

Article

Corporate Income Taxation Dynamics: A Comparative Analysis of Portugal, Germany, Belgium, The Netherlands, and Luxembourg

Filipa Jesus ¹, José Amorim ²  and Catarina Cepeda ^{2,*} 

¹ Porto Accounting and Business School (ISCAP), 4465-004 Porto, Portugal

² CEOS.PP, Porto Accounting and Business School (ISCAP), 4465-004 Porto, Portugal;
j.camposamorim@gmail.com

* Correspondence: clmc@iscap.ipp.pt

Abstract: This study seeks to undertake a comprehensive analysis and comparison of the corporate income tax systems across select European Union nations, with a specific focus on discerning disparities between the individual income tax (IIT) and corporate income tax (CIT) frameworks prevalent in Portugal, Holland, Belgium, Luxembourg, and Germany. With an institutional theory lens, we applied document analysis to describe the distinctive attributes characterizing each tax regime within the purview of competitive dynamics and fiscal competitiveness. Despite inherent limitations stemming from challenges in accessing tax-related information and potential oversights regarding socio-political determinants, this study underscores the imperative of grasping the intricate interplay between tax imposition levels and broader economic development trajectories. By furnishing valuable insights into prospective reforms pertaining to Portugal's corporate income tax architecture, this scholarly inquiry significantly enriches our comprehension of tax competitiveness within the overarching framework of the global economic environment.

Keywords: business income; personal income tax; corporate income tax; Portugal; Germany; Luxembourg; Belgium; Netherlands



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1. Introduction

Corporate income taxation stands as a cornerstone of fiscal policy, with far-reaching implications for economic development and business operations (Sureth and Langeleh 2007). As governments seek to fund public expenditures and achieve socio-economic objectives, the design and implementation of corporate tax regimes become central to their policy agendas. Meanwhile, businesses navigate tax considerations when making investment decisions, managing operations, and optimizing financial performance (Gupta et al. 2009). This article delves into the critical role of corporate income taxation in shaping economic policies and influencing business strategies, highlighting its implications for stakeholders across diverse sectors and industries (Auerbach 2002).

The taxation of corporate income assumes a critical role in shaping economic policies and influencing business decisions (Gupta et al. 2009). As economies become increasingly interconnected in the era of globalization, the complexities of corporate taxation have garnered heightened attention from policymakers, scholars, and practitioners (Auerbach 2002).

The taxation of corporate income serves as a crucial revenue source for governments, enabling them to finance public goods, social programs, and infrastructure development (Gupta et al. 2009). By levying taxes on corporate profits, governments seek to redistribute wealth, address income inequality, and promote social welfare (Auerbach 2002). Moreover, corporate taxation plays a vital role in macroeconomic stabilization, as policymakers adjust tax rates and incentives to manage inflation, stimulate aggregate demand, and counteract economic downturns (Auerbach 2002). Through fiscal policy measures, governments

aim to achieve a balance between revenue generation, economic growth, and equitable distribution of resources (Gupta et al. 2009).

For businesses, corporate income taxation represents a significant cost factor and strategic consideration in decision-making processes (Gupta et al. 2009). Tax policies directly impact corporate profitability, investment returns, and capital allocation strategies (Sureth and Langeleh 2007). As such, businesses engage in tax planning activities to minimize tax liabilities, optimize financial outcomes, and enhance shareholder value (Dahle and Sureth-Sloane 2008). Additionally, tax incentives and exemptions influence corporate behavior, encouraging investments in research and development, innovation, and job creation (Dahle and Sureth-Sloane 2008). However, complex tax regulations, compliance burdens, and international tax considerations pose challenges for businesses operating in global markets, necessitating careful tax management and strategic planning (Sureth and Langeleh 2007).

This article aims to delve into the intricate landscape of corporate income taxation, focusing on its implications and dynamics within the contexts of Portugal, Germany, Belgium, The Netherlands, and Luxembourg.

The taxation of corporate income encompasses various dimensions, ranging from tax rates and incentives to regulatory frameworks and international tax treaties. Within each jurisdiction, distinct approaches to corporate taxation emerge, reflecting a blend of economic, political, and social considerations. For instance, in Portugal, corporate income is subject to the Imposto sobre o Rendimento de Pessoas Coletivas (IRC), whereas in Germany, it falls under the jurisdiction of the Körperschaftsteuer. Similarly, Belgium, The Netherlands, and Luxembourg each have their own unique tax regimes governing corporate income.

Globalization has further complicated the landscape of corporate taxation, as businesses expand their operations across borders in search of growth opportunities and cost efficiencies. This trend underscores the need for greater coherence and coordination in international tax policies to mitigate tax avoidance and ensure a level playing field for businesses operating in multiple jurisdictions (Jesus 2023).

