tax rates between 2000 and 2023 was to corporate tax rates equal to or greater than 10% and less than 30%. The number of jurisdictions with tax rates equal to or greater than 20% and less than 30% almost tripled from 37 jurisdictions to 100 jurisdictions, and the number of jurisdictions with tax rates equal to or greater than 10% and less than 20% more than quadrupled, from eight to 33 jurisdictions.

Despite the general downward movement in tax rates during this period, the number of jurisdictions with very low tax rates of less than 10% remained fairly stable between 2000 and 2023. There were 16 jurisdictions with tax rates less than 10% in 2000, and 14 below that threshold in 2023.

There has, however, been some movement of jurisdictions into and out of this category, and these movements illustrate how headline STRs do not give a complete picture of the tax burden in a jurisdiction. Between 2005 and 2009, the British Virgin Islands, Guernsey, Jersey[3] and the Isle of Man all moved from corporate tax rates above 10% to zero corporate tax rates. In all of these cases, however, before changing their standard corporate tax rate to zero, they had operated broadly applicable special regimes that resulted in very low tax rates for qualifying companies. Meanwhile, Andorra and the Maldives instituted corporate tax regimes and moved from zero rates to positive tax rates (10% in Andorra beginning in 2012 and 15% in the Maldives beginning in 2011). However, they also introduced preferential regimes as part of their corporate tax systems that offered lower rates to qualifying companies.[4]

Figure 2.1. Statutory corporate income tax rates, 2023



Note: The Kingdom of Saudi Arabia imposes a corporate income tax rate of 20% on a non-Saudi's' share of a resident company or a non-resident's income from a permanent establishment in Saudi Arabia or income of a company operating in the natural gas sector. A higher corporate income tax rate is imposed as well on companies operating in the oil sector (i.e., 50% or higher). The Kingdom of Saudi Arabia also levies the Zakat on companies, which is an example of a tax on both income and equity. The Zakat is levied at 2.5% on a Saudi's share of a resident company (also applies to citizens of Gulf Cooperation Council countries with an established business in the Kingdom of Saudi Arabia), but since it is imposed on income and equity, it yields a higher rate in effective terms. The Saudi government considers the corporate Zakat as an equivalent to corporate income tax, levied on a different basis. It is also considered a covered tax for the purposes of the GloBE rules in the Pillar 2 Blueprint Report (OECD, 2020[1]).

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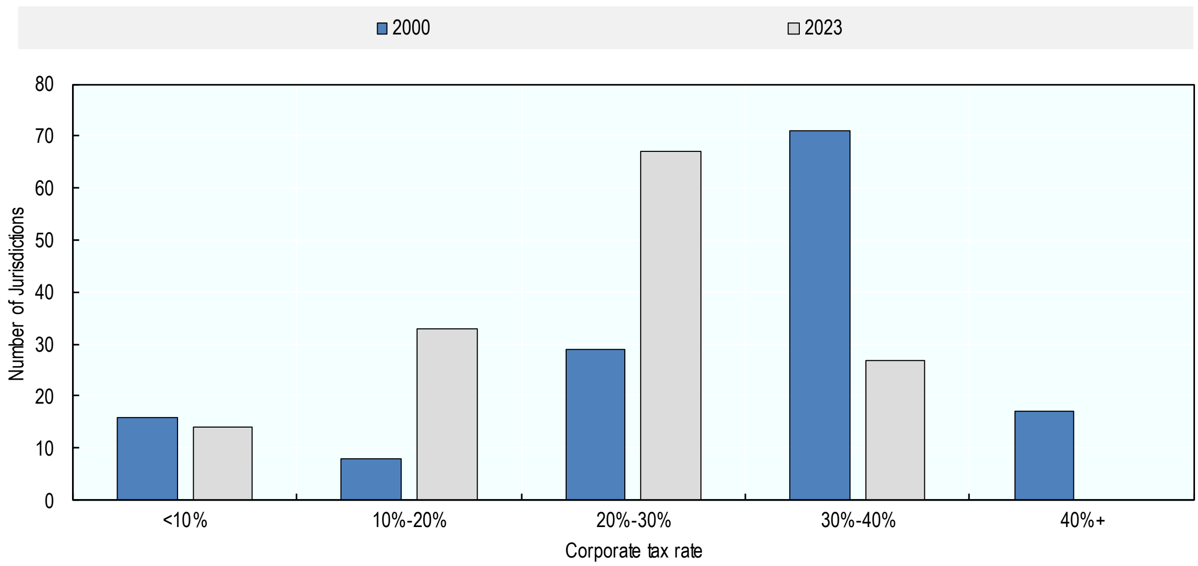
Figure 2.2. Changing distribution of corporate tax rates



