



Glossary of Tax Terms Translation into Italian by www.deepl.com

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ABATEMENT -- A reduction in the assessment of tax, penalty or interest when it is determined the assessment is incorrect

ABATEMENT -- Una riduzione dell'accertamento dell'imposta, della sanzione o degli interessi quando si determina che l'accertamento non è corretto

ABUSE OF LAW -- The doctrine which allows the tax authorities to disregard a civil law form used by the taxpayer which has no commercial basis

ABUSO DI LEGGE -- La dottrina che permette all'amministrazione fiscale di ignorare una forma di diritto civile usata dal contribuente che non ha base commerciale

ACCELERATED DEPRECIATION -- Method of depreciation under which taxpayers may allocate larger depreciation deductions to the first year or first few years of useful business assets, such as plant and machinery

AMMORTAMENTO ACCELERATO -- Metodo di ammortamento in base al quale i contribuenti possono assegnare maggiori deduzioni di ammortamento al primo anno o ai primi anni di beni aziendali utili, come impianti e macchinari

ACCOUNTING BASIS -- Method of calculating amounts subject to income tax and VAT. In respect of VAT, tax would be computed as a percentage levy on the excess of sales over purchases. This is a theoretical concept and no country uses it.

BASE CONTABILE - Metodo di calcolo degli importi soggetti all'imposta sul reddito e all'IVA. Per quanto riguarda l'IVA, l'imposta verrebbe calcolata come un prelievo percentuale sull'eccesso di vendite rispetto agli acquisti. Questo è un concetto teorico e nessun paese lo usa.

ACCOUNTING PERIOD -- A period of time used by taxpayer for the determination of tax liability

PERIODO CONTABILE -- Un periodo di tempo utilizzato dal contribuente per la determinazione della passività fiscale

ACCOUNTS PAYABLE -- A list of the debts currently owed by a person or business, mainly for the purchase of services, inventory, and supplies

ACCOUNTS PAYABLE -- Una lista dei debiti attualmente dovuti da una persona o da un'azienda, principalmente per l'acquisto di servizi, inventario e forniture.

ACCOUNTS RECEIVABLE -- A list of the money owed on current account to a creditor, which is kept in the normal course of the creditor's business and represents unsettled claims and transactions

ACCOUNTS RECEIVABLE -- Una lista del denaro dovuto in conto corrente a un creditore, che è tenuta nel corso normale degli affari del creditore e rappresenta crediti e transazioni non saldati

ACCOUNTING RECORDS -- All documents and books used in the preparation of the tax return and all financial statements, including general ledger, subsidiary ledgers, sales slips, and invoices.

REGISTRI CONTABILI -- Tutti i documenti e i libri usati nella preparazione della dichiarazione dei redditi e di tutti i rendiconti finanziari, compresi il libro mastro, i libri mastri, le ricevute di vendita e le fatture.

ACCRUAL BASIS (ACCRUAL METHOD) -- An accounting method whereby income and expense items are included in taxable income or expense as they are earned or incurred, rather than when they are received or paid

ACCRUAL BASIS (METODO ACCRUALE) -- Un metodo contabile per cui le voci di reddito e di spesa sono incluse nel reddito imponibile o nelle spese man mano che sono guadagnate o sostenute, piuttosto che quando sono ricevute o pagate

AD VALOREM TAX -- A tax on goods or property expressed as a percentage of the sales price or assessed value

IMPOSTA AD VALOREM -- Un'imposta su beni o proprietà espressa come percentuale del prezzo di vendita o del valore stimato

ADMINISTRATIVE COMPANY -- See: Service company

SOCIETÀ AMMINISTRATIVA -- Vedi: Azienda di servizi

ADMINISTRATIVE EXPENSES -- Expenses that are not as easily associated with a specific function as are the direct costs of manufacturing and selling. It typically includes expenses of the headquarters office and accounting expenses.

SPESE AMMINISTRATIVE -- Spese che non sono facilmente associabili a una funzione specifica come i costi diretti di produzione e vendita. Include tipicamente le spese dell'ufficio centrale e le spese di contabilità.

ADMINISTRATIVE OFFICE -- Office frequently located in a country other than that of the headquarters office, the parent company or country of operation.

UFFICIO AMMINISTRATIVO -- Ufficio spesso situato in un paese diverso da quello dell'ufficio centrale, della casa madre o del paese di operazione.

ADVANCE PRICING ARRANGEMENT (APA) -- An arrangement that determines, in advance of controlled transactions, an appropriate set of criteria (e.g. method, comparables and appropriate adjustments thereto, critical assumptions as to future events) for the determination of the transfer pricing for those transactions over a fixed period of time. An advance pricing arrangement may be unilateral involving one tax administration and a taxpayer or multilateral involving the agreement of two or more tax administrations.

ADVANCE PRICING ARRANGEMENT (APA) -- Un accordo che determina, in anticipo rispetto alle transazioni controllate, una serie appropriata di criteri (per esempio metodo, elementi comparabili e relativi aggiustamenti appropriati, ipotesi critiche su eventi futuri) per la determinazione dei prezzi di trasferimento per tali transazioni per un periodo di tempo determinato. Un accordo sui prezzi anticipati può essere unilaterale che coinvolge un'amministrazione fiscale e un contribuente o multilaterale che coinvolge l'accordo di due o più amministrazioni fiscali.

ADVANCE RULING -- A letter ruling, which is a written statement, issued to a taxpayer by tax authorities, that interprets and applies the tax law to a specific set of facts

ADVANCE RULING -- Una lettera di sentenza, che è una dichiarazione scritta, emessa ad un contribuente dalle autorità fiscali, che interpreta e applica la legge fiscale ad una specifica serie di fatti

AFFILIATED COMPANIES -- General term used to describe the relationship between two or more companies linked by a common interest

SOCIETA' AFFILIATE -- Termine generale usato per descrivere la relazione tra due o più società legate da un interesse comune.

AFFILIATION PRIVILEGE -- Tax relief or exemption accorded to dividend distributions made by a resident subsidiary company to its parent company which owns a certain minimum percentage of shares, in order to mitigate double taxation of such dividends.

PRIVILEGIO DI AFFILIAZIONE -- Agevolazione o esenzione fiscale concessa alle distribuzioni di dividendi effettuate da una società controllata residente alla sua società madre che possiede una certa percentuale minima di azioni, al fine di mitigare la doppia imposizione di tali dividendi.

AGENCY -- A business that provides a particular service to a company (that are outside of the country where the agency is located). Dependent agency constitutes a permanent establishment for the other company and the income achieved through the agency is taxed on the income earned from the country where the agency is located whereas independent agency does not.

AGENZIA -- Un'impresa che fornisce un servizio particolare a una società (che si trovano al di fuori del paese in cui si trova l'agenzia). L'agenzia dipendente costituisce una stabile organizzazione per l'altra società e il reddito ottenuto tramite l'agenzia è tassato sul reddito guadagnato dal paese in cui si trova l'agenzia, mentre l'agenzia indipendente no.

AFFILIATION PRIVILEGE -- A tax benefit or exemption granted to dividend distributions made by a resident subsidiary to its parent company that owns a certain minimum percentage of stock, in order to mitigate the double taxation of such dividends.

PRIVILEGIO DI AFFILIAZIONE -- Un beneficio fiscale o un'esenzione concessa alle distribuzioni di dividendi effettuate da una filiale residente alla sua società madre che possiede una certa percentuale minima di azioni, al fine di mitigare la doppia imposizione di tali dividendi.

AGGREGATION -- Term used to denote the adding together of the taxpayer's income from all sources in order to determine the applicable tax rate for income tax purposes.

AGGREGAZIONE -- Termine usato per indicare la somma del reddito del contribuente da tutte le fonti al fine di determinare l'aliquota fiscale applicabile ai fini dell'imposta sul reddito.

ALIEN, TAX TREATMENT OF -- A person who is not a citizen of the country in which he or she lives. In general, most countries do not distinguish between nationals and aliens for tax purposes; rather tax liability is based on residence and/or domicile.

ALIEN, TRATTAMENTO FISCALE DI -- Una persona che non è un cittadino del paese in cui vive. In generale, la maggior parte dei paesi non distingue tra cittadini e stranieri a fini fiscali; piuttosto la responsabilità fiscale è basata sulla residenza e/o sul domicilio.

ALIENATION OF INCOME -- Term generally used to describe the transfer of the right to receive income from a source while not necessarily transferring the ownership of that source to the same person.

ALIENAZIONE DEL REDDITO -- Termine generalmente usato per descrivere il trasferimento del diritto di ricevere reddito da una fonte, mentre non necessariamente si trasferisce la proprietà di quella fonte alla stessa persona.

ALLOCATION -- The apportionment or assignment of income or expense for various tax purpose, e.g., between permanent establishments in various jurisdictions

ALLOCAZIONE -- La ripartizione o l'assegnazione del reddito o della spesa per vari scopi fiscali, per esempio, tra stabilimenti permanenti in varie giurisdizioni

ALLOWANCE -- Deduction or exemptions generally made in computing income taxes, inheritance and gift taxes and some forms of sales taxes.

Sgravio -- Deduzione o esenzioni generalmente fatte nel calcolo delle imposte sul reddito, imposte di successione e donazione e alcune forme di imposte sulle vendite.

AMORTIZATION -- Process of writing off the cost of an intangible asset over its useful life.

AMORTIZZAZIONE -- Processo di cancellazione del costo di un'attività immateriale durante la sua vita utile.

AMORTIZATION METHOD -- Method of computing a credit under a VAT regime where investment goods are purchased which have a useful life in the business for a period exceeding one year. The tax embodied in the price paid for the assets may be credited to the trader over a period of years corresponding to the life of the assets.

METODO DI AMORTIZZAZIONE -- Metodo di calcolo del credito nel quadro di un regime IVA in caso di acquisto di beni di investimento che hanno una vita utile nell'impresa per un periodo superiore a un anno. L'imposta incorporata nel prezzo pagato per i beni può essere accreditata all'operatore su un periodo di anni corrispondente alla vita dei beni.

APA -- See: Advance Pricing Arrangement

APA -- Vedi: Advance Pricing Arrangement

APPORTIONMENT METHOD -- One of the methods used to allocate income and expenses between related enterprises using a formula consisted of some factors such as sales, property, or payroll.

METODO DI APPARTENENZA -- Uno dei metodi usati per ripartire il reddito e le spese tra le imprese collegate usando una formula composta da alcuni fattori come le vendite, la proprietà o il libro paga.

ARBITRAGE -- Process of buying a commodity (which may include currency or securities) and simultaneously selling it in another market in order to profit from price differentials.

ARBITRAGGIO -- Processo di acquisto di una merce (che può includere valuta o titoli) e simultaneamente di vendita in un altro mercato al fine di trarre profitto dalle differenze di prezzo.

ARBITRAGE, TAX -- Process of entering into a tax motivated transaction (i.e. to obtain profit from the application of tax rules).

ARBITRAGGIO, FISCALE -- Processo di entrare in una transazione motivata dal punto di vista fiscale (cioè per ottenere un profitto dall'applicazione delle norme fiscali).

ARBITRATION -- Term used for the determination of a dispute by the judgment of one or more persons, called arbitrators, who are chosen by the parties and who normally do not belong to a normal court of competent jurisdiction

ARBITRATO -- Termine usato per la determinazione di una controversia mediante il giudizio di una o più persone, chiamate arbitri, che sono scelte dalle parti e che normalmente non appartengono a un normale tribunale della giurisdizione competente

ARM'S LENGTH PRINCIPLE -- The international standard which states that, where conditions between related enterprises are different from those between independent enterprises, profits which have accrued by reason of those conditions may be included in the profits of that enterprise and taxed accordingly

PRINCIPIO DI LUNGHEZZA DEL BRACCIO -- La norma internazionale che stabilisce che, quando le condizioni tra imprese collegate sono diverse da quelle tra imprese indipendenti, gli utili maturati a causa di tali condizioni possono essere inclusi negli utili di tale impresa e tassati di conseguenza

ARM'S LENGTH RANGE -- A term used in transfer pricing to describe a range of values that can be defined for purpose of selecting an appropriate arm's length price from comparable transactions.

ARM'S LENGTH RANGE -- Un termine usato nei prezzi di trasferimento per descrivere un intervallo di valori che può essere definito allo scopo di selezionare un prezzo di libera concorrenza appropriato da transazioni comparabili.

ARM'S LENGTH TRANSACTION -- A transaction among parties, each of whom acts in his or her own best interest.

ARM'S LENGTH TRANSACTION -- Una transazione tra parti, ognuna delle quali agisce nel proprio interesse.

ASSESSMENT -- Act of computing the tax due

VALUTAZIONE -- Atto di calcolo dell'imposta dovuta

ASSOCIATED ENTERPRISES -- Generally speaking, enterprises are associated where the same persons participate directly or independently in the management, control or capital of both enterprises, i.e. both enterprises are under common control.

IMPRESE ASSOCIATE -- In generale, le imprese sono associate quando le stesse persone partecipano direttamente o indipendentemente alla gestione, al controllo o al capitale di entrambe le imprese, cioè entrambe le imprese sono sotto controllo comune.

ATTRIBUTION RULES -- Rules that create ownership by attributing stock to one party even though the shares are legally owned by another party; often called constructive ownership of stock.

REGOLE DI ATTRIBUZIONE -- Regole che creano la proprietà attribuendo le azioni a una parte anche se le azioni sono legalmente possedute da un'altra parte; spesso chiamate proprietà costruttiva delle azioni.

AUDIT -- Examination and verification carried out by an outside agency (such as an accountancy firm or the tax authorities) of a taxpayer's books and accountants and/or the general accuracy of returns and declarations, either as a routine operation, or where evasion is suspected.

AUDIT -- Esame e verifica effettuata da un'agenzia esterna (come una società di contabilità o le autorità fiscali) dei libri e dei contabili di un contribuente e/o dell'accuratezza generale delle dichiarazioni e delle dichiarazioni, sia come operazione di routine, sia quando si sospetta un'evasione.

AUXILIARY ACTIVITIES -- A fixed place of business through which an enterprise exercises solely an activity which has, for the enterprise, a preparatory or auxiliary character, is, under tax treaties generally, deemed not to be a permanent establishment. The decisive criterion is whether the activity of the fixed place of business in itself forms an essential and significant part of the activity of the enterprise as a whole.

ATTIVITA' AUSILIARIE - Una sede fissa di affari attraverso la quale un'impresa esercita esclusivamente un'attività che ha, per l'impresa, un carattere preparatorio o ausiliario, non è, secondo i trattati fiscali in generale, considerata come una stabile organizzazione. Il criterio decisivo è se l'attività della sede fissa di per sé costituisce una parte essenziale e significativa dell'attività dell'impresa nel suo insieme.

AUXILIARY COMPANY -- Company which is part of a group of companies and which supplies auxiliary services to group companies.

AZIENDA AUSILIARIA -- Azienda che fa parte di un gruppo di aziende e che fornisce servizi ausiliari alle aziende del gruppo.

AVOIDANCE -- A term that is difficult to define but which is generally used to describe the arrangement of a taxpayer's affairs that is intended to reduce his tax liability and that although the arrangement could be strictly legal it is usually in contradiction with the intent of the law it purports to follow. Cf. evasion

EVASIONE -- Un termine che è difficile da definire ma che è generalmente usato per descrivere la sistemazione degli affari di un contribuente che è intesa a ridurre la sua responsabilità fiscale e che, sebbene la sistemazione possa essere strettamente legale, di solito è in contraddizione con l'intento della legge che pretende di seguire. Cfr. evasione

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BACK-TO-BACK LOAN -- Method of borrowing between related parties where a loan is channelled through an independent third-party intermediary.

BAD DEBT -- Debt which is unlikely to be paid. Bad debts may usually be treated as losses and written off against a reserve for such debts.

BALANCE SHEET -- Statement of the financial position of a business as of a particular date. The statement will show the business's assets in one column and its liabilities and owner's equity in another column.

BALANCING PAYMENT -- A payment, normally from one or more participants to another, to adjust participants' proportionate shares of contributions, that increases the value of the contributions of the payer and decreases the value of the contributions of the payee by the amount of the payment, in the context of CCA (Cost Contribution Arrangements).

BANK SECRECY PROVISIONS -- Provisions which require that a bank refuse to disclose information about its customers to third parties, including the tax authorities.

BAPA -- Bilateral advance pricing arrangement. Also called MAP APA.

BASE COMPANY -- Company situated in a low-tax or non-tax country (i.e. tax haven), which is used to shelter income and reduce taxes in the taxpayer's home country. Base companies carry on certain activities on behalf of related companies in high-tax countries (e.g. management services) or are used to channel certain income, such as dividends, interest, royalties and fees.

BASE COST -- Term used in capital gains tax legislation to denote the cost of an asset to an owner.

BEARER SECURITIES -- Stocks, bonds, etc. in which ownership can be transferred from one holder to another without registration of the transaction by the issuing company, that is, title passes with delivery.