Moreover, the taxation of corporate income has profound implications for economic development, investment incentives, and government revenues (Jesus 2023). While lower tax rates may attract foreign investment and spur economic growth, they also raise concerns about revenue adequacy and equity in the distribution of tax burdens. Striking a balance between fostering a business-friendly environment and ensuring sufficient fiscal resources for public goods and services remains a perennial challenge for policymakers.

Considering these complexities, this article seeks to conduct a comparative analysis of corporate income taxation across Portugal, Germany, Belgium, The Netherlands, and Luxembourg. By examining tax policies, economic indicators, and international tax dynamics, this study aims to shed light on the key factors shaping corporate taxation in these countries and identify areas for potential reforms and policy enhancements. Through a combination of quantitative analysis and qualitative insights, this research endeavors to contribute to the ongoing discourse on corporate taxation and inform evidence-based policy decisions in the realm of fiscal governance and economic development.

This paper is structured as follows. The first part presents an extensive literature review. The second presents the methodology, the third part addresses the results, and the last part explains the main conclusions.

2. Literature Review

Sureth and Langeleh (2007) investigated the impact of different tax systems on investors' decisions regarding corporate shares and capital market investments. The three tax systems analysis reveals that shareholder relief systems may cause greater distortions than full imputation systems, particularly under uncertainty (Sureth and Langeleh 2007). Using Monte Carlo simulation, the study finds that tax-induced uncertainty is often higher under shareholder relief, contradicting traditional views. It highlights the importance of

tax parameters, dividend rates, and timing of share sales as significant factors influencing investment decisions (Sureth and Langeleh 2007).

Dahle and Sureth-Sloane (2008) analyze the impact of various minimum taxation concepts on corporate investment decisions, considering both real and financial investments. Through quantitative analysis and Monte Carlo simulation, it assesses the effects of different parameters on tax-favored and tax-discriminated projects (Dahle and Sureth-Sloane 2008). By integrating multiple minimum tax concepts into a comprehensive model, it identifies complex and ambiguous tax effects, highlighting the importance of cash flow dynamics and depreciation effects (Dahle and Sureth-Sloane 2008).

The Auerbach (2002) research provides a comprehensive review of the theory and empirical evidence on the influence of taxation on corporate financial decisions. It examines three key areas of research: equity policy, debt–equity choices, and decisions regarding ownership structure and organizational form (Auerbach 2002). Emphasizing the distinction between nominal and fundamental financial differences, the analysis highlights how financial policy entails choices among various underlying policies and their characterizations. Additionally, it offers insights into the implications of ongoing financial innovation for corporate financial decision-making (Auerbach 2002).

Through fixed-effects models accounting for endogeneity, Gupta et al. (2009) examined the impact of state corporate income tax (SCIT) policies on revenue. Findings suggest that states favoring double-weighted sales factors witness lower SCIT revenues compared to those with equally weighted factors, while higher statutory tax rates correlate with increased SCIT revenues. Additionally, broader definitions of business income and implementation of throwback rules are linked to higher SCIT revenues, while the adoption of combined reporting does not exhibit significant associations (Gupta et al. 2009).

In Portugal, recent studies have shed light on the evolving landscape of corporate income taxation. For instance, a study by Martins (2015) provides insights into recent developments and challenges faced by businesses operating within Portugal's corporate tax system. Meanwhile, another research paper by Martins (2015) delves into the effectiveness of tax incentives in stimulating investment and economic growth in the country.

Similarly, in Germany, scholars have extensively analyzed the intricacies of corporate taxation. A comparative analysis conducted by Arnold et al. (2019) examines the corporate tax regimes of several European countries, including Germany, offering valuable insights into policy implications and competitiveness. Furthermore, a study by Delgado et al. (2018) explores the impact of corporate tax policies on business behavior and economic performance in Germany.

In Belgium, much like in other European nations, corporate income taxation faces challenges stemming from changes in the global economic landscape. With the rise of the global economy and increased capital mobility, there is a growing competition among countries to attract direct investment and mobile profit flows by adjusting their corporate income tax rates (Van Cauter and Van Meensel 2007). This rate becomes a pivotal factor for firms when deciding on investment locations, alongside considerations like infrastructure, labor availability, and market proximity (Van Cauter and Van Meensel 2007).

This competition may trigger a domino effect, leading to a reduction in tax rates across countries as they strive to remain competitive (Van Cauter and Van Meensel 2007). However, there are concerns that this could ultimately result in a “race to the bottom”, with corporate profits being taxed at rates deemed too low by society. Such a scenario could potentially strain government finances, prompting cuts in essential public expenditures or shifts in the tax burden towards other revenue sources such as labor or consumption (Van Cauter and Van Meensel 2007).

