



EU News Monthly Journal

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Dear readers,

The first month of the year clearly did not begin without a hitch. Important European events began to shake up things from all sides without warning. And which of them deserves the most attention from us? It was the probably long awaited statement by the British prime minister.

David Cameron did not let anyone question the fact that he is a major political player, who will not allow an agenda to be dictated to him by the anti-EU wing of his own Conservative Party, and he engaged in a counter-attack. By making a cunning promise to hold a referendum regarding whether Britain should remain in the EU, he took wind from the sails of the increasingly strong Independence Party, for whom a potential British exit is basically its only visible political programme. Cunnings because he does not plan to announce it until the middle of the future election term, under the condition that he wins the next elections. You can read more about how likely it is and particularly about the potential consequences of an exit from the EU by Britain in the In Focus section, which I have prepared together with my colleague Vít Macháček.

In the News section, which summarises the most important events related to European integration in the past year, the first article is regarding the exit from the scene of the long-time (eight years in his position!) Euro Group chairman Jean-Claude Juncker, who has also served as Luxembourg's prime minister and finance minister. The new head of the group, which is comprised of the finance ministers from all 17 Eurozone states, is Jeroen Dijsselbloem from the Netherlands. Maybe during his era the euro will strengthen not only in terms of the number of its users (based on the maximum possible number of states paying with it), but also in terms of quality (based on

the lowest possible number of references in the media to the topic of the potential collapse of the Eurozone.

Following the success of the last main topic, which was devoted to mapping the amounts of VAT in all EU states, we are continuing with a tax excursion in this issue as well. We have received an earful about corporate tax, known domestically as tax on the income of legal entities. Is the Czech corporate tax rate above average or below average in the European context? You will find the answer in Tomáš Kozelský's article beginning on page 10.

During the regular journey with Helena Chamerová against the flow of time, we have looked back at 2001, when the Nice Treaty was signed, a key document, which through amendment of primary EU law enabled the historic enlargement of the EU in May 2004 by ten new member states, including the Czech Republic.

The Guide to Doing Business section focuses on our most important trading partner, Germany. On pages 17 and 18 you will read about our western neighbour's macroeconomic outlook, taxation, labour costs, energy costs, how difficult it is to establish a company and much more.

Dear Readers, we hope you will enjoy the February issue of our Monthly!

Jan Jedlička



Events

Dutch Finance Minister Jeroen Dijsselbloem has become the new head of the Euro Group. British Prime Minister David Cameron has promised the British a referendum on whether to remain in the EU, but not until 2017. Members not only of the European Parliament, but of national parliaments as well, have agreed on the main problems of the EU (democratic deficit and youth unemployment). The EU has launched strengthened cooperation related to a financial transaction tax.

POLITICS

Jeroen Dijsselbloem is the new head of the Euro Group

Jean-Claude Juncker after eight years is stepping down as the head of the group comprised of the finance ministers of all 17 Eurozone states (the Euro Group). He has been replaced in the position by **Dutch Finance Minister Jeroen Dijsselbloem**.

The intention to appoint Dijsselbloem to lead the Eurozone was informally announced already at the EU summit in December, but according to the rules outlined in the treaties, **the head of the Euro Group must be officially elected by the finance ministers at their session**. Since last November, Dijsselbloem has served as the finance minister of the Netherlands, which is part of the group of northern states that support strict austerity measures.

Germany expressed support for him already at the beginning of the year and stated that the chairperson of the group of Eurozone finance ministers should come from a financially stable country that enjoys a high rating. The Dutch candidate also received support from **Finland and Slovakia**. Dijsselbloem's candidacy was also welcomed by the hitherto chairperson of the Euro Group, Jean-Claude Juncker from Luxembourg.

French Finance Minister Moscovici, even despite initial hesitation regarding appointing the Dutch candidate, eventually supported him too. Moscovici expects Dijsselbloem to present his vision for Europe's future at the ministers' meeting. He also hopes that the new chairman of the Euro Group will continue in the tradition begun by Jean-Claude Juncker.

The head of the group of finance ministers from countries using the euro is elected for a two-and-a-half-year term. **The Euro Group's role is increasing**, along with discussions about deepening economic integration. The Group also decided, for example, about financial assistance for Greece, Ireland and Portugal.

<http://www.consilium.europa.eu/homepage/highlights/mr-dijsselbloem-appointed-new-eurogroup-president?lang=cs>

Cameron wants to reform the EU

David Cameron has given a speech in which he **promised the British a referendum on whether Britain should remain in the EU**. The referendum could be held in 2017, if Cameron's Conservative Party remains in government following the next parliamentary elections. However, the British prime minister expects that at the time of such

referendum, Britain's position in the EU could differ significantly from its current position.

Cameron is planning **to negotiate a new treaty and to change the entire arrangement of European integration**. He believes a reformed EU would be more competitive, flexible, democratically responsible and just. He envisions that some powers already transferred to multinational institutions could be returned to national governments.

It did not take long for other **European officials to react** to Cameron's statements. For example, German Foreign Minister Guido Westerwelle expressed his hope that Britain will decide to remain in the EU. However, he warned against any attempt by Britain to "pick raisins", meaning to pick and choose from European integration only what suits it. Westerwelle believes that the EU could become splintered if other states copied such tactics.

Negative reactions came even from Britain's traditional partners regarding the issue of European integration. For example, the **Swedish minister** for European affairs does not agree with Cameron that the EU should be merely a "free network", and she believes that the EU should have clear rules of the game. The **Danish minister** for European Affairs assured that Denmark does not plan to follow Britain's path and wants to have the closest possible ties with the centre of the EU. You can read more about this topic in our commentary in the In Focus section.

http://www.conservatives.com/News/Speeches/2012/12/Prime_Ministers_Speech_on_Europe.aspx

The democratic deficit and youth unemployment are the EU's main problems

Members of the European Parliament and national parliaments met in Brussels for the purpose of discussing the yearly cycle of coordination of economic policies (the so-called European semester) within the EU. The aim of their discussion was mainly to **exchange information about the economic interests and concerns of member states** as well as **about EU priorities in general**. The agenda also included a meeting with officials from the European Commission, at the conclusion of which Commission Chairman José Manuel Barroso and European Council Chairman Herman Van Rompuy spoke.

Democratic deficit

One of the main stated conclusions of this year's meeting of legislators was that it would be necessary to **create a more effective mechanism of democratic checks and balances for European decisions regarding economic matters**. A democratic deficit was emphasised, which



according to the lawmakers is increasing, since the measures adopted for new economic governing in the EU directly affect all aspects of national economies.

If democratic checks and balances are not increased, citizens will reject proposed reforms of national budgets. A stronger economy therefore should lead to **greater involvement of parliaments** (European and national) in **decision making**.

Guarantees for young people

The **unemployment rate among young people** in the EU has already reached an unprecedented **23.7%**. In relation to this, a recent proposal from the Commission to create guarantees for young people has been mentioned. They are expected to ensure jobs or further education for young people up to age 25 within four months.

The lawmakers say a **system of guarantees** would be one way to tackle high youth unemployment. Another solution that the lawmakers have proposed includes **boosting entrepreneurship, better connecting of education with employers' needs and labour market reforms**.

<http://www.europarl.europa.eu/news/cs/headlines/content/20130125STO05486/>

EU unemployment is breaking records

In November 2012, **unemployment in the Eurozone reached 11.8%**, which is its highest level since the euro was introduced in 1999. A year earlier, more than 1% fewer people were jobless, 10.6%. This is according to a report from the European Commission regarding development in the employment and social area.

A total of **26 million people (11%) are currently unemployed** in the EU. Year-to-year, approximately two million more people have become unemployed across the EU. Compared to the rest of the EU, the **Czech Republic** is doing relatively well, with an **unemployment level of 7.4%**, putting it in seventh place together with Belgium.

However, high unemployment among young people remains a persistent problem. In November, approximately **5.8 million people under the age of 25** were jobless, and the total unemployment level among this group of the population has reached **23.7%**. In **Greece and Spain**, the amount of people in this age category without work is even higher than 55%. When comparing individual countries, we can find major differences mainly between northern and southern EU states. In 2000 the difference between these blocks was 3.5%, but in 2007 these two groups' unemployment levels became about equal. However, as a result of the economic crisis, which has hit the southern states much harder, the level rose to 7.5% in 2011.

The largest rise in unemployment for the past year has been registered in Greece, where since last year it has grown by 7.1% to the current level of 26%. The highest unemployment rate is suffered by Spain, where 26.6% of the work force lacked jobs in November.

Contrastingly, the states with the lowest unemployment are Austria (4.5%), Luxembourg (5.1%) and Germany (5.4%).

http://ec.europa.eu/commission_2010-2014/andor/headlines/news/2013/01/20130108_en.htm

TAXATION AND CUSTOMS UNION

The EU has launched strengthened cooperation related to a FTT

The Council for Economic and Financial Affairs has adopted a decision under which 11 member states **will be permitted to initiate strengthened cooperation related to taxation of financial transactions**. It is expected to come into force at the start of next year.

Eleven member states want to impose a financial transaction tax through strengthened cooperation: Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia.

The participants in the meeting of the Council for Economic and Financial Affairs **focused on procedural issues**. **Irish Finance Minister Michael Noonan** said after the meeting that the participants had discussed how to continue approaching the issue of a financial transaction tax based on strengthened cooperation, but that they had not discussed the contents or basis of the tax itself. He said that member states who did not want to participate in the final mechanism of the financial transaction tax would nevertheless be fully involved in the process and would fully participate in the discussions, and so therefore the process would continue to involve all 27 member states.

