7 Withholding tax rates

Withholding taxes (WHTs) are levied on businesses when they make payments to other foreign or domestic business entities or individuals, e.g., in the form of dividends, interest, and royalties. Governments collect these taxes based on statutory or preferential treaty-based tax rates requiring businesses to withhold a fraction of cross-border payments in scope of the WHT.

Data on withholding taxes can be used to improve understanding of multinational enterprise (MNE) decisions about investment, repatriation, finance and organisational structures among other tax policy issues. For example:

- WHTs increase the cost of repatriating profits earned in foreign jurisdictions thereby potentially discouraging MNEs' investment decisions at the extensive margin (i.e., discrete investment decisions between two or more alternative projects);
- differences in WHT rates between interest and dividend payments, both within and across locations, could affect MNEs' financing decisions;
- taxes levied on cross-border payments increase the cost of capital and could thus affect investments at the intensive margin (i.e., the incentive to expand existing investments given a fixed location). (Auerbach, Devereux and Simpson, 2008[10])

Importantly, WHT data can also potentially provide insights on certain base erosion and profit shifting (BEPS) strategies such as treaty shopping or the strategic location of debt and intangible assets. The publication of WHT rates in Corporate Tax Statistics was envisaged in the 2015 BEPS Action 11 Report (OECD, 2015[1]).

General data characteristics

The 2023 edition of Corporate Tax Statistics includes the second release of WHT rate statistics. The dataset consists of tax rates on dividends, interest and royalty payments that are applicable as of the 2023 fiscal year. They were collected through a questionnaire completed by delegates of Working Party No.2 meeting in of the Inclusive Framework on BEPS (IF) format. Where necessary, information was completed using public sources of information. In total, the dataset includes 119 jurisdictions, including all OECD members. It is important to note that baseline withholding tax rates are often not applicable to cross-border transactions, particularly in cases where a tax treaty is in force between two jurisdictions.

Withholding tax rates across jurisdictions

Figure 7.1 displays the average standard withholding tax rates applicable for dividends, interest, and royalty payments across the 119 IF jurisdictions covered. Jurisdictions are categorised in three groups: high income jurisdictions, low and middle-income jurisdictions and investment hubs.[1] Figure 7.1 shows that the ranking of average standard WHT rates varies across jurisdiction groups. On average, low and middle-income jurisdictions levy higher WHT rates on royalty payments while high income jurisdictions and investment hubs levy higher rates on interest. In particular, the following can be observed:

- **Dividends:** High income jurisdictions levy an average standard WHT on dividends of 15.5%, which is 4.3 p.p. larger than the average standard WHT rate on dividends in low and middle-income jurisdictions (11.2%) and about three times larger than the average rate in investment hubs (5.2%).
- **Interest:** Concerning interest payments, the average standard WHT rate in high income jurisdictions is 11.8% compared to 15.9% in low and middle-income jurisdictions and 4.8% in investment hubs.
- **Royalties:** Royalty payments are subject to an average standard WHT rate of 15.6% in high income jurisdictions and 16.6% in low and middle-income jurisdictions. These rates are considerably higher than the average standard 3.6% WHT rate applied to royalties in investment hubs.

Figure 7.1. Average withholding tax rates: Dividends, interest, and royalties, 2023