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Corporate tax rate trends across regions

Since 2000, average STRs have declined across OECD member states and the three regional groupings of jurisdictions considered: African jurisdictions, Asian and Pacific jurisdictions and Latin American and The Caribbean (LAC) jurisdictions Figure 2.3.[5]

The grouping with the most significant decline has been the OECD (a decline of 8.7 p.p., from 32.3% in 2000 to 23.6% in 2023) followed by the LAC average with a decline of 6.6 p.p. in 35 jurisdictions, from 27.9% in 2000 to 21.3% in 2023. While the averages have fallen for each grouping over this period, significant differences between the averages for each group remain: the average corporate tax rate for Africa was 26.7% in 27 jurisdictions in 2023, compared to 23.6% for the OECD, 21.3% in 35 jurisdictions for LAC and 20.2% for 33 jurisdictions in Asia and Pacific. In recent years, averages have stabilised in the OECD, LAC, and Asia and Pacific groupings.

The inclusion of jurisdictions with corporate tax rates of zero affects the average tax rate and has larger effects on some regions than on others, since zero rate jurisdictions are not evenly distributed among the different groups. Excluding zero-rate jurisdictions raises the overall average STR by about 2.7 p.p. per year, while the general downward trend remains the same. From 2000 to 2023, the overall average statutory rate for non-zero rate jurisdictions declined from 31.3% to 23.1%.

The effect of excluding zero-rate jurisdictions varies by grouping. There are no zero-rate jurisdictions in the OECD or 27 African jurisdictions, and so the average STRs of these groupings are not affected. However, three of the 33 Asian and Pacific jurisdictions and five of the 35 LAC jurisdictions have or had statutory corporate tax rates set at zero. Therefore, the average STRs of the 30 Asian and Pacific jurisdictions with positive STRs and the 30 LAC jurisdictions with positive STRs are higher than the averages for those regions when all jurisdictions are included. The average statutory rates of the 30 non-zero-rate Asian and Pacific jurisdictions and the OECD jurisdictions are quite similar over the time period; meanwhile, the average STR for the full group of 33 Asian and Pacific jurisdictions is 4-8 p.p. lower per year than the average STR for OECD jurisdictions. Excluding zero-rate jurisdictions results in the most striking difference in the LAC region. In 2023, the average STR across all 35 LAC jurisdictions (21.3%)

was 5.3 p.p. lower than the average STR for the 30 LAC jurisdictions with positive CIT rates (26.6%). With the exclusion of zero-rate jurisdictions, the average of the remaining 30 LAC jurisdictions is higher than the OECD average and is almost the same as the average statutory rate for the 27 African jurisdictions.