Now the European Commission **must amend its original proposal for the form of the financial transaction tax**, which it believes all 27 member states should join.

The original proposal called for a harmonised **minimum tax rate of 0.1%** for transactions with all types of financial instruments except derivatives (for which the rate would be 0.01%). The aim was to ensure that the financial sector, which many consider insufficiently taxed, would fairly contribute to tax revenues and also be discouraged from transactions that do not increase the effectiveness of markets.

<http://www.consilium.europa.eu/homepage/highlights/the-eu-launches-enhanced-cooperation-on-the-financial-transaction-tax?lang=cs>



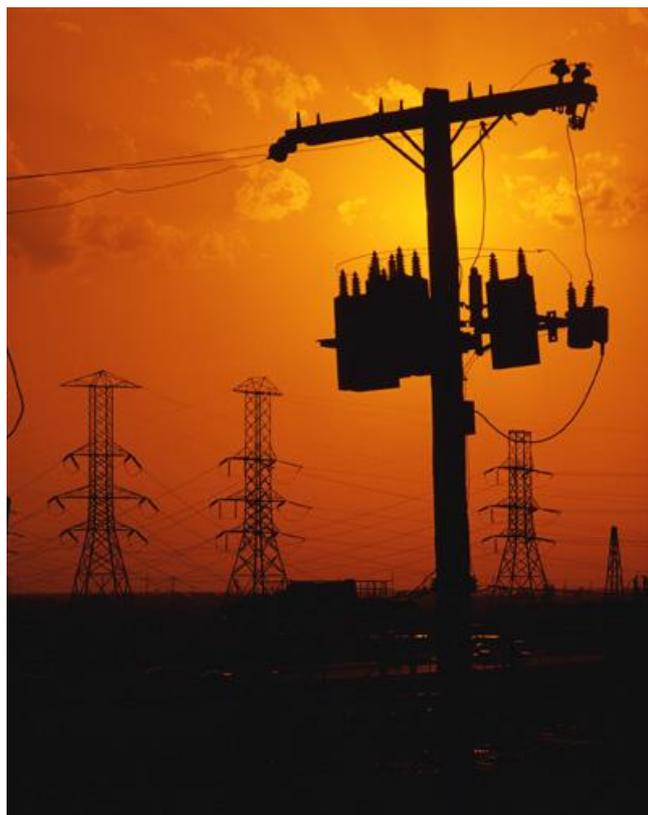
The Agriculture Ministry has launched a discussion regarding the new Czech agricultural strategy as part of the Single Agricultural Policy. The ministry expects that during 2013 there will be an increase in subsidies from the EU. The EU is fighting against cybercrime. It is expected to be assisted by the European Cybercrime Centre based in the Hague. The Czech Republic has drawn 29.8% of its national allocation from EU structural and cohesion funds.

ENERGY AND TRANSPORT

Solar operators complain to Commission about less renewable support

More than 70 companies and associations (including from the Czech Republic) involved in the solar power sector have **signed an open letter for the European Photovoltaic Industry Association** addressed to European Commissioner for Energy Günther Oettinger. In the letter they are asking him to "react swiftly" and use "all available legal means" to halt the trend that is **harming the confidence necessary for attracting more investors**.

They also cite the recently carried out or planned adjustments of support for renewable energy sources in Belgium, Bulgaria, the Czech Republic, France, Italy, Greece, Slovakia and Spain.



"These types of measures **seriously harm the investment environment** in general and especially for renewable resources, not only in the countries where they have been adopted, but across Europe as a whole," the letter reads. A lack of trust in supportive measures is said to strengthen the

perception of investment risks, and this is said to increase capital expenses for business operators.

The solar industry members cite, for example, the **situation in the Czech Republic**. Foreign investors recently announced that still during this quarter they would file an arbitration suit. They intent to demand compensation for financial losses, which they say they have suffered as a result of **imposition of a new 26 percent deduction from revenues from solar power plants**.

A group of senators filed a complaint with the Constitutional Court against the solar tax in 2011. However, the court decided that the deduction was in accordance with the Constitution. The EPIA also cites Czech Industry and Trade Minister Martin Kuba's statement from 2012 about the intention to extend and increase this tax.

<http://www.epia.org/?id=31>

AGRICULTURE AND FISHERY

Agriculture Ministry supports meat production in a new strategy

Czech Agriculture Minister Petr Bendl at a meeting on 21 January 2013 with representatives of non-governmental agricultural and food organisations began a discussion about a proposal with the working name "**Strategy of Czech Agriculture and Food Industry within the EU Single Agricultural Policy after 2014**". According to Bendl, the aim of the strategy is to identify the main Czech agriculture priorities.

According to the document, one of them is expected to be **ensuring food safety at a national and pan-European level**. He also believes more should be done to improve the relationship of agriculture towards land and water and that efforts should be made generally to increase the effectiveness and competitiveness of the Czech agricultural industry. The presented material envisions, for example, support for young starting farmers.

It also proposes **increasing support for promotion of local and regional food products**. According to the proposal, more investments should be directed towards fruit and vegetable cultivation and **mainly towards meat production**. Bendl believes meat production should halt increasing dependency on imports and lead to more job creation in rural areas. Specific measures within the European Rural Development Programme would also include a **transition to a unified payment system**. This would mean that the Czech Republic would become one administrative region to which European subsidies would be directed.



Measures to make the sector "greener" would include introduction of a requirement to rotate crops on arable land. This would also **give advantages to projects** that create sustainable jobs or are intended to reduce energy demands.

For 2013 the Agriculture Ministry has also predicted an **increase in subsidies from the EU**. They are expected to be increased from the current CZK 34.8 billion to 39.6 billion.

http://eagri.cz/public/web/mze/tiskovy-servis/tiskove-zpravy/x2012_ministerstvo-zemedelstvi-zahajilo.html

INFORMATION SOCIETY

EU wants to be smarter and quicker than cyber criminals

Many people still do not consider the internet to be safe. It is estimated that about one million people around the world become victims of some type of cyber crime every day. Cyber crime does not know national boundaries, and therefore it is necessary to fight against it together, the European Commission believes. Therefore, the **European Cybercrime Centre** has begun operating. It will serve as a centre for expert assistance to member states and shall **ensure joint steps against internet criminals**.

Cybercrime does not involve only internet fraud and attacks on electronic banking, but also sexual abuse of children and crimes that affect infrastructure and information systems.

"Perpetrators of this type of criminal activity are very smart and quickly adopt new technology in order to abuse it for unlawful activity," says European Commissioner for Internal Affairs Cecilia Malmström.



"Thanks to EC3, we will be smarter and quicker than them, and therefore we will be able to prevent their crimes and fight against them," she adds optimistically.

The centre will be located **at the headquarters of the European policy body (Europol) in the Hague**, the Netherlands. It will also be financed from Europol's budget. In 2013 Europol is expected to allocate 7 million euros to fund the centres' operations. This year, EC3 expects to employ 30 people full time, and their number is expected to increase gradually to 40.

The EU expects from the centre mainly **more opportunities for coordination** among the police bodies of individual member states. Internet fraud, online abuse of children and other types of cybercrime often have hundreds of victims, and suspects can be located anywhere in the world.

EC3 is intended on one hand to serve as a **centre for synthesis of data and is intended to provide advice during investigations and court proceedings**, and on the other hand is supposed to be capable of using all necessary resources in member states in order to suppress cybercrime. It should also support solutions that will be generally usable for the entire EU.

http://europa.eu/rapid/press-release_IP-13-13_cs.htm

REGIONAL POLICY

Czech Republic has drawn nearly 30% of its allocation in EU funds

According to the most recent monitoring report containing current data about drawing of resources from EU structural and cohesion funds, since the beginning of the current programme period of 2007-2013, **the Czech Republic has drawn CZK 233.9 billion, which represents nearly 30% (29.8%) of its total national allocation**. The report also reveals that by 4 January 2013, management bodies had received more than 92,000 applications and had decided to assign grants to projects for more than CZK 640 billion. By the same date, national resources were used to pay successful applicants more than CZK 400 billion, which represents 52% of the total national allocation. From 2007 to 2013, the **Czech Republic could receive CZK 784.7 billion from Brussels**.