Investment hubs, low and middle income, and high-income jurisdictions

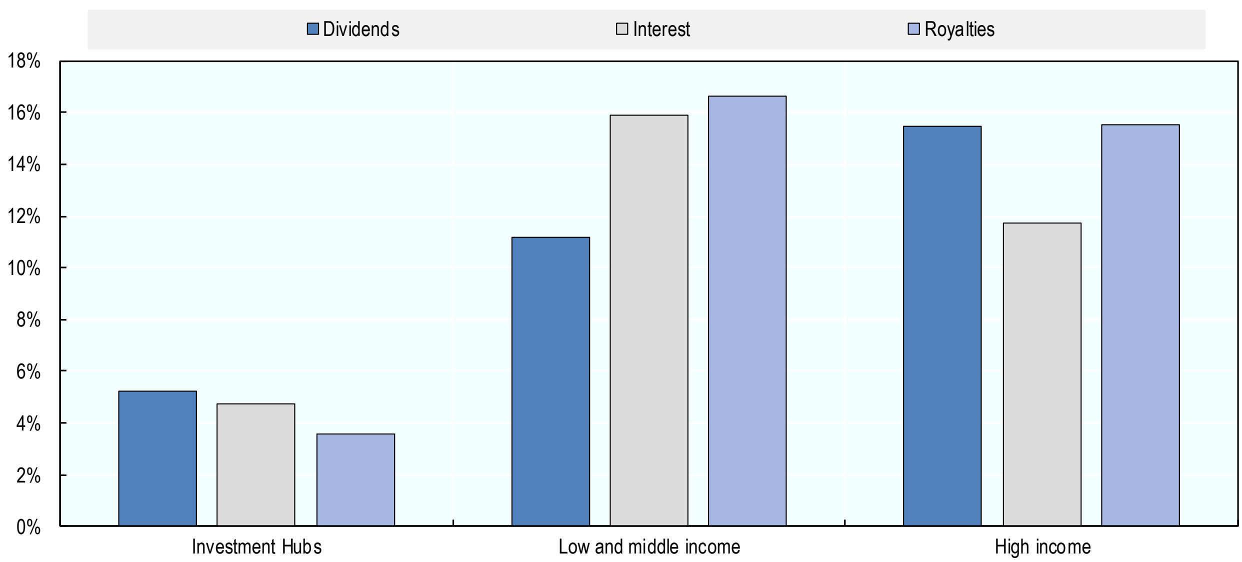

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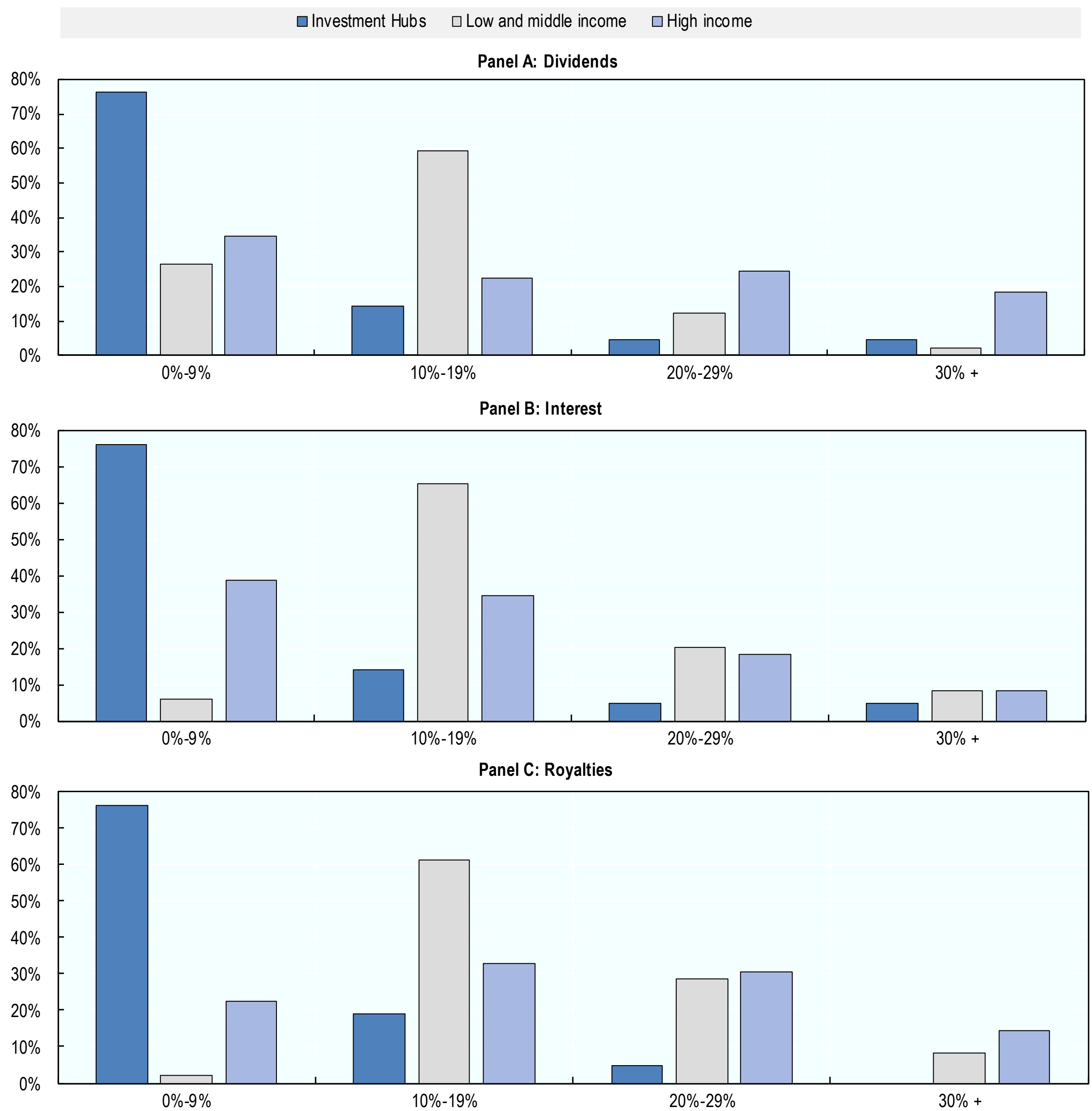
Figure 7.2 depicts the density ratios of WHT rates for the three jurisdiction groups along four ranges of WHT rates. Density ratios capture the number of jurisdictions that levy a standard WHT rate in each range, as a share (expressed in p.p.) of the total number of jurisdictions in the dataset. Ratios are presented separately for each jurisdiction group as well as for each cross-border payment type. Panel A of Figure 7.2 shows the distribution of ratios for WHTs on cross-border dividend payments. Three quarters of the investment hubs covered in the dataset levy a WHT on dividends at a standard rate below 10%. This includes, among others, Anguilla (0.0%), Cyprus (0.0%), and Singapore (0.0%). Fourteen per cent of investment hubs levy a WHT on dividends at a standard rate between 10% and 20%.

