c: company (MJ)

[illegible]

PRIME MINISTER

COMPANY TAXATION IN GERMANY

I have checked the position on company taxation in Germany with the Treasury. The position is as follows.

Corporation tax is levied at 56 per cent on retained profits and 36 per cent on distributed profits. The effective rate will therefore lie between the two according to the amount a company distributed. It will certainly be higher than our 34 per cent. If companies tend to retain a high proportion of their profits the effective rate will be towards the top end of the range.

Plant and machinery is depreciated over 10 years. In this country it is depreciation for tax purposes on the basis of 25 per cent of the reducing balance. This is equivalent to straight line depreciation over 8 years. Again there is an advantage in the UK.

The Institute of Fiscal Studies has calculated what pre-tax rate of return is necessary to earn a 5 per cent post-tax rate of return. When inflation is zero the required return in Germany is 8.86 per cent, compared with 6.12 per cent in the UK. If inflation were 10 per cent the figures would be 10.06 per cent in Germany and 5.72 per cent in the UK.

This indicates that, contrary to what your informant told you at lunch, the UK corporate tax regime is more favourable.

AT

But 1 – Banks don't want any distributed profits and

2 – he pointed out that they have a way of investing (? an extended depreciation & maintenance) without! [illegible] profit/loss calculation

Andrew Turnbull
17 November 1989

Yours may be the theory – but these companies know the practice [illegible]

UNCLASSIFIED
SAVING TELEGRAM

FROM BONN
FRAME ECONOMIC
TO FCO TELNO 13 SAVING OF 03 November 1989. Info. Brussels, Luxembourg, The Hague, Paris, Rome, UKRep Brussels, UKDEL OECD, UKMis Geneva, all Consulates-General in the Federal Republic and West Berlin, Washington, Tokyo, Vienna.

FRG ECONOMY

SUMMARY

1. GNP growth expected to be "around 4%" this year, slowing to 3% in 1990 according to 5 Institutes' Autumn Report. (Para 9)

2. Unemployment below 1.9 million. Strong rise in employment. Threatening clouds on the industrial relations front. (Paras 10 to 11)

3. Business climate remains good. New orders and production strong. Outlook for construction sector good. Encouraging retail trade turnover figures. (Paras 12 to 15)

4. New index shows inflation lower than originally reported. September figure revised down to 2.8%. (Para 16)

5. Interest rates steady since key rate increase in early October. Bond yield climbs to 5-year high. M3 growth slows to 4.6%. (Paras 18 to 19)

6. DM gains ground against other major currencies. EMS realignment unlikely. (Para 20)

7. Stock markets nervous after largest single fall in FRG history. Proposed abolition of Stock Exchange Turnover Tax brought forward to 1991. (Para 21)

8. Renewed rise in both current account and visible trade surplus in August. (Para 22)

DETAIL

GROWTH

9. The Autumn report of the five leading economic institutes published on 23 October stated that economic growth this year will be higher than originally expected, boosted by strong corporate investment and lively world trade. The report revised its spring forecast for the German economy of 3% real growth upwards to "around 4%", easing to 3% in 1990. The large fall in unemployment achieved this year will not be maintained. The report repeats its standard call for more determined efforts to cut subsidies and outlines the need for further fiscal reform and deregulation to improve the FRG's attractiveness for private investors. More emphasis should also be placed on public-sector investment. Caution is advised with regard to further reductions in working time. The table overleaf summarises the main figures.