Even though the end of the programme period is nearly a month away, the Regional Development Ministry has evaluated the fulfilment of objectives within the cohesion policy in the Czech Republic as mostly "satisfactory". This is true in the case of contributions from EU funds for improving the competitiveness of the Czech economy, **"soft" projects**, which are intended to ensure a qualified and flexible labour force, increase education and make the system of public administration and services more effective as well as in the case of improving environmental quality,

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environmental infrastructure and traffic accessibility. "The evaluation **"without major problems"** has been given to fulfilment of an objective, which is intended to lead to balanced development, which shall be contributed to mainly by the regional operational programmes, both programmes for the Czech capital Prague (OP Prague-Competitiveness, OP Prague-Adaptability), the Integrated Operational Programme and the topically focused OP Transport.

http://www.strukturalni-fondy.cz/getmedia/16146302-4b12-40c9-83cd-83e1d51b95b2/MMZ_2012_12.pdf

Data for individual operational programmes

	Total allocation 2007–2013	Submitted Applications	
	CZK mil	CZK mil	%
OP T	171 700,70	226 790,40	132,1
OP E	145 418,30	231 789,00	159,4
OP EI	92 276,20	159 655,00	173
OP HRD	55 455,90	107 728,80	194,3
OP RDI	61 233,60	101 400,10	165,6
IOP	47 848,90	63 140,00	132,0
OP EC	52 857,60	139 652,70	264,2
OP TA	5 756,70	8 678,60	150,8
ROP NW	22 491,00	40 014,70	177,9
ROP MS	21 649,70	35 093,70	162,1
ROP SE	21 389,80	36 076,30	168,7
ROP NM	19 998,10	34 263,20	171,3
ROP NE	19 933,10	41 558,10	208,5
ROP SW	18 809,80	54 280,90	288,6
ROP CB	16 914,60	33 097,90	195,7
OP PC	7 126,60	14 628,80	205,3
OP PA	3 349,40	15 342,80	458,1
ESF	111 662,90	262 724,40	235,3
ERDF	412 225,00	708 773,50	171,9
FS	260 322,20	371 693,20	142,8
NSRF	784 599,00	1 343 191,00	171,2

Source: Ministry for Regional Development, *) % of allocation for 2007-2013

Czech Republic did not use EU money for energy savings reasonably

A report issued by the European Court of Auditors (ECA) on 14 January 2013 states that the Czech Republic is reasonably using **only 10% of the resources from the cohesion policy** intended for increasing energy efficiency.

The European auditors assessed whether the investments into energy efficiency within the cohesion policy has been

cost effective. The **audit was carried out in the Czech Republic, Italy and Lithuania**, the countries that have received the most money for such measures from the Cohesion Fund and the European Regional Development Fund during the 2007-2013 programme period.

From when it joined the EU in 2004 until this year, **more than 951 million euros has been allocated** for energy efficiency, compared to more than 492 million euros in Lithuania and more than 873 million euros in Italy (there the amount has been calculated since 2000; the other two states were not yet EU members at the time - editor's note).

The auditors examined four operational programmes in a **sampling of 24 investment projects** related to energy efficiency of public buildings, such as schools, libraries, hospitals and administrative body headquarters. In most cases, however, it was not possible to verify energy savings, because reliable data was not available. One reason for this is that unlike in the Czech Republic, energy audits are not mandatory in Lithuania and Italy.



Nonetheless, the ECA discovered that for a large number of these projects, objectives **had not been set rationally in terms of cost effectiveness**, specifically costs per unit of saved energy. Premises that only needed reconstruction and for which corresponding documentation was available were often renovated. However, potential energy savings were not taken into consideration very much.

In the checked programmes, there was a **lack of proper evaluation of the areas** in which it would be possible to achieve greater savings in order to bring the greatest financial advantages. The concept of cost effectiveness was not even part of the European Commission's evaluation of the operational programmes.

<http://eca.europa.eu/portal/pls/portal/docs/1/19680746.PDF>



The European Commission's representatives in the Czech Republic have begun adding to the EU Monthly contributions in the "Commission's Column" section. This month's issue is devoted to new priorities in the European digital economy. If the key objectives in the next eight years are fulfilled, GDP could increase by as much as 5%, and up to 3.8 million new jobs could be created. How is the Czech Republic doing within this programme?

NEW PRIORITIES FOR THE EUROPEAN DIGITAL ECONOMY

In the past 15 years, information and communication technology (ICT) has been responsible for half of the productivity growth in Europe, and today the digital economy is growing seven times more quickly than other sectors. However, this potential is currently limited by the fragmented nature of policy making across Europe. Therefore, in 2010 the European Commission introduced a programme for maximum use of social and economic opportunities related to ICT in the European economy, called the Digital Agenda.

However, development in the ICT sector is quick: internet use continues to grow (particularly among disadvantaged groups), and the number of citizens who have never used the internet is going down. Online shopping is becoming increasingly popular (although in border regions, this is true to a much lesser extent), and broadband use is also growing.

Therefore, at the end of last year, the European Commission modified the original programme from 2010 and is newly placing emphasis on the following key areas:

1. Creation of a new and stable regulatory environment for broadband connections
2. Expansion of public digital services (such as support for introducing electronic identity documents and electronic signatures, e-justice and electronic medical records).
3. Support for digital skills and employment
4. A new strategy for cyber security in the EU (setting of minimum standards for ensuring users' freedom and privacy)
5. Updating of the EU framework for copyright law
6. Speeding up of development of cloud computing (knocking down existing barriers on the side of individual states and negative perceptions by consumers).
7. Commencement of a new industrial strategy for electronics (particularly support for micro and nano electronics).

The full implementation of the updated Digital Agenda is expected in the next eight years to increase GDP in Europe by up to 5%, since investments into ICT would rise, computer skills would grow, innovations would be enabled in the public sector and the conditions for the internet economy would be reformed.

As far as employment opportunities are concerned, it is estimated that the development of new digital

infrastructure could over the long term create up to 3.8 million new jobs. Electronic order assignment alone could bring savings of 100 billion euros annually, and electronic public administration can reduce administrative costs by 15-20%.



How is the Czech Republic doing?

Within the Digital Agenda programme, the European Commission also monitors and compares various parameters related to ICT in individual member states. According to data from 2011, the number of regular internet users in the Czech Republic is at approximately the European average (68% of Europeans are on the internet at least once per week). Czechs mostly use the internet to search for information about goods and services and for social networks. They use the internet for shopping less than the average European. Whereas in the Czech Republic only 30% of inhabitants shopped online at least once during the past year, the European average is 53%.

Czech users also give priority to Czech e-shops. Only 5% of internet users purchased goods online from a shop in another EU member state. This is despite the fact that Czech respondents consider shopping online from another EU state to be easier than anywhere else in the EU. A total of 30% of respondents in the Czech Republic described shopping online from abroad as "very easy" or "somewhat easy", while the average amount of people with this opinion in the EU as a whole is only 26%.

Perhaps Czechs prefer to purchase from Czech shops due to the wide range of offerings. Czech companies are the most active in online sales compared to the rest of Europe. Nearly 30% of them sell goods online, and 12% sell to foreign customers. However, the European averages are 13% and 6%.

You can find more information about the Digital Agenda here:

<http://ec.europa.eu/digital-agenda>

You can read more about ICT use in the Czech Republic here:

<http://ec.europa.eu/digital-agenda/en/scoreboard/czech-republic>



Information service

Our Information Service section outlines upcoming sessions of EU decision-making bodies accompanied by other significant events such as international summits with super powers. Often agendas for negotiations by these important bodies are not ready until a few days before the actual meetings so they can be as up-to-date as possible. Agendas can be found at: <http://europa.eu/eucalendar/>.

Meeting of the key EU institutions

2 February 2013 - General Affairs Council	Brussels, Belgium
4–7 February 2013 - European Parliament Plenary Session	Strasbourg, France
7–8 February 2013 - European Council	Brussels, Belgium
11 February 2013 - Eurogroup	Brussels, Belgium
11–12 February 2013 - Informal Meeting of Ministers for Regional Development	Dublin, Ireland
12 February 2013 - Ecofin	Brussels, Belgium
12–13 February 2013 - Informal Meeting of Ministers of Defense	Dublin, Ireland
15 February 2013 - Education, Youth, Culture and Sport Council	Brussels, Belgium
18 February 2013 - External Relations Council	Brussels, Belgium
18–19 February 2013 - Competitiveness Council	Brussels, Belgium
22 February 2013 - Transport, Communication and Energy Council	Brussels, Belgium
25–26 February 2013 - Agriculture and Fisheries Council	Brussels, Belgium
27–28 February 2013 - European Parliament Plenary Session	Brussels, Belgium
28 February 2013 - Employment, Social Policy, Health and Consumer Protection Council	Brussels, Belgium

Source: www.europa.eu, Access as of 31 January 2013



The aim of the Microscope section is to examine in detail and with comments current topics affecting the European political scene. British Prime Minister David Cameron's statements in January had great potential to shake up that scene. In his speech, he announced a plan for holding a referendum regarding whether his country should remain in the EU. Was this a wise move? And whom would the potential exit from the EU by Britain, a Brexit, affect the most? Britain or the EU?

WILL UK LEAVE THE EU – THE BREXIT SCENARIO?

When monitoring developments in British foreign policy, it is difficult to avoid a feeling of *deja vu*. Great Britain has always been outside of the main flow of European integration, and its pragmatism has been due to the country looking out for its own interests, which have not always been in line with the interests of the rest of Europe. With a certain level of exaggeration, this was expressed by the legendary Sir Humphrey from the British sitcom "Yes, Minister": "Britain has been observing the same foreign policy objective for 500 years already: Creation of a divided Europe. Therefore, it fought with the Dutch against the Spanish, with the Germans against the French, with the French and Italians against the Germans and with the French against the Germans and Italians. Why change something now that works so well?"

Nonetheless, let's forget the heroes of that excellent television show from the 1980s and focus on contemporary heroes. Prime Minister David Cameron attracted the most attention of the cameras from Britain and elsewhere when he announced a conditional plan for holding of a referendum about EU membership. Is there really a risk of the British leaving the EU? And who would suffer the most from it?

