

TAX LAW

Academic Year 2016 / 2017

AGENDA - Session 6-

- Investment Income
 - a) Definition of Dividends and Interest Payments
 - b) Hibryd instruments
 - c) Royalty payments

Categories of Income

The determination of the items to be included in the tax base is a central question in all income tax systems:

- Global system
- Schedular system

Categories of Income

- Global system typically has a single, comprehensive concept of income and a single rate structure.
- Schedular system focuses on particular classes or categories of receipts and often has different rates and substantive and procedural rules for each class.

Categories of income

- Global system may have schedular elements (eg. limitation on deduction incurred in different categories of activities).
- Schedular system may have a global character (eg. Income and losses are combined in the final income calculation).

Categories of income

The global system of many countries have become partially schedularised by the use of withholding taxes on certain types of income (eg. dividends and interest) and lower tax rates on capital income

Most frequent categories of income

- Business income
- Income from professional services
- Income from employment
- Income from immovable properties
- Income from capital
- Other income

Investment Income

Introduction

- Under schedular system, characterization determines which tax regime applies to the income
- Under a global system, there may be a specific inclusion rule for investment income or special timing or administrative rules.

Investment Income

- Under schedular system, characterization determines which tax regime applies to the income
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Investment Income

The definition of investment income, usually, includes:

- Annuities
- Dividends
- Interest
- Rent
- Royalties
- Capital gains on the disposal of investment assets

Investment Income

Annuities

A taxpayer purchasing a commercial annuity provides an “annuity provider” with a capital sum that is returned with compensation conceptually similar to interest in fixed payments over specified term or, in case of life annuity, over the taxpayer’s life (eg. insurance scheme).

Investment Income

Interest

Interest is the compensation earned by a creditor for the use of his or her money during the period of the loan (debt obligation).

Royalties

Payments received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including patent, trade mark, design or model, plan, secret formula or process.

Investment Income

Rent

Any amount received as consideration for the use and occupation of, or right to use or occupy, immovable property.

Dividends

Income from shares, “jouissance” shares or “jouissance” rights and other rights, not being debt-claims, participating in corporate profits.

Investment Income

Interest, dividends and capital gains on shares...

...are usually subject to a special tax regime (eg. withholding tax, substitute tax etc.)