BENEFICIAL OWNER -- A person who enjoys the real benefits of ownership, even though the title to the property is in another name. Often important in tax treaties, as a resident of a tax treaty partner may be denied the benefits of certain reduced withholding tax rates if the beneficial owner of the dividends etc is resident of a third country.

BENEFICIARY -- The person who receives or is to receive the benefits resulting from certain acts. In a tax context, the beneficiary is the person entitled to the benefits from trust property or from an insurance policy.

BENEFITS IN KIND -- Term which refers to earnings, usually from employment, other than in cash, as part of compensation for services rendered.

BENEFIT TEST -- In considering whether a company may be allowed to deduct, as an expense, payments made to a related company in a multinational group on account of expenses incurred by that related company in providing intra-group services, tax authorities would refuse a deduction unless a real benefit had been conferred on the company claiming the deduction.

BERRY RATIO -- Ratio used to establish an arm's length profit. The Berry ratio is the ratio of a business' gross income to operating costs.

BEST METHOD RULE -- Transfer pricing rule requiring that a taxpayer use the transfer pricing method that results in the most reliable measure of an arm's length price. This rule doesn't prescribe priorities between various methods.

BILATERAL ADVANCE PRICING ARRANGEMENT (BAPA) APA -- involving two or more tax authorities

BOND -- Interest-bearing debt obligation to a government or entrepreneur. The rate of interest is usually fixed.

BOOK VALUE -- The value of individual asset as recorded in the accounting records of a taxpayer, calculated as actual cost less allowances for any depreciation

BRACKETS -- Term used in connection with graduated system of taxation to refer, for example, to the slabs or slices of taxable income subject to particular rates of income tax.

BRANCH -- Division, office or other unit of business located at a different location from the main office or headquarters. It is not a separate legal entity.

BRANCH PROFITS TAX (BPT) -- See: Branch tax

BRANCH TAX -- Tax imposed on branches of foreign companies in addition to the normal corporate income tax on the branch's income. This is equivalent to the tax on dividends which would be due if the branch had been a subsidiary (see: subsidiary company) of the foreign company and had distributed its profit as dividends.

BROTHER-SISTER CORPORATIONS -- Two or more companies which are owned and controlled by the same shareholders.

BURDEN OF PROOF -- Obligation to persuade a court or other entity of the validity of a factual assertion.

BUSINESS ASSETS -- Assets used for purposes of carrying on a business

"BUSINESS PURPOSE" TEST -- Test used as a weapon against tax avoidance schemes. Artificial schemes which create circumstances under which no tax or minimal tax is levied may be disregarded if they do not serve a "business purpose".

BUY-IN PAYMENT -- A payment made by a new entrant to an already active CCA (Cost Contribution Arrangements) for obtaining an interest in any results of prior CCA activity.

BUY-OUT PAYMENT -- Compensation that a participant who withdraws from an already active CCA may receive from the remaining participants for an effective transfer of its interests in the results of past CCA activities.

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CAPITAL ASSETS -- All property held for investment by a taxpayer.

CALL OPTION -- Contract under which the holder of the option has the right but not the obligation to purchase securities or commodities on or before a specified date for a specified exercise price.

CAPITAL EXPENDITURE -- Expenditure on improvement rather than repair. Where expenditure is more closely connected with the business income-earning structure than its income earning

capacity, it is capital expenditure.

CAPITAL GAIN -- A gain on the sale of capital asset.

CAPITAL TAX -- A tax based on capital holdings, as opposed to a capital gains tax.

CAPITALIZE -- To record capital outlays as additions to asset accounts, not as expenses.

CAPITAL LOSS -- The loss from the sale of a capital asset.

CAPTIVE BANK -- Wholly owned subsidiary of a multinational group of companies whose purpose is to provide banking service to the group and those with whom the group deals. A captive bank is generally located in a tax haven in order to avail itself of the low capital requirements and freedom from exchange control.

CAPTIVE INSURANCE COMPANY -- Wholly owned subsidiary of a multinational group of companies which exclusively insures or reinsures the risks of companies that belong to the group. A captive insurance company is usually established in a low-tax country. Whether premiums paid to captive insurance companies are recognized as business expenses depends on the country in question.

CARRYBACK -- See: Carryover

CARRYFORWARD -- See: Carryover

CARRYOVER -- A process by which the deductions or credits of one taxable year that cannot be used to reduce tax liability in that year are applied against a tax liability in subsequent years (carryforward) or previous years (carryback).

CASH BASIS (CASH METHOD) -- The accounting method which recognizes income and deductions when money is received or paid.

CCA -- See: Cost Contribution Arrangements

CENTRAL MANAGEMENT AND CONTROL -- Where the central management and control is located is a test for establishing the place of residence of a company. Broadly speaking, it refers to the highest level of control of the business of a company.

CENTRE OF VITAL INTEREST -- This is one of the criteria used to resolve the problem of dual residence of individuals. It refers to the place where the taxpayer's personal and economic relationships are closer.

CFC -- See Controlled foreign company

CHERRY PICKING -- Term used in the USA in R&D arrangements to prevent a contracting party from selecting or funding only the technologies that are successfully developed, i.e. "cherry picking". In transfer pricing context, it often describes a situation where a tax authority tries to

impose a TP adjustment on a taxpayer based on a few of “cherry picked” related party transactions of other comparable companies with an intention to maximize its adjustment.

CIF VALUE -- The value of imported goods which includes cost, insurance and freight.

CIVIL LAW -- Systems of law based primarily on statutes or codes rather than judicial decisions. Examples are the French and German systems.

CLOSE (CLOSELY HELD) COMPANY -- Company which is owned or controlled by a single shareholder or closely knit group of shareholders.

COMMENSURATE WITH INCOME STANDARD -- See: Super royalty provision

COMMERCIAL INTANGIBLE -- An intangible that is used in commercial activities such as the production of a good or the provision of a service, as well as an intangible right that is itself a business asset transferred to customers or used in the operation of business.

COMMODITIES FUTURES -- Contracts, traded on recognized futures markets, in which sellers promise to deliver a given commodity by a certain date at a predetermined price.

COMMODITY TAX -- Tax based on a selective number of commodities.

COMMON LAW -- The body of law developed by the judiciary in systems based on English law and which is followed under the doctrine of precedent, i.e. past judicial decisions on similar cases. Much of it is now incorporated in statute. Also this term is used to describe a system ultimately based on English legal systems, as opposed to civil law systems.

COMMON STOCK -- The ordinary stock of a corporation. An equity or ownership interest in a corporation. The holder of common stock usually has a vote in deciding company affairs. Common stock is usually last in priority when profits or assets are distributed.

COMPANY -- Often used to mean a separate legal entity (a corporation) organized to perform an activity, business or industrial enterprise. Sometimes it has a broader meaning to mean individual or collective enterprises seeking profit.

COMPARABILITY ANALYSIS -- Comparison of controlled transaction conditions with conditions prevailing in transactions between independent enterprises (uncontrolled transactions). Controlled and uncontrolled transactions are comparable if none of the differences between the transactions could materially affect the factor being examined in the methodology (e.g. price or margin), or if reasonably accurate adjustments can be made to eliminate the material effects of any such differences.

COMPARABLE PROFIT METHOD (CPM) -- Under US regulations CPM is a method to determine an arm's length consideration for transfers of intangible property. If the reported operating income of the tested party is not within a certain range, an adjustment will be made. In effect this method

requires a comparison of the operating income that results from the consideration actually charged in a controlled transfer with the operating income of similar taxpayers that are uncontrolled.

COMPARABLE UNCONTROLLED PRICE (CUP) METHOD -- A transfer pricing method that compares the price for property or services transferred in a controlled transaction to the price charged for property or services transferred in a comparable uncontrolled transaction in comparable circumstances.

COMPARABLE UNCONTROLLED TRANSACTION (CUT) METHOD -- A transfer pricing methodology used in the US, which determines an arm's length royalty rate for an intangible by reference to uncontrolled transfers of comparable intangible property under comparable circumstances.

COMPENSATING ADJUSTMENT -- An adjustment in which the taxpayer reports a transfer price for tax purposes that is, in the taxpayer's opinion, an arm's length price for a controlled transaction, even though this price differs from the amount actually charged between the associated enterprises. This adjustment would be made before the tax return is filed.

COMPENSATION -- Direct and indirect monetary and non-monetary rewards to employees.

COMPENSATORY STOCK OPTIONS -- Options offered to employees as partial compensation for their services.

COMPETENT AUTHORITY (CA) -- Forum to resolve disputes arising from the application and/or interpretation of a double tax treaty. Both treaty countries appoint a representative (frequently the Ministry of Finance or its authorized representative) as the CA to assist aggrieved taxpayers by acting as the official liaison with the foreign CA. The CA is generally indicated in the definitions sections of tax treaties.

COMPLIANCE -- See: Tax compliance

CONDUIT APPROACH -- A method whereby income or deductions flow through to another party

CONDUIT COMPANY -- Company set up in connection with a tax avoidance scheme, whereby income is paid by a company to the conduit and then redistributed by that company to its shareholders as dividends, interest, royalties, etc.

CONSIDERATION -- Anything of value, including property, given in return for a promise or performance by another party to form a contract

CONSOLIDATED TAX RETURN -- A combined tax return in the name of the parent company filed by companies organized as a group.

CONSORTIUM -- Association of business enterprises, whether individuals, partnerships or companies, operating together on a temporary basis for some specific venture.

CONSTRUCTIVE DIVIDEND -- A variety of payments whether in cash or in kind made by companies to shareholders or associated persons, which are not expressed as dividends, may nevertheless be regarded by the tax law as distributions of profits and treated for tax purposes as if they were dividends.

CONSTRUCTIVE OWNERSHIP -- A taxpayer may be considered to own property or stock which he only indirectly owns.

CONSUMPTION TAX -- Tax generally intended to fall on the ultimate consumption of goods and services.

CONTRACT MANUFACTURER -- A manufacturer, in most cases, located in a low-cost jurisdiction, which has a license to use an intangible property developed by its parent company. The manufacturer uses the intangible property to produce tangible property which is then resold to the parent for distribution to ultimate customers.

CONTRIBUTION ANALYSIS -- Where the profit-split method is applied in transfer pricing cases, a contribution analysis requires that the combined profit be divided between associated enterprises based upon the relative value of the functions performed by each of the associated enterprises participating in the controlled transaction.

CONTROL -- The capacity of one person to ensure that another person acts in accordance with the first person's wishes, or the exercise of that capacity. The exercise of control by one person over another could enable individuals and corporations to avoid or reduce their tax liability. A company is usually regarded as controlling another company if it holds more than 50% of the latter company's voting shares. However, the definitions vary according to country and situation.

CONTROLLED FOREIGN COMPANIES (CFC) -- Companies, usually located in low tax jurisdictions, that are controlled by a resident shareholder. CFC legislation is usually designed to combat the sheltering of profits in companies resident in low- or no-tax jurisdictions. An essential feature of such regimes is that they attribute a proportion of the income sheltered in such companies to the shareholder resident in the country concerned. Generally, only certain types of income fall within the scope of CFC legislation, i.e. passive income such as dividends, interest and royalties.

CONTROLLED TRANSACTION -- Transactions between two enterprises that are associated enterprises with respect to each other.

CONTROLLING INTEREST -- Ownership of more than 50% of a corporation's voting shares.

COOPERATIVE SOCIETY -- In general, cooperative societies are founded to reduce the purchase price or increase the sales price of certain products for the benefit of their members or to serve the interest of their members in some other way, among small traders, farmers, consumers, etc.

COORDINATION CENTRE -- Enterprise whose only purpose is to coordinate the activities of affiliated companies, to do research or to carry out support activities for the benefit of such corporations.

COPYRIGHT -- Exclusive right granted to authors and artists to publish, use and exploit their literary or artistic works.

CORPORATE INCOME TAX -- Income tax on the income of companies

CORPORATE VEIL -- As a corporation is a separate legal entity, and shareholders have an interest in the company rather than in its assets, the corporate veil is used to describe the inability to look behind the legal entity and attribute the actions assets, debts and liabilities of a company to those standing behind it, notably the shareholders. Courts may sometimes be able to “pierce” (look through) the corporate veil to make an attribution to the underlying person or persons.

CORPORATION -- In technical terms, it means a legal entity generally chartered by a relevant government and separate and distinct from the persons who own it. However it is now commonly used as another way of referring to a company. (See: Company)

CORPORATION SHOPPING -- Term sometimes used in addition to treaty shopping to denote the use of tax treaty provisions by interposing a company instead of a different form of association for which tax relief would not been available.

CORRESPONDING ADJUSTMENT -- An adjustment to the tax liability of the associated enterprise in a second jurisdiction made by the tax administration of that jurisdiction, corresponding to a primary adjustment made by the tax administration in a first tax jurisdiction, so that the allocation of profits by the two jurisdictions is consistent.

COST -- Purchase price paid for property or the value of the exchange for which property is given.

COST CONTRIBUTION ARRANGEMENT (CCA) -- A CCA is a framework agreed among enterprises to share the costs and risks of developing, producing, or obtaining assets, services, or rights, and to determine the nature and extent of the interests of each participant in the result of the activity of developing, producing, or obtaining those assets, services, or rights.

COST FUNDING -- Contribution of an affiliate company to the general research and development (R&D) costs of another affiliate or group member, in proportion to its turnover or some other criterion

COST OF GOODS SOLD (COGS) -- A figure representing the cost of buying raw materials and producing finished goods. Included are clear-cut factors, such as direct factory labour, as well as others that are less clear-cut, such as overhead

COST-PLUS MARK-UP -- A mark up that is measured by reference to margins computed after the direct and indirect costs incurred by a supplier of property or services in a transaction

COST-PLUS METHOD -- A transfer pricing method using the costs incurred by the supplier of property (or services) in a controlled transaction. An appropriate cost plus mark up is added to this cost, to make an appropriate profit in light of the functions performed (taking into account assets used and risks assumed) and the market conditions. What is arrived at after adding the cost plus mark up to the above costs may be regarded as an arm's length price of the original controlled transaction.

COST-SHARING AGREEMENT -- See: Cost-contribution agreement

CPM -- See: Comparable profit method

CREDIT, FOREIGN TAX -- A method of relieving international double taxation. If income received from abroad is subject to tax in the recipient's country, any foreign tax on that income may be credited against the domestic tax on that income. The theory is that this means foreign and domestic earnings of an entity will as far as possible be similarly taxed, although usually the credit allowed is limited to the amount of domestic tax, with no carry over if tax is higher abroad.

CREDIT, TAX -- Allowance of deduction from or a direct offset against the amount of tax due as opposed to an offset against income.

CREDIT, UNDERLYING (INDIRECT) TAX -- In relation to a dividend, credit for underlying tax is credit for the tax levied on the profits of the company out of which the dividends have been paid. Such relief may be given either under a tax treaty or in accordance with unilateral provisions.

CREDIT, WITHHOLDING TAX -- Various kinds of income (such as dividends, interest, royalties) are taxed at source by requiring the payer to deduct tax and account for it to the tax authorities (abroad). The taxpayer recipient is entitled to credit the tax withheld at source against his final tax liabilities determined by (domestic) tax law of the country in which he is resident.

CREDIT METHOD -- See: Credit, foreign tax

CREDITOR -- A person who extended credit and to whom money is owed; a lender

CUP METHOD -- Comparable uncontrolled price method

CURRENT ASSETS -- The cash, accounts receivable, inventory, and other assets that are likely to be converted into cash, sold, exchanged, or expensed in the normal course of business, usually within a year.

CUSTOMS DUTIES -- Taxes on goods imported into a country

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DAMAGES -- The amount received (other than worker's compensation) through prosecution of a legal suit or action based on tort or tort-type rights, or through a settlement agreement entered into in lieu of such prosecution.

DEATH DUTIES -- Taxes imposed on the transfer of property on account of a person's death.

DEBENTURE -- Interest-bearing bond which is not secured by any specific property, usually issued by a corporation or government to the general public

DEBT CAPITAL -- Funds obtained through various types of loan which normally comprehends debentures and bonds bearing fixed interest.

DEBT DUMPING -- Transferring a bad debt to a group company located in a higher-tax rate country in order to write off the debt in that country.

DEBT/EQUITY RATIO -- Relationship of total debt of a company to its ordinary share capital. If a corporate debt is disproportionately high in comparison with its equity, the debt may be recharacterised as equity, resulting in a disallowance of the interest deduction and taxation of the funds as dividends.

DEBT INSTRUMENT -- A written promise to repay a debt, such as a bill, bond, banker's acceptance, note, certificate of deposit, or commercial paper.

DEBTOR -- A person who owes money; a borrower

DEDUCTION AT SOURCE -- See: Withholding tax

DEDUCTIONS -- Deduction denotes, in an income tax context, an item which is subtracted (deducted) in arriving at, and which therefore reduces, taxable income.

DEEMED INTEREST -- If a member of a multinational enterprise (MNE) receives an interest-free loan from an affiliated company, the tax authorities of the lender's country may readjust the lender's profits by adding an amount equal to the interest which would have been payable on the loan had it been made at arm's length.

