Online-Appendix zu

„Corporate Taxation in the U.S. and Canada – A Comparative Analysis"

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Appendix 1

Comparison criteria are derived from the Tax Attractiveness, Tax Complexity and Tax Competitiveness Indexes. Since the main objective of this thesis is to compare corporate taxation of both countries with regard to their tax attractiveness, it harmonises the most with the objective of the Tax Attractiveness Index which is to assess the attractiveness of tax systems. Hence, Tax Attractiveness Index's criteria have been considered in the foreground.

As mentioned above, the parameters of these three indexes go beyond corporate taxation, and in this study, only the ones related to corporate taxation are examined. For the purposes of this thesis, corporate taxation definition covers all aspects that affect the tax burden on the level of the corporation as such. Hence, criteria that influence individual taxes are not taken into consideration. For instance, these individual taxes are capital gains tax, dividend tax, wealth and estate tax among others. Also, taxes that are passed to the final consumer, and thus does not have any influence on the corporate tax, are not included. An example of these taxes is value added tax.

Upon initial elimination, among the remaining parameters, the ones that came across in all three indexes are chosen. The reason behind this was to make this research as objective as possible by focusing on the common criteria of three separate indexes. Nevertheless, two criteria are exceptional: "Group taxation regime" criterion is not included in the Tax Competitiveness Index and the parameter "treaty network" is only incorporated in the Tax Attractiveness and Tax Competitiveness Indexes. Since the Tax Attractiveness Index holds the centre stage, these two criteria are chosen despite not appearing in all three indexes. Lastly, the chosen criteria are grouped into four categories, whereby the names of the category titles are derived from the Tax Competitiveness Index apart from the first category "basic elements".

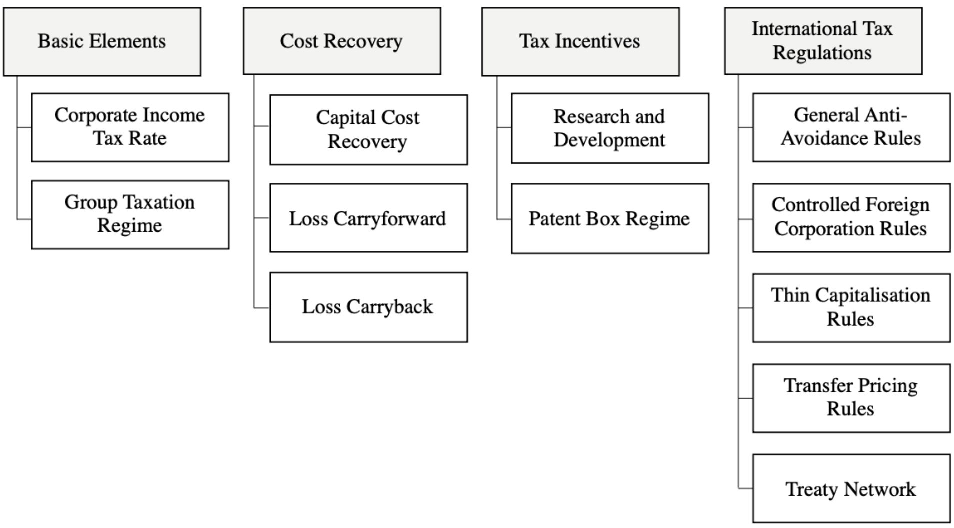

Figure 2: Overview of the comparison criteria

Appendix 2

Criteria	Similar	Different	Comment
Corporate Income Tax Rate	• Taxation on both federal and state (provincial/territorial) level. • State (province/territory) corporate income taxes vary greatly.	• The tax rate in the U.S. is 21 per cent, whereas in Canada 15 per cent. • The average combined tax rate is 25,77 per cent in the U.S. and 26,47 per cent in Canada. • Progressive taxation is eliminated in the U.S. with TCJA.	
Group Taxation Regime	N/A	• The U.S. has group taxation provisions, whereas Canada has none.	
Capital Cost Recovery	• Both countries employ an asset classification system. • Allowed depreciation methods are similar. • Capital costs are dispersed over the useful lifetime of assets in both countries.	• "Accelerated investment incentive" provisions in Canada. • "Modified accelerated cost recovery" system in the U.S. • 100 per cent first-year bonus depreciation deduction in the U.S.	Canada and the U.S. both employed accelerated depreciation provisions for a limited time period, whereas these provisions differ with regard to their duration, applicable industries etc.
Loss Carryforward	• After the prescribed carryforward time period not utilised carryforward losses become permanently unavailable. • Carryforward is limited in the case of an ownership change.	• Carryforward is allowed for 20 years in Canada and indefinitely in the U.S. • The deduction is capped to 80 per cent of the taxable income in the U.S., whereas there are no limitations in Canada.	
Loss Carryback	N/A	• Canada allows carryback of losses for three years. There are no carryback provisions in the U.S.	The U.S. has introduced temporary loss carryback provisions with the CARES Act.

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Research and Development	• Both countries have federal and state (province/territory) tax credits. • Tax credits may be carried forward for 20 years in both countries.	• The U.S. qualifies a larger spectrum of expenses as eligible for R&D tax credit. • The U.S. has many different types of federal R&D tax credits, whereas Canada has besides federal tax credit, only one additional one for Canadian-controlled private corporations.	
Patent Box Regime	• Both countries do not have any direct patent box provisions in their federal laws. •	• Canada has two provinces that employed patent box regimes. • Indirect patent box regime of the U.S. is FDII provision which exempts 37,5 per cent of the patent income from taxation.	British Columbia grants a reduced rate of 2,75 per cent and Quebec reduced the tax rate for income derived from patent commercialisation to 4 per cent.
General Anti-Avoidance Rules	• Despite existence of codified GAAR provisions in both countries, the federal courts' statutory interpretation is important, hence courts ultimately decide whether there is a tax avoidance transaction.	• Canadian GAAR provisions work under a cascade mechanism. • The U.S. GAAR relies on many doctrines, i.e. the economic substance doctrine.	
Controlled Foreign Corporation Rules	• The U.S. and Canada have both strictly defined CFC rules. • In order to be qualified as controlled foreign corporation majority ownership (over 50 per cent) is required. • Both countries' CFC rules apply to passive income.	• The Base Erosion and Anti-Abuse Tax of the U.S. acts as an additional backup to the CFC rule. • GILTI provision of the U.S. goes beyond the passive income and expands the scope. • The U.S. rules have a two-step ownership test: one for the corporation and one for the shareholders.	

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Thin Capitalisation Rules	• Both countries have clearly imposed thin capitalisation rules. • Debt-to-equity ratio is 1,5:1 in both countries.	• The U.S. provisions also include rules that state whether an instrument is considered as debt for U.S. tax purposes. • The U.S. provisions limit interest deductions to 30 per cent of adjusted taxable income, whereas there are no limitations in Canada.	
Transfer Pricing Rules	• Acknowledged transfer pricing methods are similar. • Both countries do not rely heavily on OECD's guidelines. • Advance pricing agreements are possible in both countries. • In both countries the arm's length pricing is reached by assessing the comparability of transactions.	N/A	Canadian tax authorities have preferred traditional transaction methods in the past.
Treaty Network	• The tax treaties of the U.S. and Canada are both based on the OECD's Model. Nevertheless, they deviate from the OECD Model with specific provisions.	• The U.S. has 64 tax treaties in force, whereas Canada has 93 tax treaties.	

Figure 3: Comprehensive overview of the corporate taxation criteria