In Belgium, researchers have focused on trends, challenges, and reform proposals within the corporate tax framework. Notably, a paper by Vanistendael (1988) provides an in-depth analysis of recent trends in corporate income taxation and discusses reform proposals aimed at enhancing competitiveness and attracting foreign investment in Belgium.

The Netherlands, known for its favorable tax environment, has garnered attention regarding its corporate income tax policies. Research by [Alink et al. \(2015\)](#) evaluates The Netherlands' status as a tax haven for multinational corporations, examining the implications of tax incentives on corporate behavior and location decisions.

Similarly, Luxembourg's low-tax jurisdiction has been a subject of scholarly inquiry. An article by [De Mooij and Nicodème \(2008\)](#) explores the challenges and opportunities presented by Luxembourg's corporate income tax system, offering insights into its implications for businesses operating within the country. The findings indicate a substantial and statistically significant impact, implying that reductions in corporate tax rates, potentially driven by tax competition, may lead to decreased personal tax revenues rather than corporate tax revenues. Simulations estimate that between 12% and 21% of corporate tax revenue can be attributed to income shifting, contributing to a 0.25% increase in the corporate tax-to-GDP ratio since the early 1990s ([De Mooij and Nicodème 2008](#)).

Overall, a comprehensive understanding of the taxation of corporate income in Portugal, Germany, Belgium, The Netherlands, and Luxembourg requires a multidisciplinary approach, incorporating insights from economics, law, and public policy. These studies contribute to the broader discourse on corporate taxation, informing policy decisions and shaping the business environment across this jurisdiction.

3. Nature of Business Income

[Edwards and Bell's \(1961\)](#) book discusses how business income is a fundamental concept in accounting and economics, representing the surplus generated by business activities after deducting expenses from revenues. [Edwards and Bell \(1961\)](#) highlight that the determination of business income involves not only the calculation of revenues and expenses but also considerations related to asset valuation, depreciation, and inventory accounting. Furthermore, [Edwards and Bell \(1961\)](#) examines the role of business income in economic analysis, emphasizing its significance as a measure of economic performance and as a basis for decision-making by investors, managers, and policymakers. For [Edwards and Bell \(1961\)](#), business income serves as a key indicator of a company's profitability, financial health, and growth prospects.

In fact, taxing corporate income is a powerful tool that can directly impact the profitability of companies, in addition to being used to influence economic behavior and compensate for inequalities in income distribution ([Formigoni 2008](#)). This taxation can be strategically used to stimulate investments and protect national companies from foreign competition ([Jesus 2023](#)). However, the perception of unfairness can arise when fees are differentiated based on sector or company size ([Silva 2022](#)).

The complexity of corporate income taxation is aggravated by each country's tax legislation, which may include additional taxes in addition to the main tax, indirectly impacting corporate taxation ([Formigoni 2008](#)). Exemptions, deductions and specific fees, as well as international agreements such as double-taxation conventions, also influence this taxation ([Carro 2013](#)).

Despite being able to generate tax revenue and stimulate desirable economic behaviors, corporate taxation can have negative effects by not promoting the development of companies and investment in innovation ([Rodrigues 2022](#)). Therefore, it is crucial to establish balanced taxation that considers its impact on the economy and society, ensuring the competitiveness of companies and tax justice ([Rodrigues 2022](#)).

In Portugal, corporate income taxation is regulated by the IRC Code and the General Tax Law, with a general IRC rate of 21% ([de Godoi et al. 2017](#)). Companies with activities in multiple countries can benefit from the double-taxation elimination regime ([De Mooij and Nicodème 2008](#)). However, some Portuguese companies still perceive taxation as excessive compared to other European Union countries, which can affect their competitiveness and foreign investment ([Borrego and Carreira 2018](#)).

Given this, it is essential to view the taxation of business income as a matter of equity and tax justice, essential to stimulate economic growth and business investment ([Borrego](#)

and Carreira 2018). It must be established in a fair and equitable manner, considering both fiscal and non-fiscal objectives and their impact on the economy and society.

3.1. Taxation of Business Income in Portugal

3.1.1. Taxation of Personal Income

The taxation of personal income represents a cornerstone of fiscal policy, particularly governed by Article 3 of the Personal Income Tax Code “CIRS”. This provision dictates that income derived from business and professional activities by individuals falls within the purview of taxation under the Personal Income Tax “IRS” regime (Fernandes and Carmo 2013). Such income may emanate from a diverse array of sources, encompassing commercial, industrial, agricultural, forestry, and livestock operations, alongside service provision and earnings from intellectual or industrial property, when accrued directly by the individual.