DEEP DISCOUNT BOND -- See: Zero coupon bond

DEFAULT -- The failure of a debtor to make timely payments of interest and principal amounts as they come due or to meet some other provision of a bond, mortgage, lease, or other contract.

DEFERMENT OF TAX -- The postponement of tax payments from the current year to a later year. A number of countries have introduced legislation to counter the kind of tax avoidance whereby a taxpayer obtains a deferment of tax which is not intended by law. Ex) CFC legislation

DEFERRED INCOME -- Term used to describe income which will be realized at a future date, thus delaying any tax liability.

DEFICIENCY -- The excess of a taxpayer's correct tax liability for the taxable year over the amount of taxes previously paid for that year. A US concept

DELINQUENCY -- Tax which is in default (i.e. due but not yet paid) is often referred to as a "delinquent" tax in North American parlance.

DELIVERY -- Transfer of goods or an interest in goods from one person to another.

DEMAND LOAN -- A loan payable on request by the creditor rather than on a specific date.

DE MINIMIS -- Phrase used in connection with circumstances in which the full rigour of the tax law is not enforced because, in particular, of the small amount or minor breach which may be involved, particularly in the context of under-assessed or underpaid tax which are not pursued on "de minimis" grounds.

DEPENDENT AGENT -- See: Agency

DEPENDENT PERSONAL SERVICES -- The OECD model tax treaty provides rules for the treatment of salaries, wages and other similar remuneration (i.e. employment income) under the heading "dependent personal services". As a general rule, with some exceptions, the right to tax income from dependent personal services is allocated to the country where the employment activities are exercised.

DEPLETION -- Deductible expense which reflects the decrease of a natural resource due to extraction of the resource.

DEPRECIATION -- An accounting technique in which the cost of an asset is allocated over its useful life.

DERIVATIVE FINANCIAL INSTRUMENTS -- Also known as derivatives. These are financial instruments whose values are linked to or depend on the value of a primary (underlying) asset, e.g. debt assets, liabilities and equity securities, commodities or currency. The primary types of derivatives include forward contracts, futures, options and swaps.

DESTINATION PRINCIPLE -- Principle under a VAT regime which mandates that VAT on goods be paid in the country where the purchaser is resident (i.e. the country of consumption) at the rate that would have applied had the goods been purchased from a domestic supplier.

DIRECT CHARGE METHOD A -- method of charging directly for specific intra-group services on a clearly identified basis.

DIRECT COST -- Cost identified with a particular transaction, such as raw materials, components and goods, wages and other processing expenses.

DIRECT INVESTMENT -- Description often given to a substantial investment in the shares of a company.

DIRECTIVE -- An official order or instruction. In EU context, it means one of the legal instruments issued by the competent institutions of the European Union. A directive is addressed to the Member States requiring them to make such changes to their domestic legislation as necessary to

satisfy a provision of one of the EC treaties.

DIRECT METHOD OF ALLOCATION OF COSTS -- Allocation method where the parent company or group service centre of a multinational enterprise providing central management and other services charges each member of the group directly for individual services rendered.

DIRECT TAX -- Direct taxes are taxes imposed on income, capital gains and net worth. Gift tax, death duties and property tax are also considered direct taxes.

DISCOUNT -- Amount by which the face value of a debt obligation exceeds its issue or selling price.

DISOLUTION OF CORPORATION -- The termination of the legal existence of a corporation.

DISTRIBUTION -- A payout of cash or property from a corporation to a shareholder.

DIVIDENDS -- A payment by a corporation to shareholders, which is taxable income of shareholders. Most corporations receive no deduction for it.

DOCUMENTATION -- Official documents that are used to prove that something is true or correct

DOMESTIC CORPORATION -- Corporation which is organized or has its place of effective management in a country.

DOMICILE -- A person's domicile in English common law is his permanent home, the place to which he always intends to return. Residence is the place where an individual lives for a certain period of time, while domicile is the place where an individual makes his permanent home.

DOMICILE, FISCAL -- Term sometimes used to mean the same as residence. Fiscal domicile does not necessarily have the same meaning as domicile.

DOUBLE DIPPING -- Term used to indicate the possibility for dual resident companies to deduct the same expenses in two jurisdictions.

DOUBLE TAXATION, DOMESTIC AND INTERNATIONAL -- Domestic double taxation arises when comparable taxes are imposed within a federal state by sovereign tax jurisdictions of equal rank. International double taxation arises when comparable taxes are imposed in two or more states on the same taxpayer in respect of the same taxable income or capital, e.g. where income is taxable in the source country and in the country of residence of the recipient of such income.

DOUBLE TAXATION, ECONOMIC AND JURIDICAL -- Double taxation is juridical when the same person is taxed twice on the same income by more than one state. Double taxation is economic if more than one person is taxed on the same item.

DOUBLE TAXATION TREATY -- See: Tax treaty

DTA -- Double tax agreement. See Tax treaty.

DUAL RESIDENCE -- Person or company resident in two or more countries under the law of those countries, because the two countries adopt different definitions of residence.

DUTY -- Customs duties (sometimes called a tariff) levied on imported products.

DUTY-FREE ZONE -- Zone usually located next to an international port or airport where imported goods may be unloaded, stored and reshipped without payment of customs duties or other types of indirect taxes, provided the goods are not imported.

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EARNED INCOME -- Income or compensation derived from personal services in an employment, trade, business, profession or vocation. (cf. investment income)

EARNINGS & PROFITS (E&P) -- A term referring to the economic capacity of a corporation to make a distribution to shareholders that is not a return of capital. Such a distribution would constitute a taxable dividend to the shareholder to the extent of current and accumulated earnings and profit under US tax law.

EARNINGS BEFORE TAXES -- Sales revenue less cost of sales, operating expenses, and interest, before taxes have been paid.

EARNINGS STRIPPING -- Practice of reducing the taxable income of a corporation by paying excessive amounts of interest to related third parties.

ECONOMIC DOUBLE TAXATION -- See: Double taxation, economic and juridical

ECO TAX -- See: Environmental tax

EFFECTIVELY CONNECTED INCOME (ECI) -- Non-resident alien individuals and foreign corporations engaged in trade or business within the US are subject to US income tax on income, from sources both within and outside the US, which is "effectively connected" with the conduct of the trade or business within the US. Income is effectively connected if it is derived from assets which are used in or held for use in the US, and the activities of the US business were a material factor in the realization of the income.

EFFECTIVE TAX RATE -- The rate at which a taxpayer would be taxed if his tax liability were taxed at a constant rate rather than progressively. This rate is computed by determining what percentage the taxpayer's tax liability is of his total taxable income.

EMPLOYEE PROFIT SHARING -- System under which the employees of an enterprise are entitled by employment contract or by law to a share in the profits made by the enterprise.

EMPLOYEE STOCK OPTION -- An opportunity for employees to purchase stock (shares) in the company they work for, often at a discount from fair market value. Generally it is provided as an incentive to stay with the employer until the options vest.

EMPLOYMENT INCOME -- Income source of individuals, covering income derived from labour or other current or former dependent personal services such as salaries, wages, bonuses, allowances, compensation for loss of office or employment, pensions and, in some countries, certain social security benefits.

ENTERTAINER -- Income of a professional entertainer e.g. a musician, actor or other artiste, or sportsman is, in many cases, treated differently from income of persons carrying on other independent profession.

ENTITY -- In general for tax purposes, an organization, person or party that possesses separate existence. Options include corporations, partnerships, estates and trusts.

ENVIRONMENTAL TAX -- Tax imposed for environmental reasons, e.g. to provide an incentive to reduce certain emissions to an optimal level or taxes on environmentally harmful products.

EQUAL TREATMENT -- General principle of taxation that requires that taxpayers pay an equal amount of tax if their circumstances are equal.

EQUITABLE INTEREST -- An equitable interest in an asset is the interest of the beneficial owner; this may or may not be the same person as the legal owner.

EQUITY --

1. The extent of a person's beneficial ownership of a particular asset. This is equivalent with the value of the asset minus the liability to which the asset is subject.
2. Paid-in capital plus retained earnings in a corporation
3. The ownership interest possessed by shareholders in a corporation - stock as opposed to bonds.

EQUITY CAPITAL -- A method of financing a business where money is received by the issuance of shares in the enterprise.

ESOP -- Employee stock ownership plan

ESTATE -- Broadly, all that a person owns, whether real property or personal property, for instance, the estate one leaves at death.

ESTATE DUTY/TAX -- See: Death duties

ESTIMATED ASSESSMENT -- For income tax purposes, where the records kept, particularly by small traders, are inadequate for a precise calculation of tax due, it may be necessary for the taxable income or profits to be calculated by the tax authorities on the basis of an estimate.

ESTOPPEL -- Rule under which one is precluded and forbidden by law to speak against his own act or deed. If a certain position has been taken, another person has relied on that, and you are aware of that reliance, there is often an estoppel against you arguing the contrary to your original position in a court proceeding.

EUROBOND -- International bond issued by a company in a market other than its domestic market. Eurobonds may take the form of loans, debentures or convertible debentures, and maybe designated in any currency.

EURODOLLARS -- Dollars originally deposited in US banks that are acquired by persons resident outside the United States and held abroad, mainly in Europe. Eurodollars are used by foreign banks as a method of financing loans to other local or foreign banks or to commercial borrowers.

EUROPEAN COMMISSION -- The Commission is the executive institution of the European Union charged with the task of administering all policy within the Union.

EUROPEAN UNION -- See: Treaty on European Union

EVASION -- A term that is difficult to define but which is generally used to mean illegal arrangements where liability to tax is hidden or ignored, i.e. the taxpayer pays less tax than he is legally obligated to pay by hiding income or information from the tax authorities.

EXAMINATION -- The checking of a taxpayer's tax return, accounts, self-assessment calculations, etc. The process may or may not include an audit of the taxpayer's own books.

EXCHANGE CONTROL -- Restriction of the amount of a particular foreign currency that can be bought or sold

EXCHANGE OF INFORMATION -- Most tax treaties contain a provision under which the tax authorities of one country may request the tax authorities of the other country to supply information on a taxpayer. Information may only be used for tax purposes in the receiving country and it must be kept confidential, i.e. it can only be disclosed to the persons or authorities concerned with the assessment or collection of taxes covered by the treaty.

EXCISE TAX -- A tax imposed on an act, occupation, privilege, manufacture, sale, or consumption.

EXCLUSIONS -- Term used to describe income which is exempt, i.e. not included, in the calculation of gross income for tax purposes.

EXEMPTION METHOD -- See: Foreign tax relief

EXEMPTIONS -- Tax laws frequently provide specific exemptions for persons, items or transactions, etc. which would otherwise be taxed. Exemptions may be given for social, economic or other reasons.

EXPATRIATE -- Persons who have left their country and live abroad.

EXPATRIATION RULES -- Rules under which a taxpayer continues to be subject to tax when he relinquishes his residence or his citizenship in order to avoid tax.

EXPENSES -- Costs that are currently deductible, as opposed to capital expenditures, which may not be currently deducted but must be depreciated or amortized over the useful life of the property.

EXPORT DUTY -- Tax levied on exports of basic commodities entering into world trade, such as rubber, copper, palm oil, sisal, tea, cocoa and coffee

EXTENDED LIMITED TAX LIABILITY -- Principle according to which certain taxpayers (i.e. those subject to individual income tax, net worth tax and succession duty) who leave a tax jurisdiction and move to a low-tax country are subject to taxation in the former country of residence for a certain period of time after the move.

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FACTORING -- Financial transaction whereby an enterprise sells its debt-claims to a third party in order to obtain cash (although less than the full amount of the debt). The third party then assumes responsibility for the administration and collection of the debt on the due date for its own account.

FAIR MARKET VALUE -- The price a willing buyer would pay a willing seller in a transaction on the open market.

FEDERAL REGISTER -- A daily publication by the U.S government that prints the regulations of the various governmental agencies.

FEDERAL TAX -- In federal states, taxation may exist on two levels: taxation by the federation or confederation, and taxation by the state or provinces.

FEE -- Fees charged by central or local governments can be distinguished from taxes when they are charged as payments for the supply of particular services by the authorities. Fees are usually not considered taxes when listing taxes to be included in a double tax treaty.

FIDUCIARY -- A person, company, or association holding assets in trust for a beneficiary.

FIELD AUDIT -- An examination of a tax return by tax authorities at the taxpayer's place of business.

FIFO -- Method of valuing inventory on the basis of "first in, first out", where goods or materials purchased first are regarded as those which are sold first.

FINAL TAX -- Under tax treaties the withholding tax charged by the country of source may be limited to a rate lower than the rate which would be charged in other circumstances - this reduced

rate is then the final tax in the country of source.

FINANCE COMPANY -- A company, usually a wholly owned subsidiary, which borrows funds from within or outside a group of companies and onlends the funds to affiliates. A finance company is, in many cases, established in a low or no tax jurisdiction.

FINANCE LEASE -- Lease where the lessor is considered only as a financier. The lessee is regarded as the owner of the leased assets. Cf. Operating Lease

FINANCIAL STATEMENT -- Report which contains all of the financial information about a company. The report generally consists of a balance sheet, income statement and may include other information as well.

FINANCIAL STRUCTURE -- The makeup of the right-hand side of a company's balance sheet, which includes all the ways it assets are financed.

FIRST IN, FIRST OUT (FIFO) -- See: FIFO

FISCAL DOMICILE -- See: Domicile, fiscal

FISCAL NULLITY DOCTRINE -- Common law doctrine used in the UK in cases of avoidance of tax, whereby certain transactions are ignored for fiscal purposes. Cf. Substance over form doctrine.

FISCAL POLICY -- Part of economic policy which relates to taxation and public expenditure.

FISCAL RESIDENCE -- See: Residence

FISCAL TRANSPARENCY -- "Looking through" an entity and attributing profits and losses directly to the entity's members. The profits of certain forms of enterprises are taxed in the hands of the members rather than at the level of the enterprise. Often occurs in the case of a partnership for example.

FISCAL YEAR -- Any 12-month period which is set for accounting purpose of an enterprise.

FIXED ASSETS -- Assets that are held by an enterprise either continuously or for a comparatively long period of time, generally more than one year

FIXED BASE -- This term was used in the OECD and UN model tax treaties in the context of independent personal services, but the former Article 14 has been removed from the OECD Model and these issues are now generally dealt with under Article 7, dealing with business profits attributed to permanent establishments. It denotes a centre of activity of a fixed or permanent character from which such services can be carried out such as a physician's consulting room. The fixed base provision attributes the right to tax income from independent personal services to the "other" country (i.e. the source country) if the taxpayer has a fixed base available to him in that country and income is attributable to that fixed base.

FIXED INCOME -- Income which does not fluctuate over a period of time, such as interest on bonds and debentures, or dividends from preference shares as opposed to dividend income from

ordinary shares.

FLAG OF CONVENIENCE -- The flag of ship is the flag of the country where it is registered. This term is used in international shipping where a ship's country of registration is selected on the basis of country's legal requirement and tax regime.

FLAT TAX -- A tax applied at the same rate to all levels of income. It is often discussed as an alternative to the progressive tax.

FLOORS -- The lower limits on tax benefits and detriments, e.g. in medical expense. A taxpayer must spend more than the floor for a deduction, and only the amount above the floor is deductible.

FLOW-THROUGH ENTITY -- See Fiscal transparency

FOB VALUE -- FOB denotes "free on board". FOB value is value of goods excluding carriage, insurance and freight, i.e. roughly speaking, the domestic price in the country of origin.

FORCE OF ATTRACTION -- Concept under which a permanent establishment is taxed by the country in which it is located not only on the income and property, but also on all income derived by its foreign head office from source in, and all property owned by the foreign head office situated in, the country where the permanent establishment is located. The OECD model treaty does not allow application of it.

FOREIGN CURRENCY FORWARD -- See Forward contract. This contract serves the same purpose as a foreign currency futures contract, except that it is not standardized and entered on the informal, interbank market rather than on a formalized commodities exchange.

FOREIGN CURRENCY FUTURES -- Exchange traded contract for the delivery of a standardized amount of foreign currency on a specific future date. The price for the foreign currency is agreed on the day the contract is bought or sold. Unlike forward contracts, futures are tradable, reflecting the standardization of contract size, specification and delivery date.

FOREIGN CURRENCY OPTION -- Contract with an option to buy/sell foreign currency. See: option.

FOREIGN CURRENCY SWAP -- An agreement under which two or more parties agree to exchange specified amount of two different currencies for a defined period. Over the term of the agreement, the parties exchange fixed or floating rate interest payments in their swapped currencies.

FOREIGN EXCHANGE CONTROL -- See: Exchange control

FOREIGN EXCHANGE TAX -- Special tax imposed on transactions involving sales of foreign exchange by domestic banking institutions and authorized exchange brokers.

FOREIGN-SOURCE INCOME -- Generally income realized from countries outside the country of residence of the taxpayer.