Figure 2.3. Average statutory corporate income tax rates by region

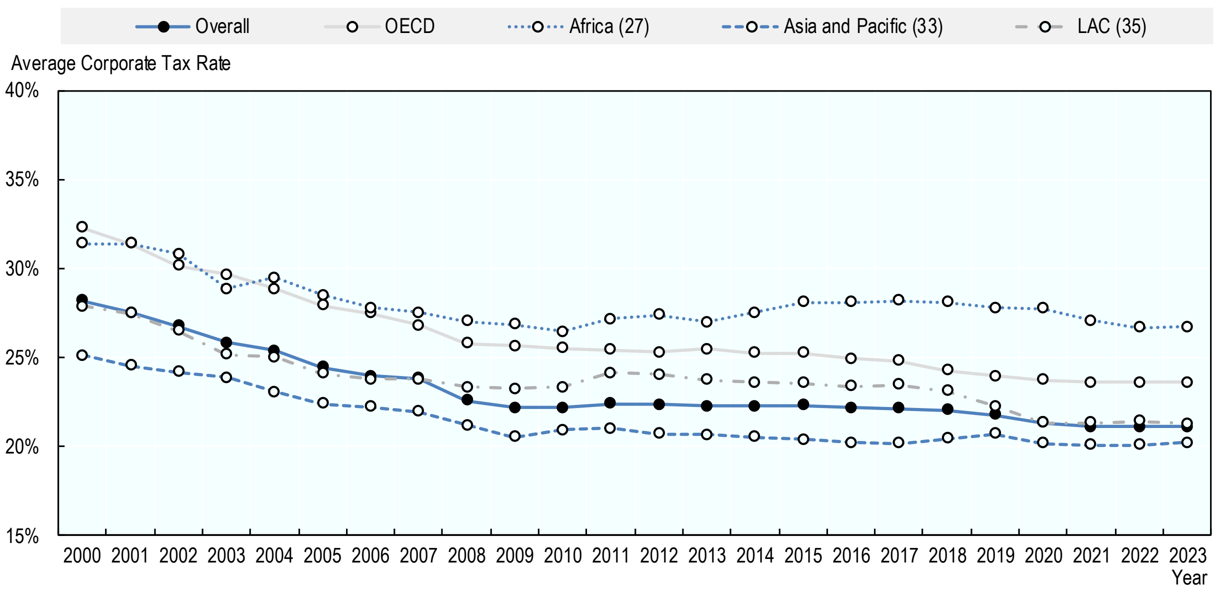

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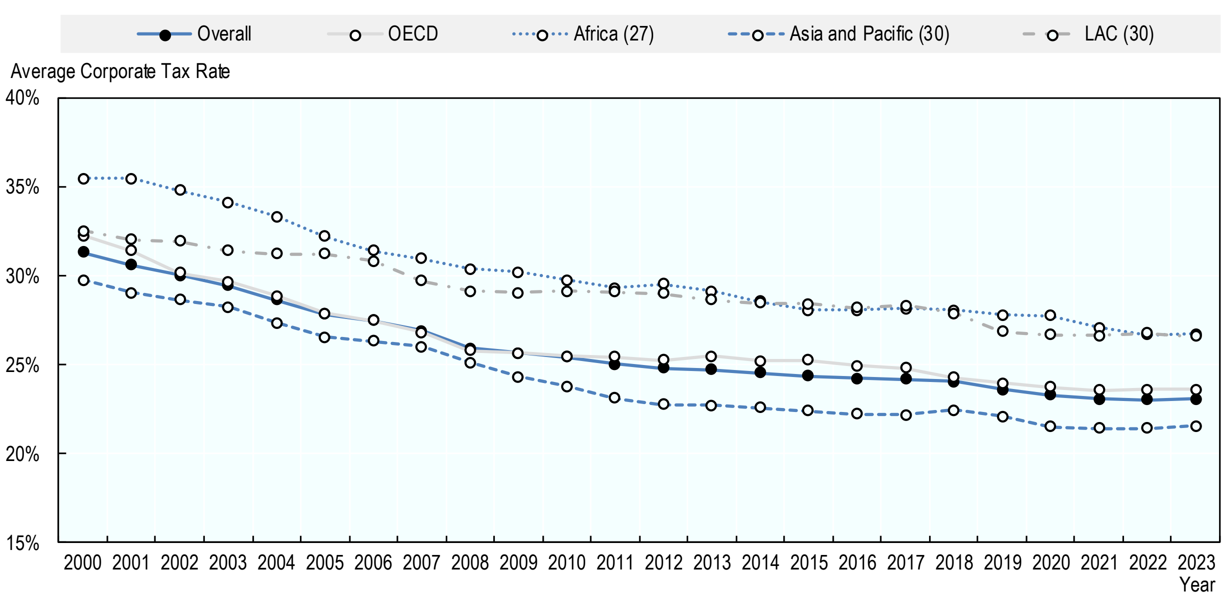
Figure 2.4. Average statutory corporate income tax rates by region excluding zero-rate jurisdictions



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The standard statutory corporate tax rate is not the only corporate tax rate

Standard statutory CIT rates provide a snapshot of the corporate tax rate in a jurisdiction. However, jurisdictions may have multiple tax rates with the applicable tax rate depending on the characteristics of the corporation and the income.

