

Introduction to Corporate Taxation

Introduction to Corporate Taxation

(A concise, easy-to-read guide for students, professionals, and anyone new to the subject)

1. What Is Corporate Taxation?

Concept	Description
Definition	A tax levied by governments on the net income (profits) of corporations and other legal entities.
Purpose	- Generates public revenue - Influences business behavior (e.g., investment, location) - Promotes fairness between individuals and businesses
Scope	Applies to domestic corporations, foreign corporations with a taxable presence, and certain hybrid entities (e.g., LLCs taxed as corporations).

2. Key Terminology

Term	Meaning
Taxable Income	Gross revenue minus allowable deductions, exemptions, and losses.
Effective Tax Rate	Actual tax paid ÷ pre-tax profit (often lower than the statutory rate).
Statutory Tax Rate	The legal rate set by legislation (e.g., 21% in the United States, 25% in the UK).
Double Taxation	Income taxed once at the corporate level and again when distributed as dividends to shareholders.
Tax Base	The total amount of income subject to tax after adjustments.
Tax Credit	Direct reduction of tax liability (e.g., R&D credit).
Tax Deduction	Reduces taxable income (e.g., depreciation, business expenses).
Transfer Pricing	Pricing of intra-company transactions to allocate profit across jurisdictions.
Permanent Establishment (PE)	A fixed place of business that creates a tax nexus in a foreign country.

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3. How Corporate Tax Is Calculated (U.S. Example)

1. **Gross Income** – All revenue from sales, services, interest, dividends, etc.
2. **Minus: Allowable Deductions** – Cost of goods sold, salaries, rent, depreciation, interest expense, etc.
3. **= Taxable Income**
4. **Apply Statutory Rate** – e.g., 21% ? Tax Before Credits.
5. **Add/Subtract Adjustments** – Alternative Minimum Tax (if applicable), foreign tax credits, etc.
6. **Minus Tax Credits** – R&D credit, investment credit, etc.
7. **= Final Tax Liability**

Resulting effective tax rate = Final Tax Liability ÷ Pre-tax profit.

4. Major Types of Corporate Taxes (Global Overview)

Type	Where It Applies	Typical Features
Corporate Income Tax	Most jurisdictions	Tax on net profit; rates vary 10-35% (average ~20%).
Branch Tax	Foreign subsidiaries operating as branches	Taxed on profits attributable to the branch; often creditable in home country.
Capital Gains Tax	Sale of assets, subsidiaries	May be integrated with corporate income tax or taxed separately.
Withholding Tax	Payments to foreign parties (dividends, interest, royalties)	Rates reduced by tax treaties; source country retains a portion.
Minimum Tax / Alternative Minimum Tax	U.S., some EU states	Ensures corporations pay a baseline tax despite deductions.
Franchise/Business License Tax	Some U.S. states, localities	Based on revenue, capital, or a flat fee rather than profit.

5. International Considerations

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1. Residence vs. Source Taxation

Residence: Tax on worldwide