Concerning the taxation framework governing business and professional income, taxpayers are afforded the discretion to opt between two primary regimes: the “simplified regime” and the “normal regime”. Within the confines of the “simplified regime”, taxpayers stand to benefit from a streamlined tax assessment process, contingent upon the gross annual income not surpassing EUR 200,000 and the absence of an election for organized accounting practices. Under this regimen, tax liability is determined via a coefficient applied to gross income, with the deduction of expenses contingent upon the substantiation of incurred expenditures directly related to the activity (Pereira 2023; Reis et al. 2022).

3.1.2. Taxation of Corporate Income

The taxation of corporate income is a complex area that affects different forms of profit and income generated by legal entities in Portugal. This tax covers several situations, such as profits obtained by companies headquartered or effectively managed in the country and commercial, industrial, agricultural or other business activities carried out by resident or non-resident entities with a permanent establishment in Portuguese territory (Sarmiento et al. 2020). The taxation of business income is determined based on different factors, including taxable profit, which can be reduced by tax losses, tax deductions and withholding taxes, among others (Vasques 2016). Taxation rates for corporate income vary depending on the nature of the activity and the company’s geographic location. For example, the normal taxation rate for corporate income is 21% for companies based in mainland Portugal but can be reduced to 14.7% in the Autonomous Region of Madeira and the Autonomous Region of the Azores (Sarmiento et al. 2020).

For small- and medium-sized enterprises (SMEs), there are reduced taxation rates for corporate income that can be applied to the first EUR 50,000 of taxable income, with amounts that vary according to location and other specific characteristics of the company (Vasques 2016). In addition, state and local surcharges, known as Derrama, are charged, which vary according to the company’s taxable profit and its geographic location (Sarmiento et al. 2020).

These tax policies have a significant impact on companies in Portugal, influencing investment decisions, capital structure, and geographic location of business activities. Therefore, understanding the nuances of corporate income taxation is essential for managers, investors, and accounting and finance professionals operating in the Portuguese business context.

3.2. Taxation of Business Income in Germany

3.2.1. Taxation of Personal Income

According to the provisions of the German tax code, known as “Abgabenordnung” (AO 2017), business income is defined in Article 2, Section 1S.1 No. 1–3 of the “Einkommensteuergesetz” as profits arising from commercial, industrial, agricultural, or professional activities carried out by companies and other forms of entities (der Finanzen 2024).

The taxation of business income in Germany is governed by article 8 of the AO and follows the principle of global taxation, where all an individual's income is added together and taxed as a single source of income. This calculation includes business income, salaries, and other sources of income. Tax rates are progressive, varying according to income level, with rates for individuals ranging between 14% and 45%. In addition to income tax, a solidarity contribution of 5.5% is applied, as well as a religious tax that can vary between 8% and 9% on taxable income.

Tables 1 and 2 expose the tax rates applicable to the individual taxpayers and married taxpayers in Germany.

Table 1. Tax rates applicable to individual taxpayers for the financial year 2023.

Tax (%)	Tax Base (EUR)
0	Until 10,908
14–42	10,909–62,809
42	62,810–277,825
45	From 277,826

Source: PWC-DE (2023).

Table 2. Tax rates applicable to married taxpayers for fiscal year 2023.

Tax (%)	Tax Base (EUR)
0	Until 21,816
14–42	21,816–125,618
42	125,620–555,650
45	From 555,650

Source: PWC-DE (2023).

In addition to the main tax, there is a commercial tax on corporate income in Germany, with a standard rate of 15% (and a possible reduced rate). However, an exemption is provided for individuals and companies earning up to EUR 24,500 in business income (not applicable to companies). In addition, these incomes are subject to a solidarity tax of 5.5% and a municipal tax of 7% to 17%, depending on the municipality. In total, taxes on corporate income vary between 30% and 33%, including solidarity tax.

3.2.2. Corporate Income Taxation

Corporate income is taxed on global income in accordance with Article 8 of the AO. Income earned by entities not resident in Germany is generally exempt from taxation as set out in double taxation conventions. However, non-residents with a permanent establishment are only taxed on German-source income such as royalties and dividends, while foreign-source income is completely tax-free in Germany. For example, foreign-sourced interest is generally completely tax-free in Germany (Bader et al. 2024).

In the case of entities resident in Germany, company profits are subject to two taxes. Firstly, the corporate tax, known as Körperschaftsteuer, is applied at a uniform rate of 15%, as set out in the Körperschaftsteuergesetz (2017). Additionally, a 5.5% surcharge, called the solidarity surcharge, is added, resulting in a total tax rate of 15.825%. Secondly, there is the business tax, which combines a uniform rate of 3.5% (base rate) with a municipal tax (Hebesatz), which varies depending on the location of the company's permanent establishments. According to GewStg (2023), municipalities with at least 80,000 inhabitants charge a business tax ranging between 8.75% (250% Hebesatz) and 20.3% (580% Hebesatz). The basis for this tax is profit adjusted for the purposes of calculating corporation tax, including 25% of all financing costs above EUR 200,000, including implicit financing costs such as leasing and royalties.