The remaining jurisdictions are Ireland and Switzerland, which levy a WHT on dividends at standard rates of 25.0% and 35.0%, respectively. Among low and middle-income jurisdictions, more than half levy a WHT on dividends at a standard rate between 10% and 20%. Thirteen of the 49 jurisdictions in this group have standard WHT rates below 10%, including Brazil (0.0%) and Peru (5.0%). Of the low and middle-income jurisdictions, only Jamaica (33.3%) has a standard WHT rate on dividends above 20%. The largest share of high-income jurisdictions (about one third) levy WHTs on dividends at standard rates below 10%. This includes the United Kingdom (0.0%), Greece (5.0%), and Uruguay (7.0%), among others. In the remaining three ranges of standard WHT rates above 10%, the number of high-income jurisdictions is between 9 and 12 jurisdictions for each range. At the top-end of the distribution are jurisdictions such as Chile (35.0%), Czechia (35.0%), and Greenland (44.0%). As mentioned above, these rates do not account for any tax treaties that may exist.

Figure 7.2. Density ratios of WHT rates: Dividends, interest, and royalties, 2023

Investment hubs, low and middle income, and high-income countries



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Panel B of Figure 7.2 presents the spread of density ratios applicable to cross-border interest payments. The majority of investment hubs (76% of the group) levy a WHT on interest at a standard rate below 10%. Among others, this includes Bermuda (0.0%), Malta (0.0%), and the Netherlands (0.0%). Of the remaining five investment hubs, Switzerland (35.0%) and Ireland (20%) are at the top of the distribution of standard rates. Over 65% of low and middle-income jurisdictions levy a WHT on interest at a standard rate between