Britain's exit from the EU would primarily hurt Britain. The EU is Britain's largest trading partner - more than half of British exports go to the EU, but the EU only exports 11% of its goods to Britain. Moreover, Britain is no longer an empire over which the sun never sets. Its policies from global trade liberalisation to the fight against climate change will be much easier for it to defend on the international stage under the leadership of the EU with half a billion people than as a solitary player with a population of 63 million. However, it also wants to have as much of a say in the EU as possible, and therefore from time to time it resorts to very provocative rhetoric. Some Britons are still convinced that they are a world superpower. David Cameron knows the reality, but purely pragmatically he is playing his cards to the Eurosceptics in order to boost his position in British politics.

Britain's exit from the EU would also weaken the EU itself. Its level of weakening can be easily figured as from 12.5% to 15%. The first percentage is the share of inhabitants, and the second is the share of Britain's economy in the total EU economy. In short, it would be a major loss. In Brussels, the British have long been pushing for a policy of open markets and increased competitiveness. If that voice stops being heard or if it loses its largest defender, it would be unfortunate for the entire EU.

Even more so because the EU (as well as Britain) would immediately lose much a lot of trust. Trust of the EU from the rest of the world depends on the will to take a joint approach - to reach a consensus within the EU and jointly fulfil it. The wish of the EU's most important ally, the United States, is clear. This is demonstrated by Henry Kissinger's 40 year old attempt in vain to get the telephone number for Europe and the most recent comments from the U.S. administration about Britain having a strong voice in the EU being in America's national interest. Current western civilisation stands on two pillars, and the first American pillar does not want its European counterpart to begin crumbling.

Defenders of a more sober approach to European integration often argue the specific nature of Britain's interests. London is a global financial centre, and its economy therefore functions somewhat differently. The City is in fact the best argument for membership in the EU. It serves as a transit hub for the entry of foreign capital onto continental markets. For this reason, continental markets should be as closely accessible as possible without unnecessary administrative obstacles.

David Cameron's speech can be understood as a hasty statement from a politician who had to cool down the anti-EU wing of his own Conservative Party and take wind from the sails of the UK Independence Party. He announced that the referendum would not take place until during the middle of the next election term. And before the end of 2017 a lot more water will flow in the Thames, and the situation on the British and European political scenes could change.

Cameron was probably also aiming his speech at audiences in Brussels. The Eurozone crisis will require the adoption of measures to strengthen hitherto integration. Some of these could require revisions of the EU's founding treaties, and their amendments would need to be ratified by all member states, including Britain. The prime minister has made clear that in exchange for their signature, the British will want concessions in the form of exemptions for Britain and negotiation of looser cooperation in certain areas, which it could achieve. However, we certainly do not believe that Britain will end up outside of the EU and become a new Switzerland or Norway, countries that have access to the single European market, but are not EU members.

We will finish in the same place where we started. Minister Hacker is alarmed by Britons' cynicism in their approach to European integration. His secretary Sir Humphrey reacts as always: "Yes, Minister. We call this diplomacy."



We focused on the trend of increasing indirect taxes and specifically VAT in the EU in the last issue. We are not shying away from the topic of taxes in this issue of the Monthly either, and we have examined in greater detail the development of current VAT rates being charged to companies. However, what type of development is dominant for corporate taxes in EU member states? What is the CR's situation compared to other states? You can read about this and more in our main topic.

CORPORATE TAXATION IN THE EU

INTRODUCTION

Closer economic integration and the resulting harmonisation of rules in the EU has also affected taxation. However, it is affecting mainly indirect taxation, which has a clear connection to the functioning of the single internal market. If each country could set random high rates for VAT or indirect taxes (and some countries would not have these taxes at all), the price competitiveness of goods in the internal market would tend to be influenced by the tax policies of the country where the goods are manufactured rather than entrepreneurial skill.

In relation to the pension type of direct taxes, which we can include among corporate taxes (in the Czech Republic in the form of income taxes on legal entities) and personal taxes (in the Czech Republic in the form of income taxes on individuals), European harmonisation has not made much progress. One reason is the non-existence of a strong motivation, such as elimination of tax obstacles affecting free movement of goods and services, and another is each member state's sovereignty. Direct taxes

are highly perceived and are carefully monitored and calculated by each economic entity (Do any of the readers of the Monthly know how much they pay per year in VAT?), and therefore they are considered sensitive interference in the private sphere. National states continue to maintain their sovereignty in the area of direct taxation and do not want to give it up in favour of multinational institutions such as the EU. Since member states vote unanimously about tax legislation, each national state has veto right, and harmonisation is being carried out very slowly.

However, exceptions can be found, and they relate generally to tax situations involving cross-border economic activities. In the next text will focus only on corporate taxes. And we will do so both from a theoretical point of view by presenting key harmonisation and coordination directives and from a practical point of view by presenting the currently valid system of corporate taxes in the EU and its development.

LEGISLATIVE ENSHRINING OF CORPORATE TAXES IN THE EU

The system of EU harmonisation in the area of corporate taxes certainly is not very different from those of VAT and consumer taxes. We can observe this particularly in elimination and partially in the fight against tax evasion. Besides the specified key harmonisation directives, harmonisation of the rules and their interpretation is also being carried out through the judicial practice of the European Court Tribunal.

Most important directives regulating direct taxation:

1. Directive 2009/133/EC, on mergers (The Merge Directive)

- the full name of which is Council Directive 2009/133/EC of 19 October 2009 on the common system of taxation applicable to mergers, divisions, partial divisions, transfers of assets and exchanges of shares concerning companies of different Member States and to the transfer of the registered office of an SE or SCE between Member States, applies to:
 - mergers, divisions, transfers of assets and exchanges of shares related to companies from two or more member states;

- relocation of the statutory seat of a European company or European cooperative company from one member state to another;
- it stipulates that mergers, divisions or partial mergers are not a reason for any taxation of profits (based on the difference between the actual value of the transferred assets and liabilities and their tax value) at the time of the operation, but only if those profits are actually achieved;
- it stipulates that if a European company or European cooperative company relocates its statutory seat to another member state, that alone shall not be a reason for taxation of the income, profits or revenues of its shareholders. Nonetheless, member states may tax yields from the future sale of securities from the registered capital of a European company or European cooperative company relocating its statutory seat.

2. Directive 2011/96/EC, on joint taxation of parent companies and subsidiaries (The Parent-Subsidiary Directive)

- The aim is to eliminate double taxation of profit paid by a subsidiary headquartered in one member state to a parent company (which in the subsidiary must have at least a 10% stake) headquartered in another member state.
- There are two basic rules:
 - If the parent company receives divided profit from its subsidiary (does not apply to profit during liquidation), the member state of the parent company shall relieve it of taxation or shall tax it, but shall allow the parent company to deduct from its taxes the corresponding amount related to such profit, payable by the subsidiary from the profit.
 - Profit divided by the subsidiary for its parent company is relieved of withholding tax.
- The specified rules regarding eliminating double taxation also apply to division of profit earned by a permanent operating facility and division of profit of companies for permanent operating facilities located in a different member state than the location of the parent company or subsidiary.

3. Directive 2003/49/EC, on a single system of taxation of interest royalties (The Interest and Royalties Directive)

- implements a joint system for taxing royalties and licensing fees between companies belonging to a single group with the aim of eliminating double taxation of such payments.
- It stipulates that interest or royalties originating from a member state are relieved of all taxes imposed on them in the form of withholding from the source or based on a tax assessment issued in the particular state, if the actual owner (recipient) of the interest or royalties is a company from another member state (which can even have a permanent operating facility located in a different member state).
- It defines interest and royalties as follows:
 - interest - earning from receivables of any type (secured or unsecured by liens; establishment or non-establishment of entitlement to a share of the debtor's profit); especially revenues from securities and revenues from obligations or bonds, including bonuses and winnings related to such securities (penalties for late payment are not considered interest)

- royalties - payments for the use or the right to use industrial, commercial or scientific equipment; payments obtained as fees for the use or the right to use any copyrights for literary, artistic or scientific works, including cinematographic films and computer programs, for the use of any patents, trademarks, samples or models, plans, secret formulas or production methods or payments or information related to experience acquired in industrial, commercial or scientific areas.

4. Directive 2011/16/EU on administrative cooperation related to taxation and cancellation of Directive 77/799/EEC

- a new key directive (with a requirement for implementation in national legislation as of 1 January 2013) regulating exchanges of information relevant for administration and enforcement of national rules regarding taxation
- it applies to all types of taxes, except VAT, consumer taxes, customs fees and social security payments
- it specifies specific authorities in each member state responsible for exchanging tax information (automatic exchanges of information, exchanges of information upon request, exchanges of information based on one's own initiative) and regulates their obligations and relationships

5. Directive 2010/24/EU on mutual assistance during recovery of receivables originating from taxes, fees, customs fees and other measures

- it covers all taxes (does not apply to deductions for social security) and fees as well as compensation and interventions within the Single Agricultural Policy and benefits within the single sugar market
- it defines the activities of contact points in individual member states and rules for providing information about tax receivables and similar receivables, it describes the process of recovery of such receivables, including dispute resolution, and it sets up regular reporting among member states



Main topic

Common tax base for companies

In March 2011, the European Commission presented a proposal that would enable companies with a presence in multiple EU member states to fill out only one tax return via the Common Consolidated Corporate Tax Base (CCCTB). The CCCTB would then be divided based on a special formula among countries where the company has a presence, and the company would be taxed at the corresponding national rate.