3.3. Taxation of Business Income in Luxembourg

3.3.1. Taxation of Personal Income

Luxembourg's tax code, known as the "Code des Impôts sur les Revenus" (CIR 2023), defines business income in its article 14, covering commercial, industrial, agricultural, professional, or self-employed activities, and establishes the taxation regime for such income (Chaouche and Lyaudet 2023). The taxation of business income is governed by Article 194 of the CIR, based on the principle of global taxation, covering all types of income related to the business activity, whether main or ancillary. This code also taxes the income of non-residents, in parallel with residents.

The tax rates applied to each taxpayer vary according to their personal situation and are divided into three classes: Class 1 for singles, Class 2 for married or cohabiting, and Class 1a for singles with minor children or taxpayers over the age of 65 as of January 1 of the tax year.

Non-residents can opt for joint taxation under the 2nd class of taxation if they meet certain conditions, such as having most of the taxable income in Luxembourg or that the household income outside the country does not exceed a certain threshold (Chaouche and Lyaudet 2023). In this case, taxpayers must submit payslips or tax returns from the relevant authorities. To determine the tax rate to be applied to Luxembourg-sourced income, the taxpayer's total income, including foreign income, is considered (principle of progressive taxation). Tax rates are progressive, ranging from 8% to 42%, with an additional solidarity rate of 7%, and can reach 9% for taxpayers with incomes above certain thresholds (Chaouche and Lyaudet 2023).

Table 3 exposes the single taxpayer in Luxembourg.

Table 3. Single taxpayer (Class 1 and Class 1a).

EUR	Tax Rate on Income in Bracket Percent
11,265	0
13,173	8
15,009	9
16,881	10
18,753	11
20,625	12
22,569	14
24,513	16
26,457	18
28,401	20
30,345	22

Source: PWC-LU (2023).

Social security contributions in Luxembourg are mandatory for employers and employees, levied on gross salary and divided into two distinct categories. For health, the contribution is 3.05% of gross income, limited to a monthly maximum of EUR 11,566.88 (with an annual ceiling of EUR 138,802.56). For pension or retirement, the contribution is 8% of gross income, with the same monthly and annual maximum value limits (Chaouche and Lyaudet 2023).

Furthermore, workers, whether residents or not, who contribute to Luxembourg social security, are subject to the dependency contribution, calculated on the gross professional income reduced by EUR 578.34 per month (i.e., EUR 6940.08 annually). This contribution is levied on overall net income, except for interest earned from IRC, which is exempt from income tax. The dependency contribution rate is set at 1.4% (Chaouche and Lyaudet 2023).

3.3.2. Taxation of Corporate Income

Corporate income of legal entities in Luxembourg is regulated by article 17 of the Income Tax Code (CIR 2023). A variety of legal forms of capital companies are available, including public limited companies (SA), simplified public limited companies (SAS), limited

partnerships with shares (SECA or SCA), sole proprietorships with limited liability (SARL), limited liability companies simplified, single-member European companies (SE), and European companies with several partners, in addition to other entities such as cooperative societies, non-profit associations, and religious congregations (Ferré 2023).

For resident companies, taxation is levied on all income, while for non-resident companies, only income of Luxembourg origin is taxed. The corporate income tax rate varies according to the amount of taxable income, as established in article 107 of the CIR. For example, for a tax base under EUR 175,000, the rate is 15%, while for a tax base over EUR 200,000, the rate is 17%, with a solidarity surcharge of 7% and a municipal tax of 6.75% of the normal IRC rate. The municipal commercial tax, charged by the communes, varies from municipality to municipality, being, for example, 6.75% for the city of Luxembourg. The combined effective rate of the IRC, solidarity surcharge, and municipal business tax for Luxembourg City is 24.94% (Ferré 2023).

It is important to highlight that the IRC does not apply to entities with fiscal transparency, such as limited partnerships and European economic interest groupings, unless they are subject to the inverse hybrid rules, as established by Directive (EU) 2016/1164, as amended by Directive (EU) 2017/952.

3.4. Taxation of Business Income in The Netherlands

3.4.1. Taxation of Personal Income

In The Netherlands, the current tax code is “Wet inkomstenbelasting 2001” (Niessen 2016). According to IB 2001, article 3, chapter 3, section 3.2.1-11, corporate income comes from business activities and taxation of residents is carried out based on the principle of universality of income, while non-residents are taxed only in relation to income derived from specific sources (salaries, fees, business income, and income from real estate property located in The Netherlands) (Bruin et al. 2023; Ben Taleb et al. 2023).