FOREIGN TAX CREDIT (FTC) -- See: Credit, foreign tax

FOREIGN TAX RELIEF -- Relief from domestic tax on income from abroad which has already suffered foreign tax. Generally speaking, two approaches are taken to foreign tax relief, i.e. the credit method or the exemption method.

FORFAIT -- In a number of countries tax is sometimes levied on an estimated taxable base (forfeit), particularly in respect of the imposition of income tax or turnover tax on small enterprises.

FORMS, TAX -- See: Tax form

FORMULA APPORTIONMENT -- See: Unitary tax system

FORMULATORY APPROACH -- See: Unitary tax system

FORWARD CONTRACT -- Contract for the delivery of an amount of asset (e.g. foreign currency, securities, commodities) on a specific future date.

FRANCHISE TAXES -- Nearly all states in the US levy an annual franchise tax on resident and non-resident corporations for the privilege of the right to do business in that state.

FRAUD -- Tax fraud is a form of deliberate evasion of tax which is generally punishable under criminal law. The term includes situations in which deliberately false statements are submitted, fake documents are produced, etc.

FRINGE BENEFITS -- Benefits supplementing normal wages or salaries. Fringe benefits may be given in the form of a money allowance, e.g. a holiday bonus or in the form of benefits in kind, e.g. free accommodation. Although most countries tax the benefit of employer-provided automobiles and accommodation, the tax treatment of other fringe benefits varies considerably.

FRIVOLOUS POSITION -- A tax position that is knowingly advanced in bad faith and is patently improper.

FRONTIER WORKERS -- For tax purposes, a frontier worker is a person who commutes across a border (e.g. on a daily basis) between his place of residence and his place of employment.

FRONTING -- Term used to describe the practice of interposing a third party in a transaction so as to circumvent transfer pricing legislation.

FRUIT AND TREE DOCTRINE -- A judicial doctrine that an individual who earns income from property of services may not assign such income to another person for tax purposes.

FTC -- See Foreign tax credit

FUNCTIONAL ANALYSIS -- An analysis of the functions performed (taking into account assets used and risks assumed) by associated enterprises in controlled transactions and by independent enterprises in comparable uncontrolled transactions.

FURNISS V. DAWSON -- This case is 1984 UK case, decided by the House of Lords, which is generally considered to be a landmark case. It made ineffective tax avoidance schemes which have no commercial purpose other than the avoidance of tax.

FUTURES CONTRACT -- An agreement between a buyer and seller to exchange particular goods (e.g. securities or commodities) for a particular price at a future date as specified in a standardized contract common to all participants in a market on an organized futures exchange.

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GAAP -- Generally Accepted Accounting Principles are the rules and practices required to be followed in keeping financial records and books of account.

GAIN, CAPITAL -- See: Capital gain

GEARING -- Term broadly used in the context of a company's debt/equity ratio. A company is highly geared if the ratio of debt to equity is high. Sometimes referred to as capital gearing or leveraging.

GENERAL PARTNER -- In a partnership, a partner whose liability is not limited. All partners in an ordinary partnership are general partners. A limited partnership must have at least one general partner and at least one limited partner.

GENERAL PARTNERSHIP -- See: Partnership

GENERATION-SKIPPING TAX -- Tax imposed to prevent the avoidance of transfer tax (i.e. estate tax and gift tax) over successive generations.

GIFT CAUSA MORTIS -- A transfer of property by a person who faces impending death. The donee thereby becomes the owner of the property, but on the condition that the gift is revoked if the donor does not die.

GIFT INTER VIVOS -- A gratuitous transfer of property made during the transferor's (donor's) lifetime. In many countries the gratuitous transfer of property is subject to a gift tax.

GLOBAL FORMULARY APPORTIONMENT METHOD -- See: Global method

GLOBAL HEDGING -- A risk-management strategy to balance positions of different business units or with unrelated third parties.

GLOBAL INCOME TAX -- Income tax that aggregate income from all sources at the individual (or family unit) level. The income is then taxed at a single progressive rate.

GLOBAL METHOD -- Under the global method, the profits of each member of a multinational enterprise (MNE) are not calculated on the basis of arm's length dealings, but rather the total profit of the enterprise is allocated to the members of the multinational enterprise on the basis of, for example, the turnover of each member, the expenses incurred by each member or the labour cost of each member.

GLOBAL TRADING -- Term used to describe transactions carried out by, inter alia, investment banks and securities dealers, involving financial instruments, financial services and financial goods. Also known as 24-hour trading since the transactions are carried out continuously during a day in financial markets worldwide.

GOING CONCERN -- A business which is actually operating, e.g. at the time of takeover. The advantage of taking over a business as a going concern (if it is operating profitably) is usually recognized by a payment for goodwill as well as for other assets.

GOING CONCERN VALUE -- The element of value that attaches to property as a result of the ability of a trade or business to continue to operate and generate income after a transfer of ownership.

GOOD FAITH -- "Good faith" denotes a state of mind, whereby a person honestly and truly believes that certain facts or circumstances are as he says they are.

GOODS AND SALES TAX VAT -- style multi-stage sales tax levied on purchases (and lessees). Sellers (and lessors) are generally responsible for collection.

GOODWILL -- Intangible asset which consists of the value of the earning capacity, location, marketing organization, reputation, clientele, etc. of a trade or business. Goodwill can be transferred for a consideration to another entrepreneur upon the sale of the business as a going concern.

GORDON REPORT -- 1981 report submitted to the US Treasury, entitled "Tax Havens and Their Use by United States Taxpayers - An Overview"; it explains the use of US taxpayers make of tax havens, existing anti-abuse measures and proposals for measures to counter such activities.

GRACE PERIOD -- The period following the due date of taxes during which legal action for recovery of delinquent taxes will not be instituted and interest will not commence to run.

GRADUATED RATE -- System where the rate of tax increases on marginal amounts as the amount of taxable income rises. Synonym for progressive rate.

GRANDFATHER CLAUSE -- Clause temporarily preserving legislation which exists at the time a law is modified or a (tax) treaty is concluded (or modified).

GREEN CARD -- Entry document issued by the US immigration and Naturalization Service (INS) that permits foreign nationals to live permanently in the US and undertake employment.

GREEN CARD TEST -- A test in the US to determine residence of an alien individual, i.e. an alien is considered resident if at any time during the calendar year he is a lawful permanent resident of

the US under the immigration laws.

GROSS INCOME -- Gross receipts, whether in the form of cash or property, of the taxpayer received as compensation for independent personal services, and the gross receipts of the taxpayer derived from a trade, business or services, including interest, dividends, royalties, rentals, fees or otherwise.

GROSS INCOME, TAXES ON -- In some countries income taxes are levied on gross income (usually at low rates) without deduction for expenses.

GROSS MARGIN -- Ratio of gross profits to gross revenue.

GROSS PROFITS -- The gross profits from a business transaction are the amount computed by deducting from the gross receipts of the transaction the allocable purchases or production costs of sales, with due adjustment for increases or decreases in inventory or stock-in-trade, but without taking account of other expenses.

GROSS PROFIT RATIO -- Ratio of gross profit to the sales of a business or, alternatively, to the adjusted purchases or "goods consumed" during the accounting period.

GROSS PROFITS TAX -- Tax imposed usually at low rates on the gross receipts of a business

GROSS UP -- Add back the amount of tax which has been paid to the value of property or other income received. The term includes the process by which corporation add credits (e.g. imputation credits or foreign tax credits) received to net income received before calculating their tax liabilities.

GROUP SERVICE CENTER -- Term used in the 1984 OECD Report on Transfer Pricing and Multinational Enterprises to denote a special department within a parent company or regional holding company or any other associated enterprise within a multinational enterprise (MNE) providing services to associated enterprises.

GROUP TREATMENT -- Term used to describe the tax treatment where the profits and losses of associated companies may be grouped together and, in effect, be treated as the aggregated profits of a single enterprise (sometimes called a "fiscal unity").

GUARANTOR -- A person who guarantees, endorses, or provides indemnity agreements with respect to debts owed to others.

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HABITUAL ABODE -- In the context of the tie-breaker rule of the OECD model tax treaty, habitual abode is one of the criteria used to resolve the problem of dual residence. It refers to the period of

time a taxpayer spends in each country.

HARDSHIP CLAUSE -- Discretionary power of the tax authorities to mitigate any harsh results of the tax law.

HARMONIZATION OF TAX, EEC DIRECTIVE -- Term usually used to refer to the process of removing fiscal barriers and discrepancies between the tax systems of the various countries comprising the European Union. To this end the EU has issued directives in the area of indirect and direct taxation.

HEAD OFFICE EXPENSES -- Where an enterprise with its head office in one country operates through a branch or other permanent establishment in another country, some expenses incurred by the head office, e.g. for general management and administrative expenses or the cost of specific services provided to the permanent establishment, may be deducted in computing the taxable profits of the permanent establishment.

HEDGING TRANSACTION -- Transaction where a person tries to protect himself against price, interest rate or foreign exchange rate fluctuations, for example, by buying or selling commodities or currencies using derivative contracts such as forwards, futures, options and swaps.

HIDDEN RESERVES -- Reserves which are not disclosed on the balance sheet of an enterprise, either by overvaluing debts or undervaluing assets.

HIDDEN TAX -- Indirect tax paid by the consumer without his knowledge.

HISTORICAL COST -- Amount expended in obtaining an asset at the time of acquisition, i.e. the purchase price and associated costs.

HOLDING -- A decision of a court

HOLDING COMPANY -- Company whose main purpose is to hold substantial shares of other companies.

HOLDING PERIOD -- The length of time that an investment is owned or expected to be owned.

HOMESTEAD -- A house and surrounding land owned and used as a dwelling.

HORIZONTAL EQUITY -- Doctrine which holds that similarly situated taxpayers should receive similar tax treatment, e.g. taxpayers who earn the same amount of income or capital should be accorded equal treatment.

HOUSE WAYS AND MEANS COMMITTEE -- The committee of the US House of Representatives that introduces most tax provisions.

HUT TAX -- Type of poll tax levied on inhabited dwellings or huts generally at an early stage in the development of an economy when it is not feasible to introduce an income tax.

HYBRID ACCOUNTING METHODS -- Term which refers to the situation where a taxpayer used a combination of accounting methods (such as accruals basis accounting or cash basis accounting)

for different items of income.

HYBRID DERIVATIVE -- Financial instrument which has the characteristic of more than one type of instrument, i.e. a swap plus an option.

HYBRID ENTITY -- Entity that is characterized differently in two or more jurisdictions, for example, an entity that is treated as a partnership in one jurisdiction and as a corporation in another.

HYBRID INSTRUMENT -- See: Hybrid derivative

-I-

IMF -- See: International Monetary Fund

IMMOVABLE PROPERTY -- Also known as real property, immovable property comprises land, houses and buildings.

IMPORT DUTY -- See: Duty

IMPOST -- The term "impost" means tax and refers particularly to a duty on imported goods and to clarification (by customs) of (imported) goods in order to assess the proper (import) taxes.

IMPUTATION SYSTEM -- System under which at least part of the tax paid by a company on its profits is credited against the tax liability of shareholders in receipt of distributions paid by the company out of those profits.

IMPUTED INCOME -- The economic benefit a taxpayer obtains through performance of self-provided services or through the use of self-owned property.

IMPUTED INTEREST -- Implied interest. In a mortgage that states an insufficient interest rate, tax law will impute a higher rate and a lower principal, which will increase taxes on the receipt of payment.

INBOUND TRANSACTION -- Term which refers to the tax treatment of foreigners doing business and investment in other countries.

INCENTIVE STOCK OPTION (ISO) -- An equity-type compensation plan under which qualifying stock options are free of tax at the date of grant and the date of exercise but are taxed when sold. US system.

INCIDENCE OF TAX -- The person who bears the tax burden in economic sense, which could be different from the person paying the tax.

INCOME PROPERTY -- Often, real estate that is bought for the income it produces.

INCOME SHIFTING -- Income splitting

INCOME SPLITTING -- A number of arrangements, the essential feature of which is that income, which would have been taxed at a higher rate in the hands of the person who derived it, is taxed in the hands of another person at a lower rate.

INCOME STATEMENT -- Statement showing the results of a business operation for a particular period of time. The statement will show the business's revenues and expenses.

INCOME SUBJECT TO TAX -- All sources of income liable to tax without taking account of tax allowances.

INCOME TAX CREDIT -- See: Credit, tax

INCORPORATION -- The process by which a company receives a government charter allowing it to operate as a corporation.

INDEMNIFICATION -- Amount of money received by persons or entities as compensation for damages or for losses incurred.

INDEPENDENT AGENT -- See: Agency

INDEPENDENT CONTRACTOR -- A contractor who is self-employed.

INDEPENDENT ENTERPRISES -- Two enterprises are independent enterprises with respect to each other if they are not associated enterprises with respect to each other.

INDEPENDENT PERSONAL SERVICES -- Services performed by an independent contractor. An independent contractor is hired to do work according to his own methods and is not subject to the control of an employer except as to the result of his work. With the removal of Article 14 from the OECD Model, this issue is now dealt with by Article 7 as business profits in most cases.

INDEX-LINKED ADJUSTMENT -- Expedient adopted in many commercial transactions to provide a workable solution to some of the problems created by inflation and monetary depreciation. The mechanism is essentially one of adjusting payments, profits, gains, taxable income brackets, tax allowances, etc. by discounting or otherwise modifying them by reference to an accepted index of inflation or other indices.

INDEXATION -- See: Index-linked adjustment

INDIRECT-CHARGE METHOD -- A method of charging for intra-group services based upon cost allocation and apportionment methods.

INDIRECT COST -- Costs that cannot be identified in relation to a particular activity but that, nevertheless, are related to the direct costs (e.g. overhead expenses, costs of supporting departments, and a proper share of research and development (R&D) costs).

INDIRECT TAX -- Tax imposed on certain transactions, goods or events. Examples include VAT, sales tax, excise duties, stamp duty, services tax, registration duty and transaction tax

INDIRECT TAX CREDIT -- See: Credit, underlying (indirect) tax

INFORMATION RETURN -- Declaration made by a person who has economic information about a potential taxpayer, regardless of whether that person is liable for withholding tax.

INHERITANCE -- Real property or personal property that is received by heirs.

IN KIND -- Broadly speaking, a distribution or payment other than in money.

INPUT TAX -- Term used in connection with VAT to denote the tax embodied in purchases made by a trader or entrepreneur who will usually be able to obtain a credit for the tax that his suppliers have paid on the goods supplied to him which form his "inputs".

INSOLVENCY -- Inability to pay debts when due

INSTALMENT SALE -- Sale for which the consideration is received by way of more than one payment or instalment.

INSTRUMENT -- A legal document that records an act or agreement and provides the evidence of that act or agreement. Instruments include contracts, notes, and leases (e.g. a debt instrument).

INSURANCE PREMIUMS -- The amount paid to an insurance company to cover potential hazards.

INSURANCE SETTLEMENT -- Receipt of proceeds of an insurance policy.

INTANGIBLE PROPERTY -- Property which has no physical existence but which has a value based on a legal right of the owner, e.g. goodwill, patent, trade mark, copyright, software, inventions, designs, i.e. all manner of intellectual property. Intangible property is usually transferred by way of a licensing agreement, and payments for the intangible are made in the form of royalties.

INTEGRATION, FULL -- System which provides for retained as well as distributed profits to be included within the framework of an imputation system. All corporate-source income, whether retained or distributed, is taxed at the appropriate marginal rate in the hands of ultimate shareholders.

INTELLECTUAL PROPERTY -- Literary, dramatic, musical, artistic and scientific works are intellectual property which is protected by copyright, patent, registered design, trade mark, etc.

INTENTIONAL SET-OFF -- A benefit provided by one associated enterprise to another associated enterprise within the group that is deliberately balanced to some degree by different benefits received from that enterprise in return.

INTER ALIA -- Latin for "among other things"

INTERCOMPANY PRICING -- See: "Transfer pricing"

INTERCOMPANY TRANSACTIONS -- Transactions between members of an affiliated group filing a consolidated return; gain or loss is deferred until a property is disposed of outside the group.

INTERCORPORATE DIVIDENDS -- Dividends distributed between two companies (domestic or foreign) arising from a shareholding or participation in the capital of the paying company.

INTERMEDIARY COMPANY -- See: Conduit company

INTERNAL MARKET -- In the context of the European Union, an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured.

INTERNAL REVENUE BULLETIN (IRB) -- A weekly publication summarizing various IRS administrative rulings.

INTERNAL REVENUE CODE (IRC) -- Legislation passed by US Congress that specifies what income is to be taxed, how it is to be taxed, and what may be deducted from taxable income.

INTERNAL REVENUE MANUAL (IRM) -- An official compilation of policies, procedures, instructions, and guidelines for the organization, functions, operation, and administration of the Internal Revenue Service. The IRM guidelines do not confer any rights on taxpayers.

INTERNAL REVENUE SERVICE (IRS) -- The agency of the US federal government that is responsible for the administration and collection of federal taxes.