Under the presented proposal, companies with a presence in multiple EU member states could choose whether when filing tax returns to observe national regulations or to fill out a joint European tax return. The relevant tax authority would then based on a special formula divide the tax base among individual states where the company has a presence. Three criteria would be taken into consideration:

- tangible assets,
- the number of employees, and
- the company's revenues.

The tax rate valid in the particular country would then be applied to the corresponding tax base, the amount of which would continue to be determined by each member state.

However, several member states are concerned that unification of the tax base may be a precursor to future pressure for harmonisation of the tax rate, and therefore the idea remains as yet only a legislative proposal.

CORPORATE TAX RATES IN THE EU

The development of corporate taxes in the Czech Republic, known rather as income taxes on legal entities, has undergone many changes in the EU in recent years, both in terms of their amounts and changes related to exemptions, surcharges and local rates. In EU member states, the current trend of an increase in indirect taxes (see VAT in the EU - January 2013 EU Monthly) is very popular with member states' governments, also because increasing indirect taxes may not necessarily have the same negative effects on domestic economies that increases in direct taxes can have. However, corporate tax rates are currently very much on the decline in the EU.

These direct taxes are often monitored to determine the business friendliness of particular regions or countries for companies during their decisions about whether or not to invest in them. However, this does not involve only looking at "tax havens", but also on evaluating competitiveness, rules and support for business in individual states. After all, governments have a lot of options for supporting business.

In the Czech Republic, the corporate tax is defined in Act No. 86/1992 Coll., on income taxes. It is covered specifically in the second part of the Act (Sections 17 to 21), which focuses on income taxes on legal entities. The individual sections of the Act describe its details regarding corporate income tax payers, tax periods, tax subjects, tax relief, the tax base, items reducing the tax base and the tax rate.

Although the trend of reduction of corporate taxes in the EU is long-term and obvious, it is not occurring in all

countries, and large differences between rates have appeared. Bulgaria and Cyprus have the lowest corporate tax rate (10%), followed by Ireland (12.5%). The countries on the other end of the scale are Belgium (33%), France (33.33%), Spain (30%) and Malta (35%), which together with France has one more phenomenon. It is not only a high corporate tax rate, but the number of changes as well. Both France and Malta have had the same general rate at least since 1998. The average basic tax rate in the EU is just under 22%, and the corporate tax rate is about 2% higher.

Current tax rates in the EU

The corporate tax rate in the Czech Republic is 19%, which is below the EU average. Poland also has a corporate tax rate of 19%. Slovakia also had a 19% rate, before it took an approach opposite to that of most EU states and increased its corporate tax rate. Slovakia raised its corporate tax rate by 4 percentage points to 23%. Although Germany has a 15% basic rate, it also collects a solidarity surcharge and local taxes, making its total tax rate higher than that in the Czech Republic. Since in certain member states, a surcharge and/or local taxes are added to the basic tax rate, corporate taxes in some areas could be even higher, like in Germany.

Corporate Tax Rates as of January 2013 in the EU

	Basic	Total*
Belgium	33%	33.99%
Bulgaria	10%	10%

Czech Republic	19%	19%
Denmark	25%	25%
Estonia	21%	21%
Finland	24.5%	24.5%
France	33.33%	37.06%
Ireland	12.5%	12.5%
Italy	27.5%	31.4%
Cyprus	10%	10%
Lithuania	15%	15%
Latvia	15%	15%
Luxembourg	21%	30.8%
Hungary	19%	20.86%
Malta	35%	35%
Germany	15%	30.95%
The Netherlands	25%	25%
Poland	19%	19%
Portugal	25%	30%
Austria	25%	25%
Romania	16%	16%
Greece	20%	20%
Slovakia	23%	23%
Slovenia	17%	17%
UK	24%	24%
Spain	30%	35.3%
Sweden	22%	22%

Source: ZEW, EK (DG TAXUD), *Basic corporate taxes increased by various surcharges and local taxes

The previous table presents an overview of individual corporate tax rates in EU member states. Some states (approximately a quarter of the EU member states), as has already been stated above, add to the general and basic rate various surcharges (sometimes even temporary ones, such as in the case of Cyprus, which in recent years added to the basic tax rate a contribution for defence, and in Portugal during the economic crisis) and/or local rates. For example, Belgium increases its 33% basic corporate tax by a 3% surcharge. Luxembourg has not only a 7% surcharge, but also a local rate adding 6.75%, and therefore its total rate can reach as high as 30.8%. Local additional rates are also used in Hungary, Italy, France, Spain and Germany, where there is also a 5.5% solidarity surcharge financing the costs of the country's reunification.

Besides the specified surcharges and local additional taxes, some states even use reduced corporate tax rates. We can

view it as a certain type of progressive taxation or from the opposite point of view as support for certain areas, such as small and mid-sized enterprises, companies with lower profit or turnover. Such forms of support are certainly very important, but at issue is whether or not it leads to additional non-transparency or potential attempts to circumvent the system for the purpose of "fitting into" legal rules for the purpose of being able to use these reduced corporate tax rates or to avoid certain progress, which are basically just two views of one topic.

Countries with more than one corporate tax rate

Countries applying progressive taxation or reduced tax rates include, for example:

Belgium

The general corporate tax rate is set as 33%, respectively at 33.99% with a 3% surcharge. Small and mid-sized enterprises (at least 50% owned by individuals) with an income lower than 322,500 euros can enjoy reduced rates differentiated from the amount of taxable income if they fulfil certain conditions.

France

The basic tax rate on corporate profit is 33.33%. For small and mid-sized enterprises with turnover of up to 7.63 million euros (at least 75% owned by individuals), a reduced rate of 15% is applied to the first 38,120 euros of profit.

Lithuania

The basic corporate tax rate is 15%. A reduced rate of 5% can be applied in small businesses with up to 10 employees and income not exceeding LTL 1 million (increased as of 1 January 2012 from LTL 0.5 million).

Latvia

Micro-enterprises in Latvia can apply a 9% rate, and the basic tax rate on profit is 15%.

Luxembourg

The basic tax rate on corporate profit is 21%, which is increased by a 7% surcharge contributed to the employee fund and an additional rate of 6.75%, depending on the locality. A general rate of 20% applies for companies with income of up to 15,000 euros.

Hungary

Hungary also has a lower rate, 10%, for companies with taxable income of up to HUF 500 million. The basic corporate tax rate is 19%. The planned change for



Main topic

harmonisation to 10% is not likely to be implemented yet, and both rates are expected to be maintained in 2013.

Netherlands

The corporate tax rate is reduced by 5% for profit of up to 200,000 euros. Above that limit, a tax rate of 25% applies.

Portugal

Progressive taxation is applied above the basic corporate tax rate of 25% from 3% to 5%, depending on the amount of income (1.5 million to 7.5 million euros).

Romania

Micro-enterprises may apply a 3% rate instead of the 16% corporate tax.

Great Britain

Great Britain has several tax rates on corporate profit. The rates are derived from the amount of taxable profit. The main

tax rate is 24% (since 1 April 2012) for corporations with taxable profit of over 1.5 million British pounds. For companies with profit of up to 0.3 million British pounds, a 20% corporate tax rate is applied. Companies with taxable profit of between 0.3 and 1.5 million British pounds are taxed on a sliding scale between the main rate and the rate for small profits. An additional reduction of the corporate tax rate to 23% is scheduled to take effect as of 1 April 2013. In 2010, the rate was 28%. In 2011, it was reduced by two percentage points to 26% and by another two percentage points in 2012.

Spain

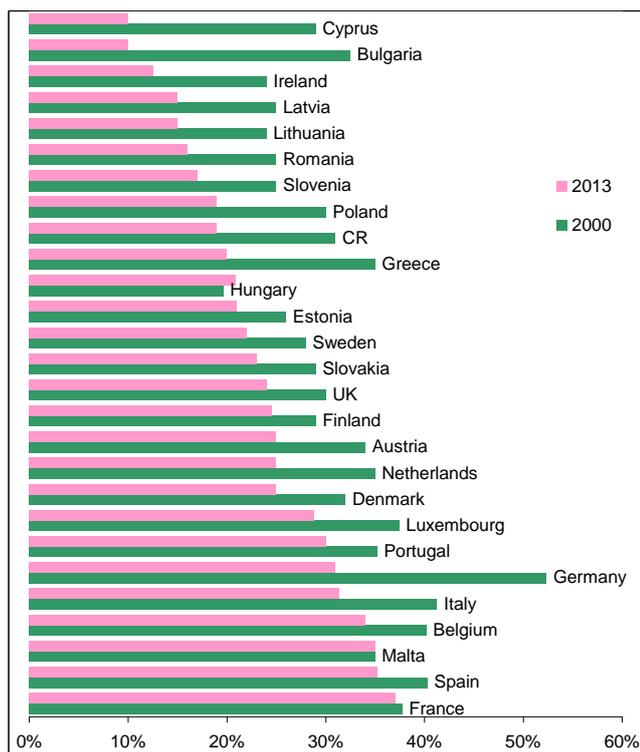
Companies with turnover of up to 10 million euros are taxed up to 300,000 euros of taxable income at the rate of 25%, and above that amount they are taxed at the basic corporate tax rate of 30%. Companies with up to 25 employees enjoy a tax rate of 20% on up to 300,000 euros of taxable income, and above that limit a 25% rate is applied.