Income is divided into three categories, called “box”, each with a different rate. An individual’s tax base is determined by aggregating income from the three categories:

- Box 1: Taxable income from work and real estate income, including work income, real estate income, periodic receipts and payments, and benefits in kind;
- Box 2: Taxable income from substantial interest;
- Box 3: Taxable income from savings and investment.

This study only addresses the taxation of business income included in box 1, as shown in Table 4 (Bruin et al. 2023; Ben Taleb et al. 2023).

Table 4. Applicable rates of return for the financial year 2023 of Box 1.

Taxable Income (EUR)	Rate for Column 1	Rate on Remainder (%)
Above (column 1)		
0	37.149	-
37.149	73.031	3.447
73.031		13.251
		49.50

Source: PWC-NL (2023).

In the first bracket of Box 1, a national insurance tax is applied at a rate of 27.65%. Under Dutch tax law, several criteria are used to determine the place of residence, including the place of stay at home, the place of work, the place of residence of the taxpayer’s family, the place registered with the local authorities, the place of bank accounts or other assets, and the duration of stay in The Netherlands.

An expatriate is generally considered resident in The Netherlands if, as a married person, he relocates his family to The Netherlands or, as a single person, stays in The Netherlands for more than one year. Non-residents are entitled to certain deductions and tax benefits like resident taxpayers, provided they meet a set of conditions, including that

90% or more of the income is subject to taxation in The Netherlands and the taxpayer is resident in another EU Member State, in Bonaire, Iceland, Liechtenstein, Norway, Saba, Sint Eustatius, or Switzerland. To benefit from this regime, non-residents must submit an income declaration to the tax authorities of the country of residence.

3.4.2. Taxation of Corporate Income

According to Article 2, Chapter 2, Section 2.3.1-12 of the IB 2001, business income obtained by entities resident in The Netherlands is subject to taxation based on the principle of universality, although some income may be exempt or excluded from taxation. On the other hand, non-residents are taxed only on Dutch-source income in accordance with the principle of source taxation.

The corporate income tax (IRC) rate, as established in article 5, chapter 2, Section 2.1-16 of IB 2001, varies according to income. The standard rate is 25.8%, with two brackets applying to determine the rate: income up to EUR 395,000 is subject to a rate of 15%, while income above this amount is subject to the standard rate of 25.8%.

There is a special tax regime for tax investment funds (Fiscale Beleggingsinstellingen—FBI), whose IRC rate is generally 0%, if the profit is distributed to shareholders within eight months after the end of the tax year. On the other hand, exempt Investment Funds (Vrijgestelde Beleggingsinstellingen—VBI) can benefit from CIT exemption if they meet the requirements of the Dutch Financial Supervision Act.

The Innovation Box regime, provided for IB 2001, offers a lower effective tax rate on taxable profits derived from the development of intangible assets, with a rate of 9% from 1 January 2021. This regime allows for a reduction in tax rate for companies that have incurred qualified research and development costs for the development of intellectual property.

3.5. Taxation of Business Income in Belgium

Taxation of Personal Income

In Belgium, tax legislation is governed by the Personal Income Tax Code (IRPF). This code stipulates that residents are taxed based on their global income, regardless of their nationality, while non-residents, without domicile in Belgium, are only taxed on income originating in Belgium.

Personal income tax is calculated based on the taxpayer's income brackets and consists of two main parts: the federal Personal Income Tax and the regional Personal Income Tax. For the year 2023, federal tax rates vary between 25% and 50%. With the 6th Reform, Belgian regions have the autonomy to apply surcharges on the federal personal income tax and offer reductions and tax credits. Tax rates may therefore vary depending on the taxpayer's region of residence on January 1 of the tax year.

Tax rates are uniform for residents and non-residents, but some tax benefits may be granted to non-residents as long as at least 75% of their professional income comes from Belgium. Personal income tax brackets are applied to net taxable income after deducting social security contributions and professional expenses.

Table 5 exposes the tax brackets for the financial year 2023 in Belgium.

Table 5. Tax brackets for the financial year 2023.

Taxable Income (EUR)		Tax (%)	Tax Due	
From	To			
0	15,200	25	3800	3800
15,200	26,830	40	4652	8452
26,830	46,440	45	8824.5	17,276.5
More than 46.440		50		

Source: [Federale Overheidsdienst Financiën \(2023a\)](#) and [PWC-BE \(2023\)](#).

Regarding the taxation of capital income in Belgium, there is a special regime that addresses interest, dividends, and other forms of investment. Interest and dividends from Belgian financial institutions are taxed at a flat rate of 30%. Interest on ordinary savings accounts is tax-free up to EUR 980 (for the 2023 income year). Amounts above this limit are taxed at 15%. Dividends are exempt up to EUR 800. In the case of foreign interest and dividends received by Belgian residents, these must be declared in the annual income declaration at net value, after deduction of foreign withholding tax, but are not subject to EU taxes.