INTERNATIONAL DOUBLE TAXATION -- See: Double taxation, domestic and international

INTERNATIONAL MONETARY FUND (IMF) -- An international organization established in 1945, headquartered in Washington, DC. The purposes of the IMF are, inter alia, to promote international monetary cooperation, facilitate the expansion and balance growth of international trade and promote stability in foreign exchange.

INTERNATIONAL TAXATION -- Traditionally, international taxation refers to treaty provisions relieving international double taxation. In broader terms, it includes domestic legislation covering foreign income of residents (worldwide income) and domestic income of non-residents.

INTRA GROUP SERVICES -- Services provided by a group company to another affiliated company. The cost of general services such as management, administrative and similar services may be often allocated among the various members of the group without any profit mark-up, whereas services performed in the ordinary course of business are subject to arm's length conditions.

INVESTMENT -- The purchase of stocks, bonds, mutual fund shares, real property, an annuity, collectibles, or other assets, with the expectation of obtaining income or capital gains-or both-in the future.

INVESTMENT ALLOWANCE -- Allowance with respect to a qualifying depreciable asset. It adds a certain percentage of the asset's initial cost to the full depreciation write-off and is usually given in the year of acquisition or as soon as possible thereafter.

INVESTMENT COMPANY -- Corporation whose activities consist exclusively or substantially of making investments (i.e. holding property and collection of income therefrom) and whose buying and selling of shares, securities, real estates or other investment property is only incidental to this purpose.

INVESTMENT DEDUCTION -- See: Investment allowance

INVESTMENT GOODS -- See: Fixed assets

INVESTMENT INCENTIVES -- Financial and tax incentives used to attract local or foreign investment capital to certain activities or particular areas in a country.

INVESTMENT INCOME -- Income derived from the investment of capital, whether money or other property, in income-producing assets or in a profit-making venture without active participation in the production of the income or in the affairs of the venture.

INVESTMENT METHOD -- Method used in connection with VAT where an immediate credit is granted against tax for that part of expenditure incurred during the year for acquisition of business assets (such as plant and machinery by a manufacturer) which related to the tax element in the price of such assets.

INVESTMENT RESERVE -- This system permits eligible taxpayers to set aside part of their profits as a reserve for future investment and deduct from their income the amount of the annual contribution to the reserve.

INVOICE BASIS -- Method of applying VAT to the price at which the goods or service are invoiced, with a deduction for the tax (if any) charged at previous stages.

INVOICE COMPANY -- Term used in the context of transfer pricing to refer to a company established in a low-tax or no-tax jurisdiction for the purpose of shifting profits to that jurisdiction.

IRB -- See: Internal revenue bulletin

IRC -- See: Internal revenue code

IRM -- See: Internal revenue manual

IRS -- See: Internal revenue service

ISSUED SHARE CAPITAL -- Shares that have been sold to shareholders by the corporation

ITEMIZED DEDUCTIONS -- In the US a deduction as specifically set forth in the Internal Revenue Code. The deductions in this part are individually listed, item by item.

-J-

JEOPARDY ASSESSMENT -- Tax assessment made where there is some danger of tax being lost.

JOINT RETURN -- A single return made jointly by husband and wife.

JOINT-STOCK COMPANY -- Company with legal personality and whose capital is divided into shares. The shareholders are generally liable only to the extent of the nominal value of their shares.

JOINT VENTURE -- Term which is loosely used to describe a relationship between parties carrying on an undertaking in common for their individual or common gain. This can be either an incorporated venture or an unincorporated venture.

JUNK BOND -- Bonds and debentures issued by companies that have a low credit evaluation (i.e. below investment grade) from a rating agency such as Standard & Poor's or Moody's

JURIDICAL DOUBLE TAXATION -- See: Double taxation, economic and juridical

JURISDICTION -- The power, right, or authority to interpret and apply tax laws or decisions.

-K-

KIDDIE TAX -- Term used to describe tax levied in the US on the unearned income of a child under 14. The income is taxed at the parent's highest rate of tax.

KNOW-HOW -- All undivulged technical information, whether or not capable of being patented, that is necessary for the industrial reproduction of a product or process, i.e. knowing how a product is made or how a particular process works. Payments for know-how may be taxed as royalties in many cases. The distinction from contracts for the provision of services is addressed in the OECD Commentary to Article 12.

-L-

LANDED COST -- Term used in relation to the importation of goods which means the sum total of the cost of the goods concerned, the amount of customs duties levied on those goods and the expense incurred in unloading them.

LAST IN, FIRST OUT -- See: LIFO

LEASE -- In general, a lease is a contract in respect of real or personal property, under which the owner of the property grants to another the right to possess, use and enjoy the property for a specified period of time in exchange for periodic payments.

LEASEBACK -- See: Sale and leaseback

LEGAL ENTITY -- Generally, corporations, joint-stock companies and limited liability companies are regarded for tax purposes as having an existence separate from that of their shareholders. Conversely, for tax purposes a partnership is often not regarded as a separate legal entity, its profits being taxed in the hands of the individual partners. What constitutes a legal entity for tax purposes may or may not coincide with what constitutes a legal entity for general law purposes.

LEGAL RESERVE -- Under the civil law of some countries corporations are required to maintain a legal reserve for all needs which may arise in the course of the business. Tax law does not allow a deduction for such a reserve.

LETTER-BOX COMPANY -- A paper company, shell company or money box company, i.e. a company which has complied only with the bare essentials for organization and registration in a particular country. The actual commercial activities are carried out in another country.

LETTER RULING -- See: Advance ruling

LEVEL PLAYING FIELD -- This term denotes to reduce, by means of tax policy, the differences in the taxation of internationally mobile entities or transactions allowing countries to compete fairly on non-tax factors.

LEVERAGING -- See: Gearing

LIBOR -- The London inter-bank offering rate is the rate at which London money banks lend to each other.

LICENSE DUTIES (OR FEE) -- Annual duties payable for the privilege of carrying on a certain trade.

LICENSING -- Licensing is an agreement by which a licensor transfers the right to use his technology and/or know-how to a licensee for the production or manufacturing of a product in the licensee's country. Royalties are generally paid for the right to use the technology or know-how.

LIEN -- A charge against property, making it security for the payment of a debt, judgment, mortgage, or taxes.

LIFE INTEREST -- Assets may be given to a person for his lifetime use or benefit, with the stipulation that after his (the life tenant's) life, the asset will pass to another beneficiary.

LIFE TENANCY -- Under common law an interest in possession whereby the individual beneficiary is entitled to the income of a trust or settlement until his death.

LIFO -- Method ("last in, first out") of valuing inventory or stock-in-trade whereby the goods or materials purchased last are regarded as those which are sold first.

LIMITATION ON BENEFITS PROVISION -- Tax treaty provisions designed to restrict treaty-shopping opportunities by limiting treaty benefits to persons who meet one of several enumerated tests, which may require minimum level qualifications, e.g. local ownership.

LIMITATIONS, STATUTE OF -- See: Statute of limitations

LIMITED LIABILITY -- Liability of investor which is limited to the extent of his investment

LIMITED LIABILITY COMPANY (LLC) -- Business form that combines the flexibility and tax advantages of a partnership with the limited liability features of a joint-stock company. An LLC may be taxed as a partnership or a corporation depending on the nature of the status under which it is organized.

LIMITED (SPECIAL) PARTNER -- See: Limited partnership

LIMITED PARTNERSHIP -- Business entity made up of two types of partners: general partners and limited partners, the extent of whose liability depends on their role and contribution to partners. A general partner is involved in the management and day-to-day operation of the partnership and is jointly and severally liable for all obligations of the partnership. A limited partner only makes a financial contribution to the partnership and shares in the profits; he is liable for partnership obligations only to the extent of his investment. Limited partners are usually restricted from taking an active part in the management of the business of the partnership or from allowing their name to be used in the conduct of the business.

LINK STRUCTURE -- Structure operating as a result of the different rules in various countries for determining the place of residence; it is a means used by dual resident companies to obtain tax relief in two countries.

LIQUIDATION -- A company in liquidation is a company in the process of being dissolved or wound up, and its assets, if any, after payment of its debts, distributed to the shareholders.

LISTED COMPANY -- Company whose shares are traded on a recognized stock exchange.

LISTED SECURITIES -- See: Quoted securities

LLC -- See: Limited liability company

LOAN CAPITAL -- See: Debt capital

LOCAL TAX -- In countries where there is a central or federal government and separate levels of government at state, provincial, county or city levels, taxes levied at the lower levels of government are commonly referred to as "local" taxes.

LOCATION OF ASSETS -- The location of an asset is relevant to the determination of whether it is within a taxing authority's jurisdiction. Location of immovable property in a country means, in most countries, that the country taxes the income derived therefrom and possibly the value and capital gains realized on alienation, even if the owner is not a resident of that country.

LOCATION SAVINGS -- Term used in the context of transfer pricing to refer to the savings or benefits such as cheaper production or service costs obtained by siting particular manufacturing operations in an offshore jurisdiction.

LONG-TERM CAPITAL GAINS -- In countries where capital gains are subject to special tax treatment, a distinction may be made between capital gains realized after a short period of time and capital gains realized after a longer period of time. Long-term capital gains may be taxed at reduced rates.

LOOKING THROUGH -- Term typically used when disregarding the separate legal identity, for example, a company, in order to charge tax on a shareholder in respect of his share of the company profits.

LOOPHOLE -- Opportunities available in tax law to minimize a taxpayer's tax burdens.

LOSSES -- The term may broadly be defined as the excess of expenses over revenues for a period, or the excess of the cost of assets over the proceeds when the assets are sold or otherwise disposed of, or abandoned or destroyed.

LOSS RELIEF -- Most income tax laws provide some form of relief for losses incurred, either by carrying over the loss to offset it against profits in previous years (carry-back) or in future years (carry-forward) or by setting off the loss against other income of the same taxpayer in the year in which the loss was incurred.

LOTTERY TAX -- Tax on the sale of lots or on the receipt of prizes after the drawing of lots.

LUMP-SUM DEDUCTIONS -- Deduction, often from income, for the computation of taxable income, which does not reflect the factual situation.

LUMP-SUM EXEMPT AMOUNTS -- Fixed sum of income, net worth, etc., below which no tax is due.

LUMP-SUM RATES -- In specific cases, income tax (and other taxes) may be levied at a fixed rate instead of the rates usually applicable.

LUMP-SUM TAXATION -- The tax laws of some countries allow the tax authorities to levy a fixed amount of taxes on income in certain circumstances which deviates from the normal method of applying a rate to income to ascertain taxes payable.

LUXURY TAXES -- Indirect ad valorem tax imposed on supplies of specific non-essential and normally expensive commodities that are arbitrarily considered (e.g. toiletries, cosmetics, jewellery, pearls and precious stones and metals, etc.)

-M-

MAINTENANCE EXPENSES -- 1. Expenses incurred by a taxpayer to provide for his family, former spouse or other relatives. 2. Expenses for the upkeep or preservation of a building or equipment.

MALPRACTICE -- Improper or immoral conduct of a professional in the performance of his duties, done either intentionally or through carelessness or ignorance; commonly applied to accountants, tax preparers, and lawyers to denote negligent or unskilful performance of duties where

professional skills are obligatory.

MANAGEMENT, PLACE OF -- See: Place of management

MANAGEMENT, PLACE OF EFFECTIVE -- See: Place of effective management

MANAGEMENT EXPENSES -- Generally the expenses of management are deductible in arriving at the taxable profits of an enterprise carrying on a trade. In the case of a group of companies it may be important to decide how far the general expenses of management of the group should be charged out to and recovered from the members of the group.

MANAGEMENT FEE -- Broadly, a fee or charge imposed for management and/or administrative services of a parent company or head office.

MANAGEMENT SERVICE -- See: Intra-group services

MAP -- See: Mutual agreement procedure

MAP APA -- See: BAPA

MARGINAL RATE OF TAX -- Tax rate applicable to the top slice or bracket of a taxpayer's income or other taxable income, where the relevant tax on such items is levied at progressive rates.

MARKETABLE SECURITIES -- See: Quoted securities

MARKETING INTANGIBLE -- An intangible that is concerned with marketing activities, which aids in the commercial exploitation of a product or service and/or has an important promotional value for the product concerned.

MARK TO MARKET -- Tax and/or accounting convention under which the value of assets/liabilities is adjusted to reflect fair market value of a specific date.

MARK-UP -- An increase in the price of something, especially from the price a trader pays for something to the price he sells it for. In the context of transfer pricing, one method to estimate an arm's length price for transactions between affiliated companies is to increase the supplier's cost by an appropriate profit mark-up (Cost-plus method).

MEMORANDUM OF UNDERSTANDING (MOU) -- In the context of a tax treaty, a document exchanged between the treaty partners which sets out the understanding of the parties regarding the convention. Usually this does not have treaty status, but the status depends on the document itself.

MERGER -- Term generally used to describe a number of operations involving the reorganization of companies.

MINERAL ROYALTIES -- Regular payments, usually based on the volume or price of minerals extracted, made by mining enterprises to national states or other owners of mineral resources as

consideration for the right to exploit particular mineral resources.

MINIMUM TAX -- In certain countries corporations are always liable to a certain amount of annual tax, regardless of whether they have realized a profit.

MINISTRY OF FINANCE (MOF) -- Department of government generally responsible for formulating monetary policy, implementing the tax laws, collecting revenue, etc.

MIXER COMPANY -- Term used to designate an intermediate holding company the purpose of which is to "mix" income from various foreign sources in order to maximize the benefit of foreign tax credits. The mixer company receives income both from countries with a higher tax rate than that of the destination country and from countries with a lower tax rate, which it then pays out as a dividend. This structure has the effect of averaging out the rate of foreign tax paid.

MNC -- Abbreviation for multinational corporation

MNE -- Abbreviation for multinational enterprises

MODEL TAX CONVENTIONS (TREATIES) -- A model tax treaty is designed to streamline and achieve uniformity in the allocation of taxing right between countries in cross-border situations. Model tax treaties developed by OECD and UN are widely used and a number of countries have their own model treaties.

MORTGAGE -- A written instrument that creates a lien upon real estate as security for the payment of a specified debt.

MORTGAGE TAX -- Tax on mortgages usually in the form of a stamp duty levied on the mortgage document.

MOTIVE TEST -- Test often found in tax rules which are designed to prevent tax avoidance. For example, the rules may provide that certain consequences will follow if the sole, main or principal purpose of certain transaction is the reduction of tax.

MOU -- See: Memorandum of Understanding

MULTINATIONAL ENTERPRISES (MNE) -- Company or group of companies with business establishments in two or more countries.

MULTIPLE CAPTIVES -- Company which has more than one captive insurance company.

MULTI-STAGE TAX SYSTEM -- Indirect tax charged on the same goods at successive stages of production and distribution.

MUTUAL AGREEMENT PROCEDURE (MAP) -- A means through which tax administrations consult to resolve disputes regarding the application of double tax conventions. This procedure, described and authorized by Article 25 of the OECD Model Tax Convention, can be used to eliminate double taxation that could arise from a transfer pricing adjustment.

MUTUAL ASSISTANCE -- "Mutual assistance" in the context of tax treaties is that one of the contracting states will collect taxes due to the other contracting state. See optional Article 27 of the OECD Model.

MUTUAL FUND -- A type of regulated investment company that raises money from shareholders and invests it in stocks, bonds, options, commodities, or money market securities. Or portfolio of securities held by an investment company on behalf of investors.

-N-

NATIONALITY PRINCIPLE -- The nationality of a taxpayer may affect the manner in which he is taxed and the nature of his tax burden, but comprehensive income tax treaties commonly provide that foreign taxpayers should not suffer discriminatory taxation by reason of their nationality.

NEGATIVE INCOME TAX -- A proposed system of providing financial aid to poverty-level individuals and families, using the mechanisms already in place to collect income taxes. Low-income person or family would receive a direct subsidy, called a negative income tax.

NEGLIGENCE -- A lack of due care or failure to do what a reasonable and ordinarily prudent person would do under the given circumstances.

NET INCOME -- Net income is gross income less deductible income-related expenses. Many countries levy income tax on this basis.

NET OPERATING LOSS -- Amounts by which business expenses exceed income in a tax year. A trader's operating losses constitute broadly the excess of his operating expenditure over receipts from his operations.

NET PROFIT -- Difference between receipts from business transactions and deductible business expenses, subject to any adjustments for tax purposes.

NET PROFIT MARGIN -- Ratio of operating profits to gross income (or revenue)

NET WEALTH TAX -- See: Net worth tax

NET WORKING CAPITAL -- Current assets less current liabilities.

NET WORTH TAX -- Many European countries impose the net worth tax in the context of property taxation. The taxable base for resident taxpayers is normally the taxpayer's worldwide net worth, i.e. total assets less liabilities along with deductions and exemptions specially allowed by tax laws.

NEXUS Link. -- Often a requirement in tax law for determination of taxability or deductibility. For example, expenses are deductible if they have a "nexus" with gross income. In US, the taxable income of a multistate corporation may be apportioned to a specific state only if the corporation has a sufficient nexus in the state.