DEVELOPMENT OF CORPORATE TAXES IN THE EU

As was already stated in the introduction, many changes have been made to corporate tax rates in several states. Within the EU, there is a very apparent trend of reduction of these rates and easing of the business environment. Shortfalls in the state budget are often solved by increasing indirect tax rates. For an idea about the amount of reduction

of corporate tax rates, we can examine the difference between the average basic tax rates in the EU between 2000 and 2013, when the decline amounted to more than 8% to the current approximately 22% (the total corporate tax rate is two percentage points more). A decline in the EU average occurred each year, except in 2009.

Development of corporate taxes in the EU



Source: European Commission, Eurostat

In 2009, in reaction to the economic crisis, Lithuania increased its corporate tax rate by five percentage points (and in the following year it lowered it back to its level from 2008), by which it exceeded four reductions in other states in the same year. Some states took the approach of individual and often sensitive reduction of basic corporate tax rates. For example, in 2005 Austria reduced its rate by 9%, Germany reduced its rate by 15% in 2001 and by 10% in 2008. Other countries gradually reduced their rates over several consecutive years (Czech Republic, Slovenia, Bulgaria). The largest reduction in the monitored period of 2000 to 2013 was by 25% in Germany for the general corporate tax rate. However, it needs to be pointed out that in Germany solidarity surcharges and various local taxes continue to be imposed. In Bulgaria, Cyprus and Greece there was also a decrease by 15% during the monitored period. In France (33.33%) and Malta (35%) no changes were made to general corporate tax rates during the specified period. Only in Hungary, the rate increased by 1% between 2000 and 2013 as part of several changes. Since the average basic corporate tax rate in the EU was approximately 30% in 2000 and was 18% in Hungary,

Hungary's current rate of 19% is still below today's EU average.

However, if we look at the changes, in most cases reductions, from the point of view of individual years and not within individual EU member states, we will discover that during the monitored period from 2000 to 2013 there was an average of six changes in one year for basic corporate income taxes. In the number of changes, we can also observe a certain development. From 2000 to 2006, the number of changes in corporate tax rates gradually rose and reached 10 changes in 2006. EU countries mainly reduce rates, often even by making very noticeable reductions, such as in Germany, Lithuania, Latvia and Cyprus. However, since 2007 their number has been declining. In the last three years, there were around 3 changes, which is well below the average for the monitored period. It is possible that states have already managed to reduce or change corporate tax rates sufficiently, so in the years to come, assuming there is an absence of sudden changes, there will only be a few changes per year.

The number of increases in basic rates during the particular period in EU states could be counted on the fingers of one hand, and often these increases have been compensated by reductions in subsequent years.

It remains to be seen whether this will also happen in Slovakia. As of 1 January 2013, Slovakia increased its corporate tax rate by 4% to 23%. We will see whether this was a step back or a step forward and whether other states will follow this example or whether it will be only a "sidestep" and whether the rate will be lowered again next year.

At this time, when the economic crisis is in full swing and according to the European Central Bank we can only expect a slight recovery this year, such a reduction could be crucial for the Slovak economy. Sweden has resorted to reduction by 4.3% and Slovenia by 1%. The current corporate tax rate in Slovenia is 17%. This rate is expected to be reduced in the years to come by 1% each year, so that by 2015 it reaches 15% and is expected to remain at that level.

DEVELOPMENT OF CORPORATE TAX RATES IN THE CZECH REPUBLIC

Corporate tax rates have undergone many changes during the Czech Republic's existence as an independent country. Eleven changes took effect in 1993.

Development of corporate tax rate in the CR

Years	Rate
1993	45%
1994	42%
1995	41%
1996-1997	39%
1998-1999	35%
2000-2003	31%
2004	28%
2005	26%
2006-2007	24%
2008	21%
2009	20%
2010-2013	19%

Source: Ministry of Finance CR

Since 1993, when the corporate tax rate was 45%, until now (19%), there have been many changes, but they have not been drastic. All of the changes reduced the previous rate, but never more than by 4 percentage points. Reduction of corporate income taxes is occurring in the EU, but the trend

of their decline in the Czech Republic has been quicker than the average decline of rates in the EU.

Although corporate tax rates in the Czech Republic are being reduced, this is not being reflected much in the share of corporate taxes in the percentage of GDP or overall taxation. However, collection of corporate income taxes, according to data from the Finance Ministry between 1997 (CZK 41 billion) and 2008 CZK 173 billion) has continued to increase (except in 2006, when it declined slightly. Later during the ongoing economic crisis, in 2009 CZK 65 billion less was collected than in the previous year. In additional years, the amount of corporate income taxes collected was approximately CZK 110 billion .

Overall collection of taxes in the Czech Republic had a similar development. State budget revenues from corporate income taxes amounted to CZK 86.30 billion from the total of CZK 863.86 billion in tax revenues in 2010. The Czech Republic was one of few EU member states that between 2000 and 2010 increased their share of corporate income taxes collected out of total taxation.

Share of corporate taxes in % of GDP and total taxation in 2000 and 2010

	% of GDP		% of total taxation	
	2000	2010	2000	2010
Belgium	3.2	2.7	7.1	6.2



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Bulgaria	2.7	1.9	8.6	7.0
CR	3.3	3.4	9.8	10.0
Denmark	3.3	2.7	6.6	5.8
Germany	2.9	2.2	7.1	5.8
Estonia	0.9	1.4	2.9	4.0
Ireland	3.7	2.6	12.0	9.1
Greece	4.1	2.4	12.0	7.7
Spain	3.1	1.8	9.2	5.8
France	2.8	1.9	6.3	4.4
Italy	2.4	2.3	5.9	5.5
Cyprus	6.2	6.2	20.9	17.4
Latvia	1.6	1.0	5.3	3.5
Lithuania	0.7	1.0	2.3	3.7
Luxembourg	7.0	5.7	17.8	15.5

Hungary	2.2	1.2	5.6	3.1
Malta	2.9	6.5	10.4	19.6
Netherlands	4.3	2.3	10.9	6.0
Austria	2.2	2.0	5.0	4.8
Poland	2.4	2.0	7.5	6.3
Portugal	3.7	2.8	12.0	9.0
Romania	3.0	2.3	9.8	8.5
Slovenia	1.2	1.9	3.1	5.0
Slovakia	2.6	2.5	7.7	8.9
Finland	5.9	2.5	12.5	6.0
Sweden	3.8	3.4	7.3	7.5
UK	3.6	3.1	9.7	8.7
EU-27	3.1	2.4	7.7	6.2

Source: *Taxation trends in the European Union, Eurostat*

EFFECTIVE AVERAGE TAX RATE

The previous section focused mainly on the development and comparison of statutory corporate tax rates in individual EU states. However, in some states these rates fall into various systems, which include various surcharges and local rates being added to them. Besides a comparison of their lawful rates, we can also use effective taxation of corporation.

Effective taxation of corporations influences not only the amount of monitored rates of statutory corporate tax, but also influences other tax aspects that determine the overall amount of effectively paid taxes. Several methods of monitoring and determination exist. ZEW (Zentrum für Europäische Wirtschaftsforschung) in the project for the European Commission TAXUD monitors the Effective Average Tax Rate (EATR). The EATR dropped from 27.5% in 2000 to 21.1% in 2012.

EATR in the EU

	2000	2012		2000	2012
Belgium	34,5	26,6	Luxembourg	32,6	24,9
Bulgaria	28,1	9,0	Hungary	19,7	19,3
CR	23,6	16,7	Malta	32,2	32,2
Denmark	28,3	22,0	Netherlands	32,3	27,5
Germany	40,4	28,2	Austria	29,7	23,0
Estonia	20,4	16,5	Poland	27,1	17,5
Ireland	9,4	14,4	Portugal	31,5	27,1
Greece	30,4	17,5	Romania	22,7	14,8
Spain	36,5	32,4	Slovenia	20,9	16,4
France	36,6	34,2	Slovakia	25,8	16,8
Italy	31,3	25,1	Finland	27,2	23,2
Cyprus	27,5	11,2	Sweden	23,8	23,2
Latvia	22,7	12,2	UK	28,7	25,2
Lithuania	19,1	12,7	EU-27	27,5	21,1

Source: *European Commission*

FINAL SUMMARY

The rates and development of corporate taxes are carefully monitored in individual states, because their amounts play a major role in companies' decisions about allocation of investments. However, it is not only rates, but also the general complexity of tax systems in individual countries, that can either attract or discourage foreign investors. Since 1993, the Czech Republic has reduced its corporate tax rate from 45% to 19%, a process involving 11 changes.

This trend of reduction is apparent both in this country and in the entire EU. The average basic and corporate tax

rate in EU member states is about 22%, and in relation to the total rate (since certain states use various forms of surcharges and local rates) it is just under 2% greater. It remains to be seen what direction the trend will take or what further changes will be made in individual EU member states with regard to corporate taxes, but perhaps our small country in the heart of Europe will not encounter problems in competition and will be both attractive for foreign investors and accommodating for local companies.

The Guide to Doing Business Section is part of the advisory programme "Foreign Business Guide", which the EU Office has offered since the beginning of this year. Within the program, we provide our clients from among small and medium-sized businesses with information about how to expand abroad successfully and what business environment awaits them there. You can find more information about the programme here: www.csas.cz/eu. In this issue we present Germany.