10% and 20%. Three jurisdictions levy a WHT on interest at a standard rate lower than 10%, Paraguay (4.5%), Georgia (5.0%), and Viet Nam (5.0%). Four jurisdictions levy a WHT on interest at a rate greater than 30% including Peru (30.0%), Jamaica (33.3%), Argentina (35.0%) and Mexico (35.0%). High income jurisdictions are concentrated in the lower parts of the distribution, with 38.7% of high-income jurisdictions levying WHTs on interest at standard rates below 10%. In the higher tax brackets, 34.7% of jurisdictions levy WHTs on interest at standard rates between 10% and 20%, 22.5% between 20 and 30% group, and 8.1% above 30%. Liechtenstein (0.0%), Monaco (0.0%) and Sweden (0.0%) are three of the 19 jurisdictions among the high-income group that levy a WHT on interest at a standard rate below 10%. The highest standard WHT rate among high income jurisdictions is levied at the same rate (35.0%) in Chile and Czechia.

The distribution of density ratios of WHTs on cross-border royalty payments are found in Panel C of Figure 7.2. Most investment hubs have standard WHT rates on royalties below 10%. This range includes Hungary (0.0%), Jersey (0.0%), and Hong-Kong (5.0%), among others. The upper tail of the distribution of investment hubs consists of Liberia (15.0%), Mauritius (15.0%), and Ireland (20.0%). Royalty payments are subject to WHTs at standard rates between 10% and 20% in over half of the low and middle-income jurisdictions (61%). The lower end of the distribution in this group consists of Georgia and India which levy a WHT on royalties at a standard rate of 5.0% and 10% respectively. The upper end includes Peru (30.0%), Jamaica (33.3%), and Argentina (35.0%). Almost one third of the high-income group levies a WHT on royalties at a standard rate between 20% and 30%. Among the high-income jurisdictions that levy the lowest standard WHT rates are Aruba (0.0%), Latvia (0.0%), and the United Arab Emirates (0.0%). Belgium (30.0%), Italy (30.0%), and the United States (30.0%) are three of the seven jurisdictions that levy WHTs at a standard rate of 30% or above in this category.

Treaty-based withholding tax rates

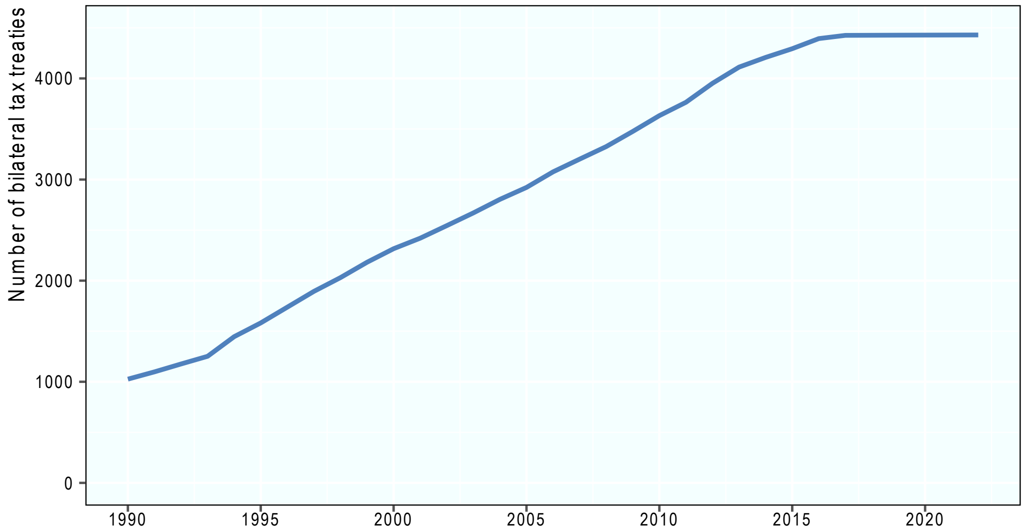
Bilateral tax conventions can play a crucial role in encouraging and fostering economic ties between countries. They do so by reducing tax obstacles to cross-border services, trade and investment through the avoidance of double taxation, addressing excessive taxation, offering protection from discriminatory tax treatment of foreign investment and by providing greater certainty of tax treatment for taxpayers.