NOMINAL CAPITAL -- Amount of capital that is defined as such in the articles of incorporation. Usually, a certain minimum amount of nominal capital is required to establish a legal entity.

NOMINAL VALUE -- See: Par value

NOMINATIVE SECURITIES -- See: Registered securities

NON-DISCRIMINATION -- Tax treaties frequently contain a "non-discrimination" article which stipulates that citizens or nationals of one country resident in the other country may not be subjected to local taxation which is different from or more burdensome than the tax to which citizens and nationals of the host country are subjected under the same circumstances (including as to residency).

NON-QUALIFIED STOCK OPTION -- A stock option that does not meet the incentive stock option requirement under US tax law. The spread is taxed as ordinary income.

NON-RECOURSE DEBT -- A debt for which an individual has no personal liability. For example, a lender may take the property pledged as collateral to satisfy a debt, but has no recourse to other assets of the borrower.

NON-RESIDENT -- Broadly speaking, a person who spends most of the calendar year outside his country of domicile. Non-residents are usually taxed on income derived from sources within the taxing jurisdiction whereas residents may be taxed on worldwide income.

NON-RESIDENT ALIEN -- A non-resident individual who is not a citizen or national of the taxing jurisdiction.

NOTICE OF ASSESSMENT -- The written decision of the tax authorities after a review of a taxpayer's return, whereby the amount of taxable income is determined and the amount of tax due is calculated.

NOTICE OF DEFICIENCY -- See: Deficiency

-O-

OECD -- The OECD (Organization for Economic Co-operation and Development) is a multilateral organization comprised of 30 countries, which are mostly Western European countries and other industrialized countries including US and Japan. Founded in 1961, the OECD provides a forum for representatives of countries to discuss and attempt to coordinate economic and social policies. It has an especially significant role in international tax matters. Its website is www.oecd.org.

OECD MODEL TAX TREATY -- See: Model tax treaty

OFFENCE, TAX -- Tax offences may be specified in the tax laws covering matters such as late filing, late payment, failure to declare taxable income or transactions, and negligent or fraudulent

misstatements in tax declarations.

OFFICE -- For purpose of the application of a tax treaty, the office of an enterprise normally forms a permanent establishment if the business of that enterprise is wholly or partly carried on through that office.

OFFICE AUDIT -- An examination at a tax authority's office, generally of an uncomplicated tax matter.

OFFSHORE BANK -- Offshore banking business basically consists of borrowing in foreign currencies for non-resident depositors outside the country and relending the foreign currencies to other non-residents. A number of countries have special regime for the taxation of offshore banks.

OFFSHORE COMPANY -- Term usually applied to a company registered in a country (often a tax haven) other than the country or countries in which it carries on its business activities. An offshore (or non-resident owned) company is commonly used for captive insurance, marketing abroad, international shipping and tax shelter schemes.

OID -- See: Original issue discount

OMBUDSMAN -- A member of the US IRS Commissioner's immediate staff who directs the IRS's Problem Resolution Program

"ON CALL" SERVICES -- Services provided by a parent company or a group service centre, which are available at any time for members of an MNE group.

ONE HUNDRED AND EIGHTY-THREE (183) DAYS' RULE -- Presence in a country for 183 days or more in any 12-month period may have tax consequences, particularly in respect of an individual's residence for tax purposes or for the taxation of employment income (although other tests must also be met).

ONSHORE COMPANY -- Term sometimes used to denote the converse of offshore company.

ONUS OF PROOF -- The burden and responsibility of proving an assertion. Widely adopted principle in tax law, for example, where the taxpayer has the basic responsibility of declaring his taxable income or transactions.

OPERATING LEASE -- Lease where the lessor is regarded as the owner of the leased asset for tax purposes. Cf. Finance Lease

OPTION -- Derivative financial instrument consisting of a firm agreement granting one party the right but not the obligation to buy or sell commodities, securities or currencies at a specified future date at a specified price.

OPTION TO BE TAXED -- In the VAT context, a VAT exempt entrepreneur sometimes can claim to be subject to VAT, the advantage being that to be entitled to his input tax against his output tax.

ORDINARY SHARES -- Ordinary shares (also known as common stock) are generally shares with an equal par value and bear equal rights and obligations such as the right to participate in the management of the company by voting at the shareholders' meeting and the right to receive dividends. The rights of ordinary shareholders to receive dividends are generally subordinate to the rights of bond holders and preference shareholders.

ORIGINAL ISSUE DISCOUNT (OID) -- A discount from par value at the time a bond is issued. The most extreme version of an OID is a zero-coupon bond, which is originally sold far below par value and pays no interest until it matures.

ORIGIN PRINCIPLE -- Principle under a VAT regime where goods are taxed in the country where they are produced, i.e. they are taxed on the basis of their place of production or origin.

OTHER INCOME -- Income not otherwise mentioned in a tax treaty is frequently dealt with in a separate article, entitled "other income".

OUTBOUND TRANSACTION -- Term which refers to the tax treatment of a country's residents (and perhaps citizens) doing business and investing abroad.

OUTPUT TAX -- Term used in connection with VAT to denote the tax payable on the sales of goods or services by those who are subject to the tax and in contrast to the input tax for which a credit will be available.

OVERHEAD EXPENSES -- The general expenses of a business as opposed to the direct cost of producing a good or service. "Overhead costs" is a term which may, in tax matters, also be used for costs incurred by the head office of a concern for the benefit of branches or subsidiaries.

OVERSEAS -- In the United Kingdom the term "overseas" is generally used instead of "foreign" because "foreign" cannot be applied to commonwealth countries or to territories which are British possessions, such as the British Virgin Islands, the Isle of Man and the Channel Islands.

-P-

PAID-IN CAPITAL -- The capital received by a corporation from investors for stock, as distinguished from capital generated by earnings or donated.

PAPER COMPANY -- See: Letter-box company

PARENT COMPANY -- Company with a substantial participation in the share capital of another company, called the subsidiary.

PARTICIPATION EXEMPTION -- See: Affiliation privilege

PARTNER -- A member of partnership

PARTNERSHIP -- Association of two or more person (individuals or companies) formed for the purpose of making a profit. A partnership can be a general partnership or a limited partnership

depending on the extent of each party's liability. A general partnership is characterized by the unlimited liability of the general partners for partnership debts. Also see: Limited partnership. Some countries treat a partnership as a separate taxpayer and may subject it to tax on its income and losses as a corporation. Other countries do not consider a partnership to be a separate legal entity and the partnership is treated as tax transparent, with each individual partner being taxed on his share of the profits according to his interest in the partnership. Taxation of partnerships is addressed in the Commentary to Article 1 of the OECD Model.

PAR VALUE -- Assigned value printed on a share certificate. Face value.

PASSIVE INCOME -- Income in respect of which, broadly speaking, the recipient does not participate in the business activity giving rise to the income, e.g. dividends, interest, rental income, royalties, etc.

PASS-THROUGH ENTITY -- A nontaxable entity such as a partnership. Generally, the income or expense is passed to the underlying owner.

PATENT -- Form of intellectual property. The inventor of a new article or process usually registers his invention with a government department which confers on him the sole right (known as a patent right) to use the invention for a limited period of time.

PATRON -- A person who does business with a cooperative, but is not necessarily a member.

PATRONAGE DIVIDEND -- A payment to a patron of a cooperative.

PAYROLL TAX -- Tax charged on an employer's payroll (i.e. gross salaries, wages and other remunerations) paid to his employee without regard to their domicile, family status or other individual circumstances.

PE -- See: Permanent establishment

PENALTIES -- Administrative penalties are imposed for tax offences, such as failure to make a timely return or payment, negligence, and making a false return or statement. They take the form of additions to the tax and are assessed as part of the tax. Criminal penalties, on the other hand, are enforceable only by prosecution. A prison sentence may be imposed for serious tax fraud.

PER CAPITA -- Latin for "for each person"

PER DIEM -- Latin for "by the day"; referring to daily allowance, usually for travel, entertainment, employee compensation, or miscellaneous out-of-pocket expenses incurred while conducting a business transaction.

PERMANENT ESTABLISHMENT (PE) -- Term used in double taxation agreement (although it may also be used in national tax legislation) to refer to a situation where a non-resident entrepreneur is taxable in a country; that is, an enterprise in one country will not be liable to the income tax of the other country unless it has a "permanent establishment" thorough which it conducts business in that other country. Even if it has a PE, the income to be taxed will only be to the extent that it is

'attributable' to the PE.

PERSONAL ALLOWANCES -- Personal allowances are granted to individuals as deductions from income in computing their taxable income. There is usually a deduction for the individual himself, spouse, children and other dependents.

PERSONAL HOLDING COMPANY -- Company, the shares of which are principally owned by or attributed to the taxpayer, and which is set up to receive his investment income.

PERSONAL PROPERTY -- Things movable, as distinguished from real property or things attached to the realty; also called "personalty".

PERSONAL SERVICE CORPORATION -- A corporation the principal activity of which is the performance of personal services; for example, a management consulting company which sends its personnel to prepare a report on a client company.

PETITION -- A written application addressed to a court or judge, and stating facts and circumstances relied upon as a cause for judicial action.

PHANTOM STOCK PLAN -- A deferred-compensation plan that uses the employer's stock in the business as a measuring rod for determining the value of the compensation payment. Hypothetical shares of stock are allocated to the employee, and accrued appreciation and/or dividends to the hypothetical shares are paid in cash to the employee.

PIERCING THE CORPORATE VEIL -- The process of imposing liability for corporate activity, in disregard of the corporate entity, on a person or entity other than the offending corporation itself; a US legal doctrine.

PLACE OF EFFECTIVE MANAGEMENT -- Place of effective management is the test suggested in the tie-breaker rule of the OECD model tax treaty to determine the residence of a company where under the domestic laws of both contracting states the company is resident in both of them. The test determines that in such cases the company would, for treaty purposes, be resident in the state in which its place of effective management is situated.

PLACE OF MANAGEMENT -- For purposes of the application of a tax treaty, the place of management of an enterprise normally forms a permanent establishment. The term "place of management" as such is not defined in the OECD model tax treaty, but may be defined in national tax law.

POOL BASIS -- Collective basis for the purpose of depreciation of business assets falling within the same category. For example, all depreciable assets of a similar kind are effectively treated as a single asset for depreciation purposes.

PORTFOLIO INTEREST -- Category of interest that may be paid from US sources free of withholding tax provided certain requirements are met. The portfolio interest exemption does not apply to bank loans made in the ordinary course of business.

PORTFOLIO INVESTMENT -- A portfolio investment in a company would be a holding of shares amounting to a small portion of the total shares of the company, e.g. less than 10%. Portfolio investors may receive different tax relief or other treatment in respect of their dividends under tax treaties from those accorded to other direct investors.

POSSESSIONS OF U.S. -- In general, any US island, cay or reef that is not part of any of the 50 states. For tax purposes, possessions include Puerto Rico, the Virgin Islands, the Marshall Islands, the Federated States of Micronesia, American Samoa, Guam, the Canal Zone, Mariana Islands, Johnson Island, and Wake Island.

POWER OF ATTORNEY -- Instrument in writing by which one person, as principal, appoints another as his agent and confers upon him the authority to perform certain specified acts or kinds of acts on behalf of the principal.

PRECEDENT -- The doctrine of precedent in Anglo-American legal system obliges courts to adhere to principles enunciated in previously decided cases when making adjudications in cases involving the same material facts and legal issues.

PREFERENCE SHARES -- Shares which carry a right to a prior and usually fixed dividend, ahead of dividends paid to ordinary shareholders.

PREFERRED STOCK -- See: Preference shares

PREMIUM -- In the context of a derivative financial instrument, a premium is the amount a purchaser pays for an option. In the context of a bond or other debt instrument, it is the amount paid in excess of the face amount.

PREMIUM AT THE ISSUE OF SHARES -- Excess of issue value over par value in issuing corporate shares. It is a contribution to capital and not taxed as profits.

PREPARATORY ACTIVITIES -- See: Auxiliary activities

PRESUMPTIVE TAXATION -- Concept of taxation according to which income tax is based on "average" income instead of actual income.

PRE-TAX PROFITS -- Profit after deducting depreciation, costs, etc., but before deducting taxes.

PRICE INCREASE RESERVE -- Reserve to take account of expected increase in prices of goods, raw materials, etc. which must be replaced in the course of business.

PRIMARY ADJUSTMENT -- An adjustment that a tax administration in a first jurisdiction makes to a company's taxable profits as a result of applying the arm's length principle to transactions involving an associated enterprise in a second tax jurisdiction.

PRINCIPAL AMOUNT -- The face value of an obligation, such as a bond or a loan, which must be repaid at maturity, as separate from the interest.

PRINCIPAL PLACE OF BUSINESS -- The place where a person does business most of time.

PRIVATE RULING -- Ruling granted by the tax authorities to a single taxpayer, usually with respect to a single transaction or series of transactions. Normally the ruling can be relied upon only by the taxpayer to whom it is issued, not by other taxpayers, and is binding upon the tax authority provided all relevant facts have been disclosed.

PRIVILEGED TAX REGIME -- Euphemism for the tax regime of a tax haven.

PRIVILEGE (DIPLOMATIC) -- Under the general rules of international law or under the provisions of special agreements, diplomatic agents and consular officers are in most cases exempt from tax in the state to which they are seconded. Many tax treaties include a clause that the right to tax income arising from outside the state is reserved to the sending state.

PROFESSIONAL SERVICES -- Services independently performed by members of the liberal professions (i.e. physicians, lawyers, accountants, etc.) and other activities of an independent character.

PROFIT -- Broadly, the excess of revenue over expenditure.

PROFIT AND LOSS STATEMENT -- Income statement

PROFIT MARK-UP -- Method to find an arm's length price, by taking the vendor's cost and adding an appropriate profit mark-up.

PROFIT METHOD -- Method used in transfer pricing cases that looks at the profits arising from controlled transactions of one or more of the associated enterprises participating in such transactions.

PROFIT RATIO -- Term used to denote the ratio of profits of an enterprise to its capital or net worth, and sometimes used as a basis for taxation.

PROFIT SHIFTING -- Allocation of income and expenses between related corporations or branches of the same legal entity (e.g. by using transfer pricing) in order to reduce the overall tax liability of the group or corporation.

PROFIT SPLIT METHOD -- Transfer pricing method that allocates the combined operating income or loss from a transaction among the separate parties by determining the relative value of each party's contribution to such overall profits or loss.

PROFITS TAX -- Tax imposed on business profits in addition to ordinary income tax or as distinct from income tax imposed on other forms of income.

PROGRESSION -- The rates of individual income tax are usually progressive, i.e. an increasing proportion of income must be paid in tax as the income increases.

PROPERTY TAX -- Group of taxes imposed on property owned by individuals and businesses based on the assessed value of each property.

PROPRIETORSHIP -- An unincorporated business owned by a single person. The individual proprietor has the right to all the profits from the business and also the responsibility for all its liabilities.

PRO RATA -- Latin for "proportionally"

PRO RATA RULE -- Under most VAT systems, a credit for part of the input tax is allowed for VAT previously paid on goods and services when they are used in taxable and exempt (without credit) transactions and total transactions occurring during a calendar year.

PROTOCOL -- Signed document containing the points on which agreement has been reached by the negotiating parties preliminary to a final treaty. For tax purposes, a protocol is signed and ratified by the parties in addition to an existing tax treaty. The protocol may be signed simultaneously with the tax treaty or later, and it clarifies, implements or modifies treaty provisions.

PROVISIONAL ASSESSMENT -- Assessment of tax made before it is possible to make a final assessment which is often based on, for example, estimated figure or the previous year's figures.

PUBLICLY HELD CORPORATION -- A corporation that has a class of common stock registered on a national stock exchange; a US concept.

PUBLICLY TRADED LIMITED PARTNERSHIP (PTLP) -- Partnership in the US that is listed and traded on an established stock exchange or a secondary market. With some exceptions, PTLPs are taxed in the US as corporations rather than partnerships.

PUT OPTION -- Contract under which the holder of the option has a right but not an obligation to sell securities or commodities, including foreign currencies, for a specified price during a specified period.

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QUARANTINING -- In the context of the foreign tax credit system, this term denotes the separate calculation of the foreign tax payable on all foreign income of a particular category which may be credited against the domestic tax payable on that category of foreign income.

QUOTED SECURITIES -- This term denotes the securities which have been admitted to an official stock exchange and are traded therein through sale, purchase or other disposal.

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RAMSAY CASE -- The Ramsay case (W.I. Ramsay Ltd. v. IRC, Eilbeck (Inspector of Taxes) v. Rawling), decided by the UK House of Lords in 1981, involved complicated tax avoidance scheme which were marketed in the UK in the 1970s. The case established that a series of transactions with the purpose of tax avoidance, which ultimately cancelled each other out, could be ignored for tax purposes.

RATES -- Local tax levied in Ireland and previously the UK. Rates are levied on the occupiers of real property on the basis of the annual rental value of the property.

