Key Practical Issues to Eliminate Double Taxation of Business Income

Presentation IFA May 21, 2012
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Key Practical Issues to Eliminate Double Taxation of Business Income

1. Introduction

- Overview of FTC methods, eligible taxes, general limitations and relation to treaties.

2. Key Factors of Unrelieved Double Taxation

2.1. Diverging Views on Taxable Income

2.1.1. Existence of Income

- Divergent views on income itself and timing of recognition of such income

2.1.2. Source of Income

- Typical example and consequences

Key Practical Issues to Eliminate Double Taxation of Business Income

2.1.3. Nature or Character of Income

- Introduction
- Luxembourg Doctrine for the Interpretation and Application of Tax Treaties
- Instances of Unrelieved Double Taxation in a Tax Treaty Context
- Conclusion

Key Practical Issues to Eliminate Double Taxation of Business Income

2.2. Inconsistent Allocation of Deductions Between Domestic and Foreign Sources

2.3. Inability to Deduct Foreign Losses Against Domestic Income under Domestic Law

   2.3.1. Credit Method Under Domestic Law

   2.3.2. Exemption Method Under Tax Treaties

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2.4. FTC Limitations

- Domestic limitations
- Treaty limitations
- Subject-to-tax limitation
- Qualifying foreign tax

2.5. Distortions Due to Temporal Differences in the Recognition of Taxable Income

- FTC: applicable rules
- Consequences of temporal differences
- Typical examples

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2.6. Inconsistent Classification of Foreign Entities

- Introduction

2.6.1. Classification of Foreign Entities

2.6.2. Partnerships, Not-for-profit Organizations

- Luxembourg Doctrine for the Interpretation and Application of Tax Treaties
- Instances of Unrelieved Double Taxation in a Tax Treaty Context

3. Pros & Cons of Credit versus Exemption

3.1. Complexity and Sophistication

3.1.1. Exemption

3.1.2. Credit

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3.2. Administrative Burden

    3.2.1. Exemption

    3.2.2. Credit

3.3. Sensitivity to International Tax Planning and Tax Avoidance

- Exemption method as a tax planning tool

3.4. Compatibility with Applicable International Commitments

- Instances of (in)-compatibility of Luxembourg double taxation relief measures with international commitments

3.5. Impact on Economic Decisions

- Exemption method vs. credit method
- Luxembourg context