One way in which bilateral tax treaties achieve some of these aims is through the limitation of withholding taxes that may be applied certain income. This section provides data on the tax treaties amongst the jurisdictions covered in the database and provides additional details on the withholding tax rates on dividends, interest, royalties, and technical fees, that are applied as final withholding tax rates.[2]

The number of treaties has expanded significantly in recent years across the 131 jurisdictions in the dataset, with only 1000 treaties among these countries in 1990 compared to almost 4500 in 2023 Figure 7.3. However recent years have seen a levelling off of the expansion in tax treaties, with only 36 additional treaties included in the database during the period 2017-2023.[3] The modest increase in new bilateral treaties during this period does not mean that there has not still been significant treaty-related change; for example, many countries have signed the MLI, and many treaties have been amended by protocol.

The data suggest that countries outside the OECD have fewer treaties than OECD countries. Figure 7.4 shows that OECD countries have higher numbers of treaties on average than IF member jurisdictions in Africa and Latin American and the Caribbean, which contain more non-OECD member jurisdictions. Though all groups have seen significant growth in their average number of tax treaties, this growth has been strongest amongst OECD countries. The data show that treaty-based withholding tax rates are substantially lower than withholding tax rates applicable under domestic law. Overall, Figure 7.5 shows that treaty-based withholding tax rates show a substantial mass of rates below 5%.

Figure 7.3. Number of bilateral treaties, 1990-2023



Note: Data are based on bilateral treaties reported by 131 IF member jurisdictions with one another. The database refers to bilateral tax treaties only. Multilateral agreements are not accounted for. Other tax-related agreements such as tax information exchange agreements are not counted. Only treaties in effect are counted.
Source: OECD Bilateral Tax Treaties Database.

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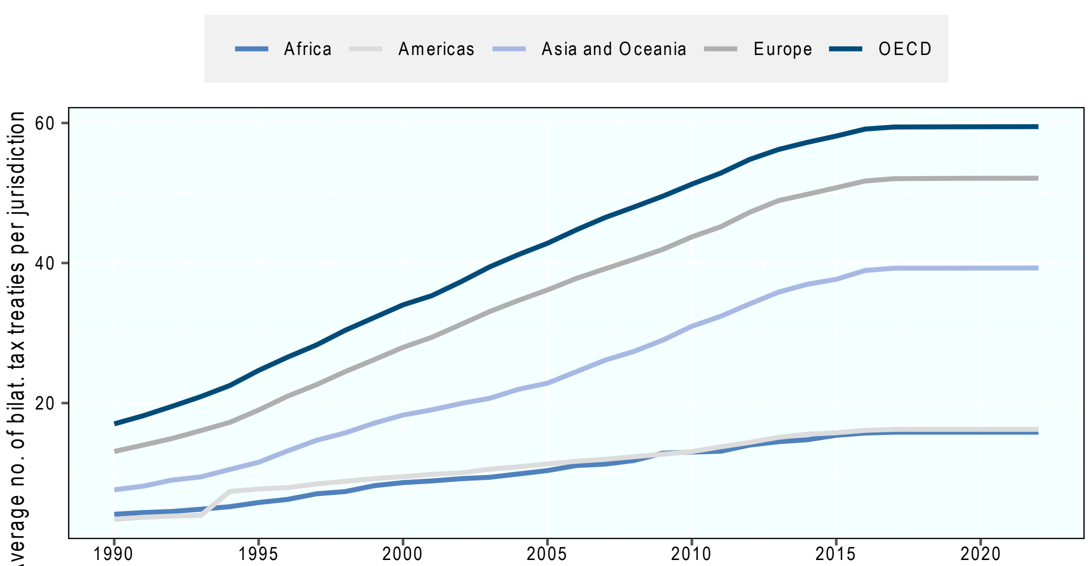
Figure 7.4. Average number of treaties, by region



Note: Data are based on bilateral treaties reported by 131 IF member jurisdictions. The database refers to bilateral tax treaties only. Multilateral agreements are not accounted for. Other tax-related agreements such as tax information exchange agreements are not counted. Only treaties in effect are counted.
Source: OECD Bilateral Tax Treaties Database