As for community taxes, for Belgian residents, they are applied at a rate ranging from 0% to 9% of the tax due on income. The average rate is 7%. Non-residents face a flat 7% surcharge. In certain cases, EU taxes may also apply to exempt income from foreign sources.

3.6. Corporate Income Taxation

In Belgium, a company’s income is generally considered business income and is taxed based on financial statements following widely accepted accounting principles (Federale Overheidsdienst Financiën 2023a). The corporate income tax rate is 25% in 2023 and applies to both Belgian resident companies (with global income) and permanent establishments of non-resident foreign companies (withholding tax). For SMEs, there is a reduced rate of 20% on the first EUR 100,000 of profit (Federale Overheidsdienst Financiën 2023a).

In addition to the corporate income tax rate, companies are subject to a surcharge, which is calculated based on the final corporate income tax value at the time of assessment and can be avoided with sufficient advanced tax payments. For tax years 2022 and 2023, the surcharge is 6.75% (Federale Overheidsdienst Financiën 2023b). There is also a tax on “secret commissions” for expenses not properly identified, such as commissions, fees, or bonuses (Federale Overheidsdienst Financiën 2023b).

Remunerations and compensation paid to employees and former employees, as well as fixed subsidies granted to employees to reimburse real costs incurred on behalf of the company, are included in taxable income under corporate income tax (Lauwers 2024). There is a minimum tax base for companies with taxable profit exceeding EUR 1 million, and a limit on deductions, with 70% of deductions accepted up to the amount of profits that exceed the limit of EUR 1 million (Lauwers 2024).

With the possible entry into force of the draft Council Directive (COM/2021/823), which establishes a global minimum level of taxation for multinational groups in the EU (Pillar 2 of OECD BEPS 2.0), it is expected that there will be tax deductions for reported losses, dividends received, income resulting from technological innovation, and notional interest (Federale Overheidsdienst Financiën 2023b).

Table 6 presents a summary of the taxation of personal and corporate income per country.

Table 6. Taxation of personal and corporate income, summary per country.

Country	Taxation of Personal Income	Taxation of Corporate Income
Portugal	- Taxation under personal income tax regime.	- Governed by corporate income tax.
	- Two primary regimes: “simplified regime” and “normal regime”.	- Covers profits from various business activities.
	- Tax liability determined by applying coefficient to gross income.	- Taxation based on taxable profit reduced by tax losses, deductions, and withholding taxes.
	- Expenses deductible upon substantiation.	- Normal IRC rate: 21%.
Germany		- Reduced rates for SMEs.
		- Additional state and local surcharges (“Derrama”) based on taxable profit and geographic location.
	- Taxation under income tax code.	- Governed by corporate income tax (Körperschaftsteuer).
	- Global taxation principle.	- Uniform rate of 15%, plus 5.5% solidarity surcharge.
	- Progressive tax rates for individuals (14–45%).	- Municipal business tax varies (8.75–20.3%).
- Solidarity contribution of 5.5%.	- Total corporate income tax ranges between 30 and 33%.	
- Religious tax applicable (8–9%).	- Exemption for business income up to EUR 24,500.	

Table 6. Cont.

Country	Taxation of Personal Income	Taxation of Corporate Income
Luxembourg	<ul style="list-style-type: none"> - Taxation under income tax code (CIR 2023). - Progressive tax rates (8–42%). - Additional solidarity tax (7%). - Municipal commercial tax. 	<ul style="list-style-type: none"> - Regulated by income tax code. - Corporate income tax rates vary (15–17%). - Surcharge and municipal tax added to the total rate. - Combined effective rate for Luxembourg City: 24.94%. - Exemption for certain entities with fiscal transparency.
Netherlands	<ul style="list-style-type: none"> - Taxation under “Wet inkomstenbelasting 2001” (IB 2001). - Progressive tax rates for individuals. - Separate categories for different income sources. 	<ul style="list-style-type: none"> - Business income taxation under IB 2001. - Corporate income tax rate: 25.8%. - Reduced rate for income below EUR 395,000. - Special regimes for tax investment funds and innovation box.
Belgium	<ul style="list-style-type: none"> - Taxation under personal income tax code. - Progressive tax rates for individuals (25–50%). - Regional surcharges applicable. 	<ul style="list-style-type: none"> - Corporate income considered business income. - Corporate income tax rate: 25%. - Reduced rate for SMEs. - Surcharge added to the corporate income tax rate. - Taxation of remunerations and compensation. - Minimum tax base for companies with profit exceeding EUR 1 million. - Deductions limited to 70% of profits exceeding EUR 1 million. - Potential deductions expected with the implementation of global minimum taxation directive.

Source: Authors formulation.

