

## Controlled Foreign Corporation Regulations Comparative chart of US, UK and Finland

2.	No.	Particulars	US	UK	Finland
	1.	Background	CFC Regulations introduced in US in 1962. US was the first country to adopt CFC Rules.	CFC Regulations introduced in UK in 1984. CFC Regulations were designed to prevent UK residents reducing their UK tax liabilities by diverting profits to foreign companies which they control and situated in low tax jurisdictions.	Finnish domestic legislation includes a special CFC regime, for the taxation of the shareholders in the CFC regime. The Controlled Foreign Corporation Act applies to foreign corporate entities located in low tax jurisdiction but controlled by Finnish residents.
	2.	Definition of CFC	A CFC is one in which US shareholders own more than 50%, by vote or value.	<ul style="list-style-type: none"> <li>● A CFC is a non-UK company which is controlled by UK residents and which operates in a 'low tax' jurisdiction.</li> <li>● A non-resident company is regarded as to be controlled by UK residents if UK residents hold more than 50% interest in the company or if UK residents hold 40% or more interest and a non-resident holds 55% or greater interest.</li> </ul>	A CFC is a company in which Finnish tax residents directly or indirectly own at least 50% of the share capital or one or more Finnish tax residents are entitled to at least 50% of the return on capital of the company.
	3.	Key Elements	<ul style="list-style-type: none"> <li>● Only those shareholders that own (directly or indirectly) 10% or more of the foreign corporation stock are included in the "more than 50%" ownership test.</li> <li>● Equal partnership between foreign persons and US shareholders not hit by CFC Regulations.</li> </ul>	<ul style="list-style-type: none"> <li>● A CFC is subject to a lower level of taxation if the tax paid in its country of residence is less than 75% of the corresponding UK tax that would have been payable had it been resident in the UK.</li> <li>● For accounting periods ending on or after July 1, 1999, UK companies are required to include amounts chargeable under the CFC</li> </ul>	<ul style="list-style-type: none"> <li>● If Finnish shareholders and certain related parties owning at least 10% of the CFC's share capital or entitled to at least 10% of the return on capital of the company then the CFC Regulations apply.</li> <li>● A corporation that resides in a Treaty state does not fall under the application of the CFC regulations if: <ul style="list-style-type: none"> <li>● The tax burden under the general</li> </ul> </li> </ul>

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			Regulation in their tax returns. For accounting period ending before July 1, 1999, the CFC Regulation applies only if the Inland Revenue issues a direction (notice) to a company.	corporate tax system of that state is comparable to the corporate tax in Finland; and <ul style="list-style-type: none"> <li>● The corporation has not been subject to a special tax benefit in its State of Residence</li> </ul>
				CFC rules will apply if the effective tax rate of the non-Finnish company is less than 17.4% (which is 3/5 <sup>th</sup> of the Finnish tax rate of 29%).
	4. Income subject to CFC Rules	<ul style="list-style-type: none"> <li>● Passive undistributed income of CFC is taxable in the hands of the resident shareholder.</li> <li>● Amount included in the income of a US shareholder from a CFC is the sum of the following: <ul style="list-style-type: none"> <li>- US shareholders pro-rata share of CFC's income for the year</li> <li>- Pro-rata share of certain amount withdrawn from investment in less developed countries</li> <li>- Pro-rata share of certain amount withdrawn from investment in shipping operations for the year</li> <li>- Pro-rata share of the corporation's earnings invested in US property for the year.</li> </ul> </li> </ul>	Share of the profits (excluding capital gains) of the CFC taxable in UK.	Finnish shareholders are subject to tax on their respective share of CFC's income.
	5. Exemptions from CFC Rules	CFC Regulations do not apply if: <ul style="list-style-type: none"> <li>● CFC is not established for avoidance of domestic tax.</li> </ul>	CFC Regulations do not apply if: <ul style="list-style-type: none"> <li>● Acceptable distribution policy: The CFC must distribute dividend to</li> </ul>	Dividends from a CFC are tax-exempt to the extent they are covered by the CFC income and taxed as income of the

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		<ul style="list-style-type: none"> <li>De-minimis test where the total income of the CFC does not exceed a certain amount.</li> </ul>	<p>persons resident in UK which is equal to at least 90% of its chargeable profits within 18 months of the end of its accounting period.</p> <ul style="list-style-type: none"> <li>De minimis test: The chargeable profits of the CFC must be less than 50,000 Pounds.</li> <li>Exempt activities test: The CFC must have a business establishment in the territory where it is resident and effectively manage its business affairs in that territory from that establishment OR qualify under one of the specific tests (i.e. &gt; 50% non related business)</li> <li>Motive test: It must be proved that the reduction in UK tax by a diversion of profits from the UK is not the main reason behind the CFC's existence.</li> <li>Public quotation: The public must hold shares carrying at least 35% of the voting rights of the CFC, the shares must not be preference and must be quoted on the stock exchange official list.</li> <li><u>Excluded Country Regulation</u>: The CFC must be resident in a territory listed in the 'Excluded Countries Regulations' and must satisfy certain income and gains requirements.</li> </ul>	<p>recipient in the same year or five preceding tax years.  <u>Income derived from the following is exempt from CFC regulations:</u></p> <ul style="list-style-type: none"> <li>Industrial production or similar production activity;</li> <li>Shipping; or</li> <li>Sales or marketing activity in the State of Residence of the corporation.</li> </ul>
6.	Tax Credit	Foreign taxes are 'deemed paid' on taxable distributions from foreign corporations.	N.A.	Income tax paid by a CFC in its state of residence is deductible from tax payable in Finland.