COUNTRY

Basic details

Official name	Bundesrepublik Deutschland
Population	81 843 743 (2012)
Area	357 022 km ²
Currency	Euro (EUR)
Ethnic groups	Germans 91.5%, Turks 2.4%, others 6.1%

Source: CIA World Factbook

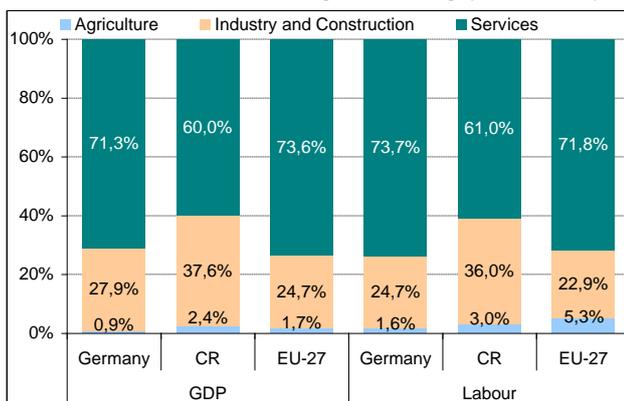
Germany began writing its contemporary history in 1990, when East and West Germany, which had been divided after World War II, were reunified under the name Federal Republic of Germany. West Germany was one of the founding members of the EEC and NATO.

Legislative power is held by a bicameral parliament consisting of the Bundestag, whose members are elected every four years, and the Bundesrat, whose members are representatives of Germany's federal states. The chancellor is the head of government and holds executive power.

Structure of economy and foreign trade

Germany is a traditional European industrial superpower with a high share of industry compared to the rest of the EU. However, its service and farming industries are less important by comparison.

Structure of national economy – Germany (CR and EU)



Source: Eurostat, data as of 2010 (GDP) and 2011 (labour)

Most crops are grown, including mainly potatoes, wheat and sugar beet. Meat production is dominated by beef, pork and poultry.

German industry is focused mainly on engineering, the automobile industry and the chemical industry. Germany is also one of the largest producers of iron and steel. The main

export markets are France, the USA, the Netherlands and the UK. Most imports to Germany come from China, the Netherlands and France.

Macroeconomic outlook

Basic indicators	2011	2012	2013 ^e	2014 ^e
GDP Growth (%)	3.0	0.8	0.8	2.0
Unemployment rate(%)	5.9	5.5	5.6	5.5
Inflation(%)	2.5	2.1	1.9	1.8
Government deficit (%)	-0.8	-0.2	-0.2	0.0
Public debt (%)	80.5	81.7	80.8	78.4

Source: European Commission; ^e - estimate

Following the 2008-2009 financial crisis, Germany assumed its role as the locomotive of European growth, but recently it has been running out of steam. The worsened economic situation among main business partners has led to forecast reduction of the pace of Germany's GDP growth (0.8%) in the period leading up to 2013, which will be followed by healthier growth of 2%, but not until 2014.

Inflation is expected to be at the low level of 2%, and increased energy prices are expected to have only a temporary effect. Germany's public budgets can serve as a model for other states. They reflect a more or less balanced status, which can be characterised as a "red zero". As a result, Germany is expected to see reduction of its overall debt.

Labor market

Basic indicators of labor market		
Unemployment rate (2011)	5.9 %	
Labor productivity (% to Ø EU; 2010)	125.0 %	
Minimum monthly wage (1H/2012)	-	
Ø monthly labor cost in sectors (EUR) 2010	Germany	CR
Manufacturing	4 456	1 303
Wholesale and retail trade	3 339	1 350
Transport and storage	3 408	1 346
Accommodation and food	2 049	835
Information and communication	5 452	2 616

The performing economy is also being reflected positively in the labour market. In the European context, the unemployment level is very low, at under 6%. A national minimum wage does not exist across all sectors. Work



Doing business

productivity is 25% higher than the EU average (and 80% higher than in the Czech Republic).

Higher productivity enables payment of higher wages. For example, in the crucial processing industry, monthly labour costs are yearly 2.5 times higher than in the Czech Republic. In some sectors, the differences are slightly less.

Labor law basics

Employment can be arranged for a definite or indefinite period. An employment relationship for a definite period is limited to two years and can be extended a maximum of three times. German labour law does not address the issue of probationary periods, and their length depends on an agreement between the employer and the employee. Collective agreements play a partial role in determining terms of employment.

The termination notice period varies depending on whether or not the employee is terminated during the probationary period. If termination occurs during the probationary period, the notice period lasts 14 days. After the probationary period, the employer may terminate employment by the 15th or last day of the month, which is followed by a 4-week notice period. It is further extended based on the length of employment at the particular employer. The longest notice period (7 months) applies if an employee has worked at the employer for at least 20 years.

In most sectors there is a 5-day work week (40 hours per week), and employees enjoy at least 20 work days of vacation per year.

Commercial law basics

Form of Company	Minimum Capital
Gesellschaft mit beschränkter Haftung	25 000 EUR
Aktiengesellschaft	50 000 EUR
Kommanditgesellschaft auf Aktien	50 000 EUR
Offene Handelsgesellschaft	-
Kommanditgesellschaft	-

Source: *German Trade and Invest (GTAI)*

The most common type of business in Germany is a limited liability company (GmbH). It can be founded by one or more shareholders, and the minimum registered capital is EUR 25,000 (approximately CZK 625,000). For a joint-stock company, the minimum registered capital is double that amount. A certain type of hybrid between the two types of companies specified above is a limited partnership, in which at least one shareholder has unlimited liability, and the others are the holders of the shares.

The process of establishing an average size limited liability company in Germany lasts just under one month and consists of nine procedures, and its total cost is usually less than 1,500 euros.

Main taxes and additional labor costs

Companies' profits in Germany are taxed twice: a 15% tax on corporate profit and a trade tax, which varies at the municipal level. A solidarity surcharge intended to finance the reunification of Germany is added to both taxes. The total average tax rate on corporate profit is estimated to be approximately 30%. Dividends are taxed with a deduction of 26.375%.

The individual income tax system is progressive: there are four income brackets, which are divided into rates of 14%, 42% and 45%. The basic VAT rate is 19%, and the reduced rate is 7%. Basic consumer goods and daily necessities (such as food, newspapers, public transport) are subject to VAT. Employers and employees both contribute to social security. The employee's contribution is 21.975% of gross wages, and the employer's contribution starts at 21.075% of gross wages and depends on the amount of mandatory injury insurance.

Tax/payment	Rate
Corporate Tax	30 %*
Dividend tax	26.375 %
Individual Income Tax (progressive)	14 / 42 / 45 %**
VAT (basic / lower)	19 / 7 %
Social insurance – employee	21.975 %
Social insurance – employer	from 21.075 %

Source: *German Trade and Invest (GTAI)*, *) average tax rate, **) without the solidarity surcharge and church tax

Energy

Energy prices for industrial subscribers are approximately 23% higher than in the Czech Republic, and for natural gas a German company pays on average 40% more than a Czech counterpart.

The main source of energy in Germany remains nuclear power (42%), although by 2022 all of the country's nuclear power plants will be closed, a decision taken following the tragedy in Fukushima.

Ø of wholesale price in 1H/2012	Germany	ČR
Electric Energy (EUR/kWh)	0.1277	0.1039
Natural Gas (EUR/GJ)	13.1600	9.3067

Source: *Eurostat*



The Journey into History section in each issue of the EU monthly examines the development of the European Union. The founding treaties have already undergone several revisions, but enlargement of the EU to include states in CEE required new institutional changes as well as changes in decision procedures. This first attempt was the Amsterdam Treaty, which, however, did not fulfil its expectations. Therefore, the Nice Treaty was signed in 2001, which prepared the EU for its enlargement.

EUROPEAN FOUNDING TREATIES – TREATY OF NICE

Treaty of Nice

This treaty was agreed upon at a summit in Nice in December 2000 and was signed on 26 February 2001. It became valid on 1 February 2003, following its ratification by the member states at the time.

The Treaty of Nice was intended primarily to prepare European institutions and the system of decisions in the EU for the planned accession of countries from Central and Eastern Europe in 2004.

The treaty brought the following changes:

- European Commission's composition and size
- balance of votes in the Council and qualified majority
- composition of the European Parliament
- closer/strengthened cooperation
- declaration of the Charter of Fundamental Rights

European Commission's composition and size

As of 2005, the number of commissioners was reduced to one commissioner per member state, meaning that the maximum number of commissioners is 27. The chairperson of the European Commission is appointed based on an agreement between heads of state and heads of government by qualified majority. The prospective chairperson presents a list of persons whom he/she would appoint as members of the Commission (based on the recommendations from individual member states), which is also approved by a qualified majority. The chairperson of the Commission is then approved by the European Parliament. The Commission chairperson may newly require resignation of his/her commissioners, if this is supported by the other commissioners.

Balance of votes in the Council of the EU and qualified majority

A new distribution of the weight of votes in the Council of the EU was created, and the total number following expansion of votes was 321, and then 345 after the accession of Romania and Bulgaria. Each state received a minimum of 3 votes and a maximum of 29 votes. In order for a decision to be adopted, three criteria must be fulfilled:

- achievement of the minimum number of weighed votes, 232 (respectively 255) votes
- the number of states, a minimum of 14 states, meaning more than half
- the number of inhabitants, 62% of the EU's inhabitants

Expansion also occurred in 46 areas in which voting is by a qualified majority rather than a unanimous outcome; the issues of taxes, joint foreign and security policy, justice and internal affairs, healthcare and education remained outside of this procedure.