RATIFICATION -- The formal legislative consent or acceptance required by the constitution or domestic law of a country before a treaty to which it is a party can come into effect.

REALIZATION -- A legal concept referring to a time when rights have become legally receivable or obligations have become legally payable.

REALIZED GAIN/LOSS -- Actual gain/loss realized from the disposal of an asset.

REAL PROPERTY (REAL ESTATE) -- Land and everything more or less attached to it. Also referred to as "Realty".

REBATE -- Term which in certain countries is synonymous with a tax credit.

RECIPROCITY PRINCIPLE The principle of give-and-take operates in a variety of tax contexts (particularly in the case of tax treaties) where an exchange of tax privileges between countries is desired. Reciprocity is a basis for relieving a taxpayer under domestic law, e.g. relief is granted for foreign tax if the other country gives corresponding or equivalent relief.

RECOURSE -- The ability of a lender to claim money from a borrower in default, in addition to the property pledged as collateral.

RECOVERY OF TAX -- From the taxpayer's point of view, this may mean a refund of tax. From the tax authorities' point of view, it may mean the collection of tax which is in arrears.

REDEMPTION -- The acquisition by a corporation of its own stock in exchange for property, without regard to whether the redeemed stock is cancelled, retired, or held as treasury stock.

REDUCED RATES -- In many countries the ordinary rates of tax charged under various tax laws may be reduced in particular situations. For example, under tax treaties, reduced withholding tax rates often apply to dividends, interest and royalties.

REFUND (OF TAX) -- Tax repaid to a taxpayer

REGISTERED SECURITY -- A nominative (or registered) security is a security in respect of which the owner's name is recorded in a register by the issuing company and the registered owner is the person entitled to all relevant rights.

REGISTRATION DUTY -- Fixed or variable duty levied on documents which relate to the transfer of ownership or the right to use movable or immovable property, the formation or any change of

status of a company, etc.

REGULATED INVESTMENT COMPANY (RIC) -- Company, also known as a mutual fund, formed under US law to make diversified investment with funds provided by investors who receive dividends and capital gains realized by RIC.

REIMBURSEMENT -- The payment of an employee or another party for incurred expenses or losses.

REINSURANCE Transfer by a primary insurer to another insurer of all or part of any risk it has accepted in a contract of insurance. A number of countries have adopted special regimes to deal with cross-border reinsurance.

REMUNERATION -- Employment income and fringe benefits received by an employee for services rendered.

REPATRIATION -- Individuals and legal entities investing their capital in a foreign country in order to derive income from such capital may wish to transfer this capital or income back to their home country, i.e. to repatriate it. Repatriation also takes place when expatriate employees working in a foreign country want to send income to their home country.

RESALE PRICE MARGIN -- Gross margin measured by reference to the price at which goods purchased from another party are resold to independent enterprises.

RESALE PRICE METHOD -- Method used in transfer pricing between affiliated companies, under which an arm's length price is ascertained by deducting a normal profit margin from the resale price at which a buyer of inventory assets resells these assets to an unrelated party.

RESEARCH AND DEVELOPMENT (R&D) -- Any systematic or intensive study carried out in the manufacturing and industrial field, the results of which are to be used for the production or improvement of products and processes.

RESERVES -- Funds made to fulfil future costs or expenditures. There are legal reserves which may be required by company law and may be necessary before dividends are distributed.

RESIDENCE -- Residence is a basis for the imposition of taxation. Usually a resident taxpayer is taxed on a wider range of income or other taxable items than a non-resident. Residence in a state is a criteria for invoking a tax treaty of that state, and residence for treaty purposes involves considering the domestic law of residence for tax purposes, and then the requirements in Article 4 of the OECD Model, especially in the case of tiebreaker tests in cases of dual residence.

RESIDENCE PRINCIPLE OF TAXATION -- Principle according to which residents of a country are subject to tax on their worldwide income and non-residents are only subject to tax on domestic-source income.

RESIDENT -- A person who is liable for tax in a country or state because of domicile, residence, place of management, or other similar criterion.

RESIDENT ALIEN -- A person is said to be a resident alien of a country if he resides in that country but is a citizen of another country.

RESIDUAL ANALYSIS -- An analysis used in the profit split method which divides the combined profit from the controlled transactions under examination in two stages. In the first stage, each participant is allocated sufficient profit to provide it with a basic return appropriate for the type of transactions in which it is engaged. Ordinarily this basic return would be determined by reference to the market returns achieved for similar types of transactions by independent enterprises. Thus, the basic return would generally not account for the return that would be generated by any unique and valuable assets possessed by the participants. In the second stage, any residual profit (or loss) remaining after the first stage division would be allocated among the parties based on an analysis of the facts and circumstances that might indicate how this residual would have been divided between independent enterprises.

RESTRICTED STOCK PLAN -- A stock option plan under which the transferred stock option is subject to restrictions regarding transferability and to substantial risk of forfeiture. Restricted stock is includable in the gross income of the employee in the first taxable year in which the rights become transferable or no longer subject to forfeiture.

RETAIL SALES TAX -- Single-stage tax on the sale of goods to ultimate consumers, whether by retailers or other traders.

RETAINED EARNINGS -- The portion of a corporation's after-tax profits that is not distributed to the shareholders, but rather is reinvested in the business.

RETROACTIVE EFFECT -- The effect of tax law provision towards the past, which is allowed only to the advantage of a taxpayer.

RETURN -- Declaration of income, sales and other details made by or on behalf of the taxpayer. Forms are often provided by the tax authorities for this purpose.

RETURN OF CAPITAL -- A distribution that is not paid out of the earnings and profits of a corporation. Rather, it is a return of the shareholder's investment in the stock of the company.

REVENUE NEUTRALITY -- Constraints on tax reform that it should not change revenues available to government in any significant way.

REVENUE PROCEDURE (REV. PROC.) -- An official published statement by the IRS of US about procedural and administration aspects of the tax laws.

RING FENCE -- Theoretical enclosure established by tax legislation around certain profits, losses, transactions or groups of transactions in order to isolate them for tax purposes.

ROLLOVER RELIEF -- Relief by means of which liability to capital gains tax is deferred. The essential feature of roll-over relief is that a gain which would otherwise have arisen on the occurrence of a taxable event for capital gains tax purposes is deferred, or rolled over, until there is a subsequent

disposal of the asset concerned.

ROUND TRIP TRANSACTION -- Potential transfer pricing abuse where intangible property is developed by a parent company which licenses it to a related party manufacturer located in a low-tax jurisdiction. The manufactured goods are resold to the parent for distribution to ultimate consumers.

ROYALTIES -- Payments of any kind received as consideration for the use of, or the right to use intellectual property, such as a copyright, patent, trade mark, design or model, plan, secret formula or process.

RULING -- Decisions or opinions of the tax authorities in respect of actual fact situations which come before it as part of an assessment procedure or in response to taxpayer questions.

-S-

SAFE HARBOUR -- Where tax authorities give general guidelines on the interpretation of tax laws, these may state that transactions falling within a certain range will be accepted by the tax authorities without further questions.

SALE AND LEASEBACK -- In a sale and leaseback transaction, the owner of property will sell it to a buyer who then leases it back to the original owner. This method is sometimes used to release the value of capital assets for use in a business.

SALES TAX -- Tax imposed as a percentage of the price of goods (and sometimes services). The tax is generally paid by the buyer but the seller is responsible for collecting and remitting the tax to the tax authorities.

SALVAGE VALUE -- Value of tangible depreciable property when it is retired from service.

SCHEDULAR TAX SYSTEM -- Tax system in which income from different sources is taxed separately (i.e. under a different "schedule"); thus, separate tax assessments are made on industrial and commercial profits, wages and salaries, income from securities and shares, income from land, etc.

S CORPORATION -- See: Small business corporation

SECONDARY ADJUSTMENT -- An adjustment that arises from imposing tax on a secondary transaction.

SECONDARY TRANSACTION -- A constructive transaction that some countries will assert under their domestic legislation after having proposed a primary adjustment in order to make the actual allocation of profits consistent with the primary adjustment. Secondary transactions may take the form of constructive dividends, constructive equity contributions, or constructive loans.

SECOND-TIER SUBSIDIARY -- A taxable entity controlled by another taxable entity that is in turn controlled by a third entity.

SECRET COMPARABLE -- A term used in the transfer pricing context. It denotes a comparable whose data is not disclosed to the public or the taxpayer but known only to the tax authority which is making the transfer pricing adjustment.

SECTION 482 -- The part of the US income tax code that gives the IRS the power to adjust distribute, apportion, or allocate gross income, deductions, credits, or allowances in order to prevent evasion of taxes or to clearly reflect income (often between controlled taxpayers); in short, US transfer pricing rule provision.

SECTION 482 WHITE PAPER -- Study of intercompany pricing transactions made by the Office of International Tax Counsel at the US Treasury Department which presented a new methodology to govern transactions involving the sale, licensing or transfer of intangible property, published in 1988.

SECURITIES -- Documents providing evidence of a share in the capital of a company (e.g. share certificate), or the indebtedness of some person to the holder (e.g. government or corporate bonds) or similar legal rights.

SELF-ASSESSMENT -- System under which the taxpayer is required to declare the basis of his assessment (e.g. taxable income), to submit a calculation of the tax due and, usually, to accompany his calculation with payment of the amount he regards as due. The role of tax authorities is to check (perhaps in random cases) that the taxpayer has correctly disclosed his income.

SELF-EMPLOYED -- Referring to persons who work for themselves and are not employed by another. The owner-operator of a sole proprietorship or a partner is considered self-employed.

SENATE FINANCE COMMITTEE -- A committee of the US Senate that hears proposed new tax laws.

SEPARATE ASSESSMENT -- See: Separate taxation

SEPARATE TAXATION -- Separate taxation is a method of taxing a married couple on the basis of their joint income. It is mandatory in some countries and optional in others. Upon exercising an option for separate taxation, a husband and wife are treated as separate individuals for the purpose of computing income tax.

SERVICE COMPANY -- Company within a multinational group of companies which generally provides support services, such as administration, sales information, post-sales service or market research, for the operating divisions of the group.

SERVICE FEE -- A fee for the rendering of services is generally regarded as income from business activities or, in the case of a liberal profession, as income from independent personal services.

SEVERANCE PAYMENTS -- Payment made as a result of the termination of any office or employment of a person.

SHAM TRANSACTION -- A transaction without substance, which will be ignored for tax purposes.

SHAREHOLDER ACTIVITY -- An activity which is performed by a member of an MNE group (usually the parent company or a regional holding company) solely because of its ownership interest in one or more other group members, i.e. in its capacity as shareholder.

SHAREHOLDERS' EQUITY -- The total assets minus total liabilities of a corporation, also called stockholders' equity or net worth.

SHARE (STOCK) OPTIONS FOR EMPLOYEES -- Some companies grant directors and employees an option to acquire at a future date shares or stock in the company at a predetermined price. It gives an employee the opportunity to benefit from the future success of the company when the market value of the shares increases over the predetermined option acquisition price.

SHELL COMPANY -- A company set up by fraudulent operators as a front to conceal tax evasion schemes.

SHIFTING OF PROFITS -- See: Profit shifting

SHIFTING AN INCIDENCE OF TAXATION -- Determination of the economic entity that actually ends up paying a particular tax. In the case of indirect taxation tax is normally intended to fall upon consumption and be borne by consumers, so that entrepreneur who pays the tax on his supplies of goods and services in general passes on the tax, or "shifts" it "forward" to the consumer by adjusting his prices appropriately. Such taxes are said to be shifted "backward" in the case that entrepreneurs are forced to absorb some of new or increased tax.

SHORT-TERM CAPITAL GAINS -- Capital gain derived from the disposal of assets which have been held for a comparatively short period of time.

SIMULTANEOUS TAX EXAMINATION -- A simultaneous tax examination, as defined in Part A of the OECD Model Agreement for the Undertaking of Simultaneous Tax Examinations, means an "arrangement between two or more parties to examine simultaneously and independently, each on its own territory, the tax affairs of (a) taxpayer(s) in which they have a common or related interest with a view to exchanging any relevant information which they so obtain".

SINGLE ENTITY APPROACH -- Method of taxing a legal entity that conducts its business through a permanent establishment rather than through a subsidiary company. Under the single entity approach, a head office and a permanent establishment are treated as one taxpayer for tax purposes, even though they may be considered separate entities for purposes of accounting or commercial law.

SINGLE TAXPAYER -- A person who is not married on the last day of the tax year.

SISTER CORPORATION -- See: Brother-sister corporation

SITUS RULE -- Provision of tax law setting out the factors which determine where a particular asset is situated or deemed to be situated for tax purposes.

SIX MONTHS' RULE -- See: One hundred and eighty-three (183) days' rule

SMALL BUSINESS CORPORATION -- Under US tax law, this term refers to a domestic corporation which does not have more than 35 individual shareholders, all of whom are US citizens or residents and which does not have more than one class of stock. Also known as an "S corporation", this form permits income at the corporate level to be taxed only once at the shareholder level.

SMALL BUSINESS RELIEF -- Term used to denote tax concessions which are available only to or principally to small businesses.

SMALL TRADERS, SPECIAL TAX REGIME FOR -- In many countries small traders are subject to a special tax regime, particularly in respect of VAT, in which exemption, lower tax burden or lower administrative burden are granted.

SOAK-UP TAX -- Tax or levy which is conditioned on the availability of a foreign tax credit in another country.

SOCIAL SECURITY CONTRIBUTIONS -- Charges levied on employees, employers or self-employed or on all persons subject to individual income tax to cover the cost of providing future social security payments.

SOLE PROPRIETORSHIP -- Ownership of all of the assets of an unincorporated business by a single individual. The individual owner is personally liable for all debts of the business.

SOURCE OF INCOME -- The place (or country) where a particular item of income is deemed to originate or where it is deemed to be generated. National rules vary, depending on which concept of source is used.

SOURCE PRINCIPLE OF TAXATION -- Principle for the taxation of international income flows according to which a country consider as taxable income those income arising within its jurisdiction regardless of the residence of the taxpayer, i.e. residents and non-residents are taxed on income derived from the country.

SOURCE RULE -- Provision in the national law of a country or in a tax treaty which defined the concept of source for a particular type of income.

SPECULATIVE GAINS -- Gains from the disposal of capital assets which were originally acquired with a view to selling them for more than the cost of acquisition.

SPIN-OFF -- A type of corporate reorganization by which the shares of a new corporation (or the subsidiary company) are distributed to the original shareholders (or the parent's shareholders) without these shareholders surrendering any of their stock in the original (or parent) corporation.

SPLIT-OFF -- A type of corporate reorganization by which the shares of a new corporation (or the subsidiary company) are distributed to the original shareholders (or the parent's shareholders)

with these shareholders surrendering part of their stock in the original (or parent) corporation.

SPLIT-UP -- Under a split-up the shareholders of a parent company surrender all their stock in liquidation of that company and in return receive new shares in corporation which the parent controlled or created immediately before the distribution.

SPREAD -- Can be used in many contexts to denote the margins on financial transactions. For example, the spread of an option is the difference between the fair market value of stock at the exercise date and the option price.

STAMP DUTIES -- Duty levied upon the issue of official documents such as passports, deeds, contracts for the transfer of ownership, etc. Usually, stamp duties are "levied" by way of a stamp being fixed to the document in question. Stamp tax

STATUTE OF LIMITATIONS -- A statute limiting the period within which a specific legal action may be taken, such as the collection of tax, appeal from a decision of the tax authorities or lower court, etc.

STOCK -- Any shares representing ownership in any corporation or certificates or ownership interest in any corporation.

STOCK DIVIDENDS -- Dividend distribution by a company to its shareholders in the form of additional shares in the company.

STOCK EXCHANGE TURNOVER TAX -- Tax levied on the sale of securities on the stock exchange market.

STOCK OPTION -- (1). The right to purchase or sell a stock at a specified price within a stated period (2). Employee stock option

STRIPPED BOND -- Bond or debenture from which the interest coupons have been removed and sold separately.

SUBPART F -- Term which refers to those sections of the US tax code which provide for the taxation of US shareholders of controlled foreign corporations (CFC) in order to prevent the tax-free accumulation of earnings outside the US.

SUBPOENA -- Latin for "under penalty"; a writ issued under the authority of a court to compel the appearance of a witness or of documents for a tax judicial proceeding.

SUBSIDIARY COMPANY -- Company effectively controlled by another company (i.e. the parent company). A variety of criteria, including share ownership ratio, may be employed to determine whether one company is a subsidiary of another company for tax purposes.

SUBSTANCE OVER FORM DOCTRINE -- Doctrine which allows the tax authorities to ignore the legal form of an arrangement and to look to its actual substance in order to prevent artificial structures from being used for tax avoidance purposes.

SUBSTANTIAL PRESENCE TEST -- Test used to determine residence status based on the number of days, months, etc. of physical presence within a country.

