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Cyprus, Ireland and Switzerland have most attractive corporate tax regimes in Europe, finds KPMG International poll

Good tax regimes do not guarantee international competitiveness, say businesses

Cyprus, Ireland, and Switzerland are the top three countries in a league table of European tax systems, compiled by KPMG International, in which major business organizations across Europe assessed the attractiveness of their domestic tax regimes. All three countries were rated highly for their combination of consistency in interpreting tax legislation, stability in resisting frequent changes to tax laws, and comparatively low tax rates. Hungary came in eleventh in the poll. The three least attractive countries were the Czech Republic, Romania and Greece. All three lost support for having high volumes of complex legislation, with frequent changes.

In relation to the countries which joined the EU along with Hungary in 2004, Malta, Estonia and Slovakia were ranked as more attractive than Hungary in the poll. Poland and the Czech Republic are both booming economically, but were also amongst the five least attractive corporate tax regimes out of the 28 jurisdictions covered, observed Mike Glover, head of Tax advisory services at KPMG in Hungary. "This does not mean that taxation is not important, but of course, it is clear that many factors are involved in investment decisions," said Mike Glover.

These views were compiled from more than 400 interviews of tax professionals in multinational companies across Europe. Survey participants were asked how attractive they believed their country's tax regime was compared with other European states¹. Taking the percentage of respondents who thought key aspects of their domestic systems were attractive and subtracting those who felt they were unattractive gives a net attractiveness score for each country. Taking these scores together gives the league table below².

The survey also showed that being in a country with an unattractive tax regime is not simply an inconvenience for business. Almost 70 percent of respondents who thought their country's tax regime was unattractive also believed that this put their companies at a competitive disadvantage when competing with foreign companies. But in those countries with an attractive regime just 43 percent of respondents felt that this gave them a competitive advantage when competing overseas.

Sue Bonney, Head of Tax for KPMG Europe LLP and partner in the UK member firm, commented: "I was interested to see that a complex tax regime is seen as a hindrance to

competitiveness, but relatively few people felt that a simpler system with a low rate can help make businesses more competitive. Governments across the world have been using tax as a lever to encourage inward investment for many years, but these results help to confirm that a benign tax regime is only part of the package which makes a business competitive. Good infrastructure, a high quality workforce and access to raw materials and markets are all equally important.”

The survey explored participants’ attitudes to particular aspects of their home tax regime, including consistency, stability over time, volume of legislation, the tax rate and relations with tax authorities.

At a European level the most unattractive area was the volume of tax legislation, with a net attractiveness score of just 28 percent. But this concealed a huge variation at a country level, with 100 percent of respondents in Cyprus saying that the low volume of tax legislation there made the country attractive, and all of the Romanian respondents declaring that volume of legislation in their country was too high.

Relations with tax authorities were generally positive, with an average of 60 percent across Europe saying that this is an attractive part of their regime. The countries with the highest scores in this area were Ireland, Switzerland, Estonia, Finland, Denmark, Slovenia and Lithuania. Those with the poorest were Germany, Spain, Italy, the Czech Republic and Greece.

Sue Bonney said: “These results help to illustrate just how much businesses across Europe dislike uncertainty and complexity. The volume of tax legislation is huge and its interpretation is often opaque. Simplification presents a real challenge for European tax authorities. But it is very encouraging to see that relations between tax authorities and taxpayers are generally good. Our member firms’ view is that it is only by co-operation and the building of trust between tax authorities, taxpayers and tax advisers that many of the problems with today’s complex tax regimes can be solved.”

Note to editors

- ¹**KPMG's survey** was carried out by Lighthouse Research on behalf of KPMG International. It consisted of 403 telephone interviews covering every European Union state (plus Switzerland) carried out between July and August 2007. All respondents dealt with international tax matters and came from companies doing business in more than one EU country. These were among the largest businesses in each country, 20 percent had UK£1bn+ turnover, the rest had a minimum turnover of UK£500m where possible.
- ²**Country attractiveness**
Source: KPMG, "Attractiveness of European Tax regimes, 2007.

Ranking	Country	Net attractiveness
1	Cyprus	90%
2	Ireland	89%
3	Switzerland	83%
4	Malta	81%
5	Estonia	71%
6	Finland	66%
7	Austria	63%
8=	Slovakia	61%
8=	Luxembourg	61%
9=	Netherlands	59%
9=	Sweden	59%
10	Bulgaria	51%
11=	Hungary	47%
11=	Spain	47%
12=	Belgium	46%
12=	UK	46%
13	Denmark	44%
14	France	41%
15	Slovenia	39%
16=	Latvia	37%
16=	Portugal	37%
17=	Germany	30%
17=	Lithuania	30%
18	Poland	29%
19	Italy	28%
20	Czech Republic	26%
21	Romania	21%
22	Greece	14%

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