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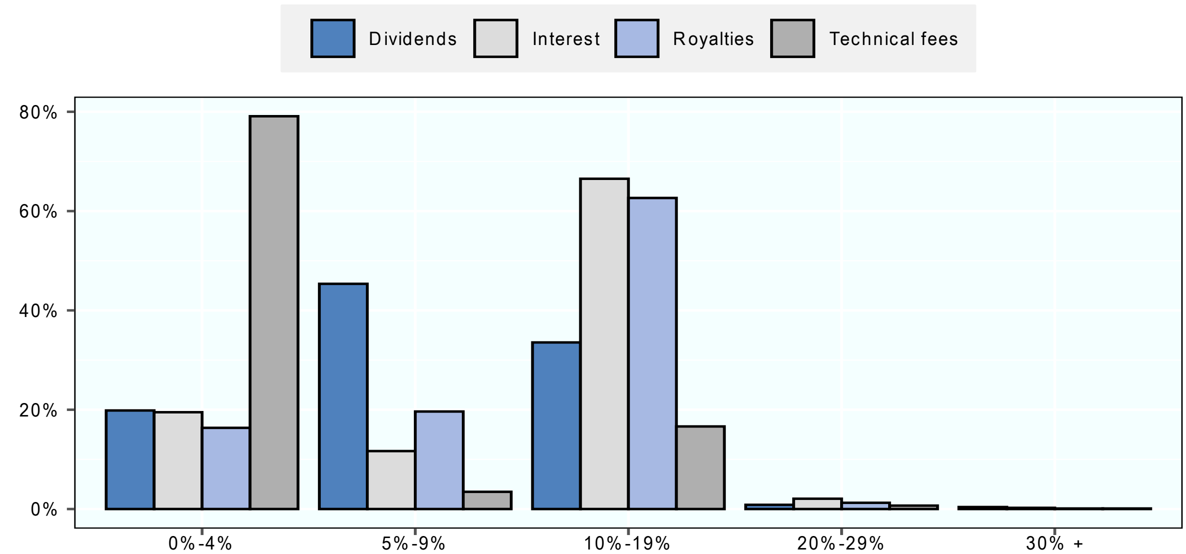
Figure 7.5. Average treaty-based withholding tax rates



Note: Data are based on bilateral treaties reported by 131 IF member jurisdictions. The database refers to bilateral tax treaties only. Multilateral agreements are not accounted for. Other tax-related agreements such as tax information exchange agreements are not counted. Only treaties in effect are counted. For each of the categories of payment flows, existing treaties that do not specify the applicable withholding tax rate, and hence create missing values, are not included in this figure. Where a tax treaty provides for different rates for specified ownership percentages, this entry reflects the highest ownership percentage.
Source: OECD Bilateral Tax Treaties Data.

StatLink https://stat.link/385dg7

References

Auerbach, A., M. Devereux and H. Simpson (2008), “Taxing corporate income”, https://www.nber.org/papers/w14494 (accessed on 18 February 2023). [1]

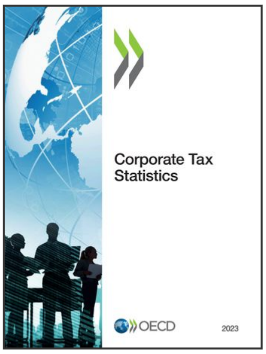
OECD (2015), *Measuring and Monitoring BEPS, Action 11 - 2015 Final Report*, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/9789264241343-en. [2]

Notes

[1] The “high income” and “low and middle income” jurisdiction groups are based on the World Bank classification, with the resulting split for the 119 jurisdictions covered: 49 high-income jurisdictions and 49 low- and middle-income jurisdictions. Low- and middle-income jurisdictions are grouped together due to the low number of low-income countries (two) in the dataset. Investment hubs constitute the third group. They are defined as jurisdictions with a total inward Foreign Direct Investment (FDI) position above 150% of gross domestic product (GDP) and include 21 jurisdictions.

[2] This means that the payments are not effectively connected with a permanent establishment in a jurisdiction applying a WHT.

[3] The analysis does not include updates or amendments to treaties. The data also do not include bilateral tax instruments that do not amend withholding taxes, such as taxpayer information exchange agreements.



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