- Some jurisdictions operate preferential tax regimes with lower rates offered to certain corporations or income types.
- Some jurisdictions tax retained and distributed earnings at different rates.
- Some jurisdictions impose different tax rates on certain industries.
- Some jurisdictions have progressive rate structures or different regimes for small and medium sized companies.
- Some jurisdictions impose different tax rates on non-resident companies than on resident companies.
- Some jurisdictions impose lower tax rates in special or designated economic zones.

Jurisdictions with broadly applicable tax regimes available to international companies

Preferential tax regimes are especially important in understanding how standard corporate tax rates do not always capture the incentives that may exist to engage in BEPS behaviours. In particular, some jurisdictions offer or have offered very low rates through regimes that are available to international companies with relatively few restrictions, while maintaining high standard statutory CIT rates.

For example, a number of jurisdictions offer or have offered International Business Companies regimes. Companies qualifying for these regimes pay a reduced rate of tax relative to the standard statutory CIT rate. While that standard STR may be quite high in these jurisdictions, qualifying international business companies were typically exempt from tax or paid tax at a very low rate. There are also special cases, like Malta, which offers a refund of up to six-sevenths of corporate income taxes to both resident and non-resident investors through its imputation system.

Except for the Maltese imputation system, which is not in the scope of the BEPS project, all of the regimes belonging to jurisdictions for which statutory CIT rate data is available in the *Corporate Tax Statistics* database have been, or are in the process of being, amended or abolished to be aligned with the BEPS Action 5 minimum standard. These changes should greatly diminish the incentives these regimes provide for BEPS behaviour.

Taxes on distributed earnings

Another way in which standard STRs may not reflect the rates imposed on companies is if jurisdictions tax distributed earnings in addition to (or instead of) a CIT on all profits.

In some jurisdictions, there is a tax on all corporate profits when they are earned and an additional tax on any earnings that are distributed. This was the case in India, for example, where corporate profits, whether retained or distributed, were taxed at the standard rate, and an additional tax on dividend distributions raised the total tax rate on distributed profits. From 2020 companies are no longer subject to this dividend distribution tax which has led to a large reduction in the statutory CIT rate from 40.6% in 2019 to 25.2% in 2023.

In other jurisdictions, there is no tax on profits when they are earned, and corporate tax is only imposed when profits are distributed. This is the case in Estonia and Latvia, which both tax distributed profits at 20% and impose no tax on retained earnings. While a standard statutory rate of 20% is reported for both jurisdictions in the *Corporate Tax Statistics* database, the rate faced by corporations in these jurisdictions could be much lower and will depend on the proportion of profits that are distributed. In the case of both of these jurisdictions, where a corporation retains all profits and does not pay any dividends in a given period, it will not be subject to any CIT.

References

OECD (2020), *Tax Challenges Arising from Digitalisation – Report on Pillar Two Blueprint: Inclusive Framework on BEPS*, OECD Publishing, Paris, https://doi.org/10.1787/abb4c3d1-en. [1]

Notes

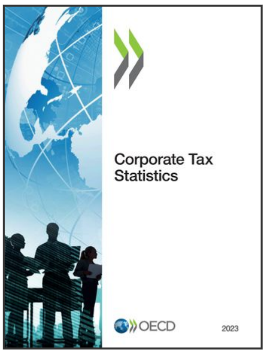
[1] However, Malta offers a refund of up to six-sevenths of corporate income taxes to both resident and non-resident investors through its imputation system. The corporate tax rate in Belize is 40% but as this rate applies only to the petroleum industry, the corporate tax rate in Belize has been included in this database as 0% to ensure consistency of treatment across all jurisdictions.

[2] Jersey's current corporate income tax regime offers bands of 0%, and for certain targeted sectors, 10% and 20%.

[3] Jersey's current corporate income tax regime offers bands of 0%, and for certain targeted sectors, 10% and 20%.

[4] Andorra and the Maldives have recently since amended or abolished their preferential regimes that were not compliant with the BEPS Action 5 minimum standard.

[5] As the sample of jurisdictions for which tax revenue data are available and the sample of jurisdictions for which statutory corporate tax rate data are available are not the same, the average corporate tax revenue and STR data for the different regional groups should not be directly compared.



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