Composition of the European Parliament

It was also necessary to reform the European Parliament, the only EU body with directly elected representatives of the people. Until then it had contained 626 members. In 2004, due to the enlargement of the EU by 10 new member states, the number of legislators in the EP increased to 732, followed by 785 after the accession of Bulgaria and Romania.

Country	No of votes in Council of the EU		Number of MEPs	
	2004–07	2007–09	2004–07	2007–09
Germany	29	29	99	99
UK	29	29	78	72
France	29	29	78	72
Italy	29	29	78	72
Spain	27	27	54	50
Poland	27	27	54	50
Romania	-	14	-	35
Netherlands	13	13	27	25
Greece	12	12	24	22
CR	12	12	24	20
Belgium	12	12	24	22
Hungary	12	12	24	20
Portugal	12	12	24	22
Sweden	10	10	19	18
Bulgaria	-	10	-	18
Austria	10	10	18	17
Slovakia	7	7	14	13
Denmark	7	7	14	13
Finland	7	7	14	13
Ireland	7	7	13	12
Lithuania	7	7	13	12
Latvia	4	4	9	8
Slovenia	4	4	7	7
Estonia	4	4	6	6
Cyprus	4	4	6	6
Luxembourg	4	4	6	6
Malta	3	3	5	5
Total	321 (MV 232)	345 (MV 255)	732	785



Statistical window

The statistical window displays the important economic indicators of EU member states. It includes comparable data from the labour market (unemployment levels, average gross wages compared to the EU average, labour productivity compared to the average in the CR) and price characteristics (annual inflation based on the HICP, average interest on mortgages, electricity prices compared to the EU average of 1000-2500 kWh). The sources of the data are Eurostat and the EBC.

Key macroeconomic indicators

in %	Inflation (YoY)				Unemployment rate				Average wages to Ø EU			
	IX-12	X-12	XI-12	XII-12	Q4-11	Q1-12	Q2-12	Q3-12	2007	2008	2009	2010
Belgium	2.6	2.6	2.2	2.1	7.2	7.1	7.4	7.4	128.5	135.1	138.1	134.3
Bulgaria	3.4	3.0	2.7	2.8	11.6	12.0	12.2	12.3	8.6	11.1	12.7	12.6
CR	3.5	3.6	2.8	2.4	6.6	6.8	6.8	7.0	30.0	36.3	35.9	36.8
Denmark	2.5	2.3	2.2	1.9	7.8	7.5	7.9	7.5	154.5	160.0	166.1	163.5
Germany	2.1	2.1	1.9	2.0	5.6	5.6	5.5	5.5	133.9	137.5	138.5	137.3
Estonia	4.1	4.2	3.8	3.6	11.8	10.7	10.0	9.9	29.7	33.4	32.0	31.0
Ireland	2.4	2.1	1.6	n/a	15.0	15.1	14.8	14.8	103.7	108.1	107.1	104.6
Greece	0.3	0.9	0.4	0.3	20.6	21.8	23.9	25.6	55.0	55.5	62.5	66.2
Spain	3.5	3.5	3.0	3.0	23.0	23.8	24.7	25.6	73.1	77.2	81.4	80.2
France	2.2	2.1	1.6	1.5	9.8	10.0	10.2	10.3	107.7	111.5	115.0	112.8
Italy	3.4	2.8	2.6	2.6	9.2	10.0	10.5	10.6	85.8	89.1	92.4	91.4
Cyprus	3.6	2.6	1.4	1.5	9.5	10.2	11.5	12.5	74.2	n/a	n/a	n/a
Latvia	1.9	1.6	1.5	1.6	15.5	15.4	15.7	14.1	22.2	26.9	27.9	26.6
Lithuania	3.3	3.2	2.8	2.9	13.9	13.6	13.1	12.6	21.0	24.6	23.2	21.9
Luxembourg	3.2	3.2	2.7	2.5	4.8	4.9	5.0	5.1	150.4	156.2	162.3	159.7
Hungary	6.4	6.0	5.3	5.1	10.9	11.1	10.9	10.7	28.5	30.8	29.3	29.5
Malta	2.9	3.2	3.6	2.8	6.5	6.1	6.5	6.7	51.6	55.7	57.7	58.1
Netherlands	2.5	3.3	3.2	3.4	4.9	5.0	5.2	5.3	139.6	143.3	149.6	146.4
Austria	2.8	2.9	2.9	2.9	4.2	4.1	4.3	4.5	120.4	123.7	127.5	124.6
Poland	3.8	3.4	2.7	2.2	9.9	9.9	10.0	10.3	28.4	31.9	27.2	29.3
Portugal	2.9	2.1	1.9	2.1	14.1	14.9	15.5	16.2	53.5	55.4	57.7	56.2
Romania	5.4	5.0	4.4	4.6	7.5	7.2	7.2	7.0	16.0	18.1	16.8	18.0
Slovenia	3.7	3.2	2.8	3.1	8.5	8.2	8.6	9.4	48.6	52.4	54.2	54.8
Slovakia	3.8	3.9	3.5	3.4	13.9	13.6	13.9	14.1	23.7	28.2	30.5	30.2
Finland	3.4	3.5	3.2	3.5	7.6	7.6	7.7	7.8	118.2	124.1	129.5	129.4
Sweden	1.0	1.2	0.8	1.1	7.5	7.5	7.6	7.7	121.0	121.7	114.9	125.0
UK	2.2	2.7	2.7	2.7	8.3	8.2	7.9	7.8	161.3	139.2	126.3	129.4
EU	2.7	2.6	2.4	2.3	10.0	10.2	10.4	10.5	100.0	100.0	100.0	100.0

in %	Productivity to Ø CR				Average interest rate on mortgages				Price electricity to Ø EU			
	2008	2009	2010	2011	2009	2010	2011	1H-2012	2009	2010	2011	1H-2012
Belgium	251.3	264.5	259.3	257.3	n/a	n/a	n/a	n/a	121.0	120.5	121.9	116.9
Bulgaria	30.5	33.0	33.7	36.4	10.9	9.7	8.8	8.5	46.9	45.0	43.4	42.7
CR	100.0	100.0	100.0	100.0	5.8	5.2	4.5	4.1	119.4	118.5	118.7	116.5
Denmark	267.2	277.2	282.8	279.6	4.4	3.7	4.0	3.5	166.5	163.8	167.3	166.2
Germany	202.2	207.1	204.4	202.7	4.3	3.8	4.0	3.4	144.4	145.6	142.9	142.8
Estonia	81.2	80.9	83.0	83.9	4.3	3.9	3.7	3.3	53.5	55.0	52.9	56.3
Ireland	280.5	294.0	281.3	282.4	3.1	3.1	3.5	3.2	127.8	117.8	125.0	123.5
Greece	157.8	168.1	156.6	150.8	4.1	3.8	4.7	4.0	53.9	57.0	56.4	61.9
Spain	173.3	190.8	184.9	184.3	3.4	2.6	3.5	3.6	105.4	111.3	116.1	102.9
France	232.3	246.3	236.7	235.0	5.0	4.3	4.4	4.6	80.1	82.4	81.5	79.7
Italy	207.1	217.2	211.0	207.1	3.8	2.8	3.6	4.4	96.5	88.9	86.6	95.8
Cyprus	142.8	150.6	146.8	146.2	5.9	4.6	5.3	5.6	80.5	105.7	114.6	139.8
Latvia	66.7	66.0	63.5	75.2	22.0	21.3	22.2	22.2	60.1	57.4	61.0	65.7
Lithuania	70.1	66.2	68.2	72.2	9.9	6.0	4.2	3.7	55.2	66.3	65.0	64.8
Luxembourg	573.5	582.9	599.8	604.5	n/a	n/a	n/a	n/a	117.1	105.1	95.5	94.7
Hungary	89.6	85.0	84.8	84.2	14.6	10.5	10.5	12.2	93.4	93.9	87.2	82.4
Malta	122.0	130.7	128.3	125.4	3.8	3.7	3.6	3.6	103.2	109.5	103.0	100.5
Netherlands	227.8	236.1	229.9	226.1	4.9	4.6	4.6	4.4	68.5	52.7	54.9	58.1
Austria	n/a	n/a	n/a	n/a	4.0	3.1	3.4	3.4	119.5	117.4	113.5	111.6
Poland	75.7	68.9	73.8	73.7	8.0	7.1	7.0	8.9	71.8	80.0	78.0	75.6
Portugal	109.0	117.3	115.3	112.6	3.4	3.4	4.8	5.1	100.4	100.3	102.3	112.4
Romania	47.6	43.7	43.5	45.1	12.6	11.7	9.5	7.7	55.8	57.4	56.7	54.4
Slovenia	123.0	127.1	122.6	122.2	4.4	3.5	4.0	3.9	90.8	92.3	86.9	87.8
Slovakia	87.2	93.4	94.4	94.5	6.2	5.6	5.2	5.4	98.3	97.3	97.9	97.8
Finland	239.6	243.8	239.2	242.4	2.6	2.1	2.6	2.3	93.5	93.8	100.5	98.0
Sweden	240.4	230.0	257.8	270.3	2.1	2.4	3.9	3.7	103.1	112.6	116.0	111.2
UK	202.4	191.1	195.6	192.5	n/a	n/a	n/a	n/a	87.7	83.6	83.9	91.6
EU	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100.0	100.0	100.0	100.0

Source: Eurostat, ^{*)} net balance, GDP per capita according to PPP

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