SUPER ROYALTY PROVISION -- The US Income Tax Reform Act of 1986 provides that royalties for the transfer (by sale, license or otherwise) of intangible property to related foreign companies, which have been determined at the time of the transfer on an arm's length basis, may be adjusted in future years by the IRS if they are not commensurate with the income attributable to that intangible. This is called the super royalty provision.

SUPPLEMENTAL ASSESSMENT -- Determination of tax liabilities at the discretion of the tax authorities if an original assessment is incomplete or incorrect in any material respect.

SURCHARGE -- Additional amount which is calculated on and added to the normal charge or levy. In other words, the base on which a surcharge is assessed is the normal or basic amount due.
Surtax

SWAP -- Derivative financial instrument in which two parties agree to exchange payments calculated by reference to a notional principal amount. In the classic interest rate swap agreement two parties contract to exchange interest payments based on the same amount of indebtedness of the same maturity and with the same payment dates; one party provides fixed interest rate payments in return for variable rate payments from the other party and vice versa.

SYNDICATE -- A group of individuals who have formed a joint venture to undertake a project that the participants would be unable or unwilling to pursue alone.

-T-

TANGIBLE PROPERTY -- Property with a physical form, e.g. personal property, real property as distinguished from intangible property.

TARIFF -- In general the term "tariff" refers to a list (schedule) or system of levies (taxes, duties, charges) imposed by countries on foreign trade transactions (especially importations).

TAX -- The OECD working definition of a tax is a compulsory unrequited payment to the government.

TAXABLE BASE -- The thing or amount on which the tax rate is applied, e.g. corporate income, personal income, real property.

TAXABLE EVENT -- Term used to define an occurrence which affects the liability of a person to tax.

TAXABLE PERIOD -- Taxes are levied by reference to a period of time called the "taxable period".
Tax year

TAXABLE YEAR -- The period (usually 12 months) during which the tax liability of an individual or entity is calculated.

TAX AGENT -- Term which refers to a tax adviser who assists the taxpayer in fulfilling his obligations under the legislation.

TAX AVOIDANCE -- See: Avoidance

TAXATION AT SOURCE -- See: Withholding tax

TAX AUTHORITIES -- The body responsible for administering the tax laws of a particular country or regional or local authority.

TAX BASE -- Taxable base

TAX BASIS -- Term used in the US to refer to an amount that represents the taxpayer's investment in an asset.

TAX BILL -- Draft law on a tax matter which, after approval by the government of a country, is submitted to the Parliament for debate.

TAX BURDEN -- For public finance purposes the tax burden, or tax ratio, in a country is computed by taking the total tax payments for a particular fiscal year as a fraction or percentage of the Gross National Product (GNP) or national income for that year.

TAX CLEARANCE CERTIFICATE -- Document issued to a taxpayer by the tax authorities certifying that the taxpayer has either paid all taxes due or that he is not liable to any taxes. In certain countries a tax clearance certificate must be produced before a person can leave the country.

TAX COMPLIANCE -- Degree to which a taxpayer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filing a return, and paying the tax due in a timely manner.

TAX DEPOSIT CERTIFICATE -- Certificate available for purchase in US to taxpayers liable to income or corporate tax, etc. Liability to taxes may be paid by cashing in the deposit certificate. Interest is credited on the deposit by the Inland Revenue.

TAX CREDIT -- See: Credit, tax

TAX DECLARATION -- See: Return

TAX EQUALITY -- See: Horizontal equity; Vertical equity

TAX EVASION -- See: Evasion

TAX EXILE -- Generally speaking, a natural or legal person who severs all ties which make him fiscally resident in a particular country and moves to another jurisdiction for tax reasons.

TAX EXPENDITURE -- This term denotes special preferences provided in income tax laws which depart from the normal tax structure and which are designed to favour a particular industry,

activity or class of taxpayer.

TAX FORECLOSURE -- The process of enforcing a lien against property for non-payment of delinquent property taxes.

TAX FORM -- It is usual to design special forms for taxpayers to declare their taxable income, sales, etc. for tax purposes. Forms are designed to facilitate the task of the tax authorities in assessing and collecting tax, and will usually draw the taxpayer's attention to any relief he may claim, etc. as well as to his statutory duty to make accurate declarations and the penalties that may be imposed if his declaration is incomplete or false.

TAX-FREE ZONE -- Area within the territory of a country in which customs duties and other types of indirect taxes are not applied.

TAX HAVEN -- Tax haven in the "classical" sense refers to a country which imposes a low or no tax, and is used by corporations to avoid tax which otherwise would be payable in a high-tax country. According to OECD report, tax havens have the following key characteristics; No or only nominal taxes; Lack of effective exchange of information; Lack of transparency in the operation of the legislative, legal or administrative provisions.

TAX HOLIDAY -- Fiscal policy measure often found in developing countries. A tax holiday offers a period of exemption from income tax for new industries in order to develop or diversify domestic industries.

TAX HOME -- A taxpayer's regular place of business or post of duty, regardless of where the taxpayer a family home.

TAX INFORMATION EXCHANGE AGREEMENT (TIES) -- Agreement which allows governments to share tax and other information with a view to combating tax evasion, drug trafficking, etc.

TAX LAW, SOURCES OF -- The main domestic sources of tax law are primary legislation, such as acts or laws, and secondary legislation such as regulation, decisions, circulars, orders, etc. The main international sources of tax law are bilateral or multilateral treaties, and one important source for the interpretation of treaties is the OECD model tax treaty and the accompanying commentary. Another model is UN model.

TAX ON TAX -- The charging of tax on tax-inclusive prices.

TAXPAYER IDENTIFICATION NUMBER -- In some countries taxpayers are given an identification number which must be used when filing a tax return and assessing taxes and for all other correspondence between the taxpayer and the tax authorities.

TAX PLANNING -- Arrangement of a person's business and /or private affairs in order to minimize tax liability.

TAX RELIEF -- Generic term to describe all methods used to reduce tax liability without regard to the particular way it is accomplished.

TAX RETURN -- See: Return

TAX SECRECY -- Obligation usually imposed on tax officials not to reveal particulars about the identity and personal circumstances of taxpayers, or about any of the various aspects governing their tax liability, except in certain strictly limited circumstances.

TAX SHELTER -- (1) An opportunity to use, quite legitimately, a relief or exemption from tax to pay less tax than one might otherwise have to pay in respect of similar activities, or the deferment of tax. (2) The polite term usually given to a contrived scheme to avoid or reduce a liability to taxation.

TAX SPARING CREDIT -- Term used to denote a special form of double taxation relief in tax treaties with developing countries. Where a country grants tax incentives to encourage foreign investment and that company is a resident of another country with which a tax treaty has been concluded, the other country may give a credit against its own tax for the tax which the company would have paid if the tax had not been "spared (i.e. given up)" under the provisions of the tax incentives.

TAX THRESHOLD -- Level (of income, capital, sales, etc.) at which tax commences to be levied.

TAX TREATY -- An agreement between two (or more) countries for the avoidance of double taxation. A tax treaty may be titled a Convention, Treaty or Agreement.

TAX UNIT -- Term used in the context of personal income tax, where taxation may be imposed by reference to separate individuals or to a group of individuals treated as one unit.

TEMPORARY IMPORTATION -- Many countries allow temporary importation without levying customs duties and turnover tax on items which are to be within their borders for only a short time.

TERRITORIALITY PRINCIPLE -- Term used to connote the principle of levying tax only within the territorial jurisdiction of a sovereign tax authority or country, which is adopted by some countries. Residents are not taxed on any foreign-source income.

THIN CAPITALISATION -- A company is said to be "thinly capitalised" when its equity capital is small in comparison to its debt capital.

THIN CORPORATION -- A corporation whose capital is supplied primarily by shareholder loans rather than stock investment.

THREE-FACTOR APPORTIONMENT FORMULA -- A formula used by most US states to apportion total federal business income for out-of-state entities in order to determine the tax due a particular

state. The formula equally weights the payroll factor, property factor, and sales factor.

TIEA -- See: Tax information Exchange Agreement

TIEBREAKER RULE -- Tax treaty provision designed to prevent an individual from being deemed resident, for purpose of the treaty, in both treaty countries. Generally a multi-step procedure will be provided to resolve the problem of dual residence, usually the place of a permanent home available being the first criterion.

TORT -- A private and civil wrong or injury, other than breach of contract, for which a court will provide a remedy in the form of an action for damages.

TRADE -- A business, profession, or occupation. A trade often implies a skilled handicraft, which is pursued on a continuing basis, such as carpentry.

TRADE INTANGIBLE -- A commercial intangible other than a marketing intangible.

TRADEMARK -- Legally registered name, word, symbol or design which identifies the goods or services of a particular manufacturer, business or company.

TRADE OR BUSINESS -- A regular and continuous activity undertaken for a profit, other than that of an investor trading in securities.

TRADITIONAL TRANSACTION METHODS -- The comparable uncontrolled price method, the resale price method, and the cost plus method.

TRANSACTIONAL NET MARGIN METHOD -- A transactional profit method that examines the net profit margin relative to an appropriate base (e.g. costs, sales, assets) that a taxpayer realizes from a controlled transaction (or transactions that it is appropriate to aggregate under the principles of OECD TP guideline Chapter I).

TRANSACTIONAL PROFIT METHOD -- A transfer pricing method that examines the profits that arise from particular controlled transactions of one or more of the associated enterprises participating in those transactions.

TRANSACTION TAXES -- Tax that uses a specific type of transaction as its object, e.g. sales tax, immovable property transfer tax, etc.

TRANSFER PRICING -- A transfer price is the price charged by a company for goods, services or intangible property to a subsidiary or other related company. Abusive transfer pricing occurs when income and expenses are improperly allocated for the purpose of reducing taxable income.

TRANSFER PRICING ADJUSTMENT -- Adjustment made by the tax authorities after making a determination that a transfer price in a controlled transaction between associated enterprises is incorrect or where an allocation of profits fails to conform to the arm's length principle.

TRANSFER TAX -- Tax levied on the transfer of goods and rights, e.g. purchase and/or sale of securities and immovable property.

TRANSPORTATION TAX -- Tax levied on vehicles, ships and aircraft using public highways, rivers, and airports maintained by the government.

TREATY ON EUROPEAN UNION (EU) -- The treaty on European Union was signed on 7 February 1992 and entered into force on 1 November 1993. This treaty creates a single economic and monetary union (EMU). The main characteristics of this union will be a single currency and a more federal political structure. By virtue of the Union Treaty, the former European Economic Community has been extended with additional goals and powers in order to become a single market in a European Union. The member states of the EU are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom. On May 2nd 2004, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia newly joined the EU.

TREATY OVERRIDE -- Term broadly used to refer to the subsequent enactment of legislation which conflicts with prior treaty obligations. As a general rule, the provisions of a tax treaty implemented domestically prevail over other domestic legislation. However, in some countries the relations is governed by the "last in time" rule.

TREATY SHOPPING -- An analysis of tax treaty provisions to structure an international transaction or operation so as to take advantage of a particular tax treaty. The term is normally applied to a situation where a person not resident of either the treaty countries establishes an entity in one of the treaty countries in order to obtain treaty benefits.

TRUST -- A trust is a legal arrangement whereby the owner of property (i.e. settlor) transfers ownership to a person(s) (i.e. trustee) who is to hold and control the property according to the owner's instructions, for the benefit of a designated person or persons (i.e. the beneficiaries). Legal title to the trust property is vested in the trustee, while equitable title belongs to the beneficiaries.

TRUSTEE -- See: Trust

TURNKEY CONTRACT -- Broadly, a contract to construct a complete project; for example, a factory, plant or installation, from the bare site to the stage where the user only need to "turn the key" to put the project to immediate use.

TURNOVER -- Volume of business of an enterprise as set forth in the profit and loss account. It is usually measured by reference to the gross receipts, or gross amounts due, from the sale of goods or services, etc. supplied by the entity.

TURNOVER TAX -- General term used to refer to the different forms of consumption and sales taxes.

-U-

UNCONTROLLED TRANSACTION -- Transaction between independent and unrelated enterprises.

UNDER-CAPITALISATION -- See: Thin capitalisation

UNDERLYING TAX -- Tax which is charged on corporate income out of which dividends are paid, but which does not appear as a direct deduction or withholding from the dividend itself.

UNDERLYING TAX CREDIT -- See: Credit, underlying tax

UNDISTRIBUTED PROFITS TAX -- Annual tax imposed, in addition to the normal corporate income tax, on the undistributed portion of the profits or surplus of a corporation.

UNDUE HARDSHIP -- A substantial financial loss that would result to a taxpayer from making payment on the due date of the amount of taxes with respect to which the extension is desired. Undue hardship is a condition precedent to the granting of an extension of time to make a tax payment.

UNEARNED INCOME -- Term used to describe investment income such as dividends, interest and royalties.

UNILATERAL RELIEF -- Granting of relief from the effects of international double taxation on the basis of domestic legislation rather than the provisions of a tax treaty.

UNIMPROVED PROPERTY -- Land that has received no development, construction, or site preparation (i.e. raw land).

UNITARY TAX SYSTEM -- Under a unitary tax system, the profits of the various branches of an enterprise or the various corporations of a group are calculated as if the entire group is a unity. A formula is used to apportion the net income of the whole group to the various parts of the group. Usually a combination of property, payroll, turnover, capital invested, manufacturing costs, etc. are formula factors.

UNLIMITED LIABILITY -- Liability of an investor which extends to the full extent of his personal assets, as in the case of a sole proprietor or general partner.

UPSTREAM DIVIDEND -- Dividends flowing from a subsidiary company to its parent company.

USEFUL LIFE -- Period during which it is estimated that a depreciable asset will provide useful service to the business in which it is used.

USE TAX -- Tax on goods which are used within the taxing jurisdiction although the goods were purchased in another jurisdiction

-V-

VALUATION PRINCIPLES -- Tax law principles regarding valuation of business and non-business assets, and inventory.

VALUE ADDED TAX (VAT) -- Specific type of turnover tax levied at each stage in the production and distribution process. Although VAT ultimately bears on individual consumption of goods or services, liability for VAT is on the supplier of goods or services. VAT normally utilizes a system of tax credits to place the ultimate and real burden of the tax on the final consumer and to relieve the intermediaries of any final tax cost.

VENTURE CAPITAL -- Form of capital investment for the establishment of a new business or new product development in an existing business, often in exchange for equity.

VERTICAL EQUITY -- Doctrine which holds that differently situated taxpayers should be treated differently, i.e. taxpayers with more income and/or capital should pay more tax.

VIENNA CONVENTIONS -- There are three multilateral "Vienna Conventions" which are relevant for taxation purposes. Among them, the Convention of 23 May 1969 on the Law of Treaties is particularly related to the interpretation of tax and other treaties. This convention contains generally accepted rules applying to tax treaties, the conclusion of treaties, their observance, application and interpretation, etc..

There are also Vienna Conventions on Diplomatic and Consular Relations, which address taxation and other issues in that context.

VOTING STOCK -- Shares in a corporation that entitle the shareholder to voting and proxy rights.

-W-

WAGE TAX Tax -- levied at source as a withholding on wages; taxes thus withheld are usually offset against final income tax liability (if any).

WEAR AND TEAR -- Decline in value through the ordinary use of an asset. Income tax systems usually allow deductions in calculating the profits of a business using buildings, plant and machinery which are subject to wear and tear in the course of the business.

WHITE PAPER -- Government document announcing government policy and practice on a specific issue or issues.

WILL -- A legal document that serves as a key vehicle of transfer at death.

WINDING UP -- The process of liquidating a corporation.

WITHDRAWALS --When income or goods are withdrawn from a business by the entrepreneur to his private household (without a consideration), the income or the value of such goods normally constitutes a taxable event in the hands of the recipient for income tax purposes. Similarly, a withdrawal of goods or services for private use constitutes a taxable transaction for VAT purposes in most countries using such a system.

WITHHOLDING TAX -- Tax on income imposed at source, i.e. a third party is charged with the task of deducting the tax from certain kinds of payments and remitting that amount to the government. Withholding taxes are found in practically all tax systems and are widely used in respect of dividends, interest, royalties and similar tax payments. The rates of withholding tax are frequently reduced by tax treaties.

WORLD WIDE INCOME -- Criterion for the income tax liability of a resident company or individual of a certain country. In many countries a resident company or individual is subject to corporate/individual income tax on its worldwide income, subject to double taxation relief.

WORKING CAPITAL -- Funds invested in a company's cash, accounts receivable, inventory, and other current assets (gross working capital). The term usually refers to net working capital, that is, current asset minus current liabilities.

WRITTEN DOWN VALUE -- The value of an asset which is depreciable for income tax purposes, determined by deducting from the total cost, including installation, etc. the deduction that have been made for wear and tear or depreciation in previous tax years.

-Z-

ZERO COUPON BOND -- Long-term bond on which interest is not payable on a regular basis, but rather upon maturity of the bond. It is sold at a deep discount from its face value.

ZERO RATE -- The term is used in relation to VAT, where the rate of tax which is in principle levied but at a rate of 0% so that in effect no tax is payable, but will result in refunds of input tax credits.