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# News

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## **Mexico, Canada, the Netherlands, and Australia Rank Highest for Tax Competitiveness: KPMG Survey**

### *Rate changes, incentives, and exchange rates leading factors*

While Mexico remains in the number one spot for having the lowest total taxes, it is changes to the tax systems in Australia, Canada, and the Netherlands that have enhanced their attractiveness as tax friendly environments, according to KPMG's Competitive Alternatives 2010, Special Report: Focus on Tax.

The report assesses the general tax competitiveness of 95 cities in 10 countries (Australia, Canada, France, Germany, Italy, Japan, Mexico, the Netherlands, the United Kingdom, and the United States). The analysis focuses on 41 major cities with populations greater than 2 million, and compares the total tax burden faced by companies, including income tax, capital tax, sales tax, property tax, miscellaneous local business taxes, and statutory labour costs.

The report compares the total tax cost between countries and cities using a Total Tax Index (TTI) score for each location, expressed as a percentage of total taxes paid by corporations in the US. A lower score is better since it means lower tax costs for businesses.

Among the countries studied, Mexico has the lowest TTI at 59.9; in other words, total tax costs in Mexico are 40.1 percent lower than in the US, which has a TTI of 100.0. Canada, the Netherlands, Australia, and the UK also have TTI ratings below the US. At the other end of the spectrum, France's TTI of 181.4 signifies that its total tax costs are 81.4 percent higher than the US standard.

“Our study reveals that there is no standard approach in setting tax policy among the countries examined,” says Greg Wiebe, KPMG's Managing Partner, Tax. “Although the types of taxes used to raise government revenues are more or less the same, there is a huge range in how these taxes are weighted and applied. A country's tax policy choices can significantly affect the tax cost of doing business in that country.”

The TTI rankings of countries in 2010 are generally consistent with the 2008 rankings. Canada has moved ahead of the Netherlands, and the UK has moved ahead of the United States—although, these pairs of countries were very closely grouped in 2008, such that marginal changes in TTI have resulted in changes in rankings. The more substantive changes between 2008 and 2010 are:

- Japan falls two places, from seventh to ninth, and is the only country to see an increase in its TTI between 2008 and 2010. This is largely due to the strong appreciation of the Japanese yen over the last 2 years, which increases the cost (in US dollars) of non-income based taxes paid in Japan.
- Italy moves up one ranking, from ninth to eighth, and sees the largest decrease in TTI of any country. This improvement for Italy is largely due to economic stimulus tax incentives offered in Italy for new business investment occurring in 2010; therefore, this improvement may well be short lived.
- Australia’s rank does not change—remaining in fourth place—but it sees the second largest decrease in TTI among the countries studied. This improvement is largely due to changes in Australia’s R&D tax incentives in 2010.

**Tax Competitiveness – 2010 and 2008 Rankings by Country:**

Rank	Country	Total Tax Index 2010	2008 Rank
1	Mexico	59.9	1
2	Canada	63.9	3
3	Netherlands	76.4	2
4	Australia	80.8	4
5	United Kingdom	88.0	6
6	United States	100.0	5
7	Germany	124.1	8
8	Italy	129.6	9
9	Japan	138.0	7
10	France	181.4	10

Source: KPMG’s *Competitive Alternatives 2010, Special Report: Focus On Tax*

Overall, the changes in TTI for all countries are the product of a number of factors, including:

- Changes in tax rates, including tax rate increases in Mexico and decreases in Canada
- Incentive changes, including new or enhanced incentives in Australia, Italy, and Japan
- Exchange rate changes, including the significant appreciation of the Japanese yen and the significant depreciation of the British pound over the last 2 years. Changes in

exchange rates influence the TTI results by changing the US dollar cost associated with taxes not based on income

- Lesser factors, including changes in underlying business costs in each location (e.g., property values and labour rates), an expansion of the analysis from 10 types of business operations in 2008 to 17 in 2010, and changes in the mix of cities examined in each country.

“Income taxes typically represent up to 12 percent of location-sensitive costs. This cost is relatively low compared to other costs, such as labour (46–85 percent of location-specific costs), facilities (2–18 percent), and transportation (5–18 percent). However, even though taxes do not comprise the largest proportion of overall costs, there is much greater variation in tax costs among locations. Since tax costs are likely to range more widely than other costs, they can take on greater importance than other costs in business location decisions,” says Wiebe.

The analysis is based on cost information collected primarily between July 2009 and January 2010. Taxes reflect tax rates in effect on January 1, 2010, and also incorporate any announced changes at that time to take effect at specified later dates. Tax rates and other tax-related information are also subject to further change as a result of new legislation, judicial decisions, and administrative pronouncements. Of course, exchange rates and other cost factors will change over time.

To access the full report, please visit [www.competitivealternatives.com/download](http://www.competitivealternatives.com/download).

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