4. Methodology

The dynamics of corporate income taxation varies significantly between the countries analyzed. This study is based on institutional theory and follows the technique of document analysis to describe the characteristics of a given population. Hale (2002), Eccleston (2004), and Marriott and Holmes (2006) have successfully utilized institutional theory to explain the development of tax policy and differences in tax policy evolution across countries.

Institutional theory provides us with a focus on the effects of institutions on political outcomes, such as policy formation (Marriott and Holmes 2006). As organizations or individuals must act through the State to achieve certain political objectives, the rules and institutions within the State can have a significant impact on outcomes (Gourevitch 1986).

According to Horodnic (2018), institutional theory provides an adequate theoretical basis for exploring fiscal morality.

In this sense, tax morale is seen primarily as a result of the interaction between formal and informal institutions, and an asymmetry in a society between the laws and regulations of its formal institutions, and the socially shared unwritten norms of its informal institutions will result in low morale (Horodnic 2018). In this sense, this article will consider the different countries under analysis (Portugal, Germany, Luxemburg, Netherlands, and Belgium), with different laws and will discuss the great asymmetries between them.

These methods were applied in other fiscal research (e.g., Pinho et al. 2023). To prepare the empirical study, secondary data were used, essentially coming from the official websites of each zone.

The data in this study are reported for the year 2023.

5. Comparative Analysis

The taxation of corporate income in terms of corporate income tax and personal income tax varies significantly according to the tax legislation of each country. For a comparative analysis between Portugal, Germany, Belgium, The Netherlands, and Luxembourg, we outline hypothetical scenarios to illustrate taxation in each country:

- In Belgium, the business income of individuals is taxed progressively, with a marginal rate that varies between 25% and 50%. Additional social contributions may apply;

- In The Netherlands, business income is taxed through the personal income tax (Inkomstenbelasting) and value-added tax (BTW). Tax rates are progressive, ranging between 9.7% and 49.5% in 2023;
- In Luxembourg, business income of individuals is subject to personal income tax, with progressive rates ranging between 8% and 42%. In addition, there are municipal and solidarity taxes;
- In Portugal, business income of individuals is taxed via the personal income tax (IRS), with marginal rates ranging between 14.5% and 48%. Additionally, there is an additional solidarity fee for higher incomes;
- In Germany, business income of individuals is subject to income tax (Einkommensteuergesetz 2023) and value-added tax (Umsatzsteuer). Personal income tax is progressive, with rates between 14% and 45%. A solidarity contribution of 5.5% and a religious tax that can vary between 8% and 9% on taxable income also apply.

For a more in-depth understanding of the different levels of corporate income taxation in the countries under analysis, we will carry out a simulation considering various levels of net income. We will take as an example a fictitious company, XPTO LTD, active in the ceramics industry, whose net taxable income varies between EUR 150,000 and EUR 500,000. Furthermore, we will consider the net taxable income of Mrs. Marques, one of the company's partners, which varies between EUR 30,000 and EUR 100,000, after deductions, social security contributions, and professional expenses. This analysis will allow a comprehensive comparison of income taxation in the countries in question.

Figure 1 explores the tax due in different countries at different levels of net income.

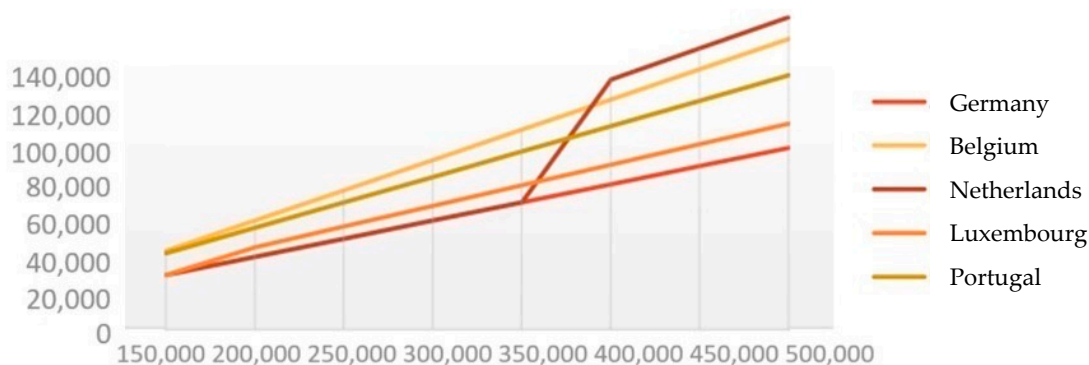


Figure 1. Tax due in different countries at different levels of net income (CIT). Source: Author calculations.

Based on the scenarios presented, it is possible to observe that the countries with the lowest tax burden on corporate income are The Netherlands and Germany, followed by Luxembourg, Portugal, and, finally, Belgium. However, this trend continues up to the EUR 350,000 net income limit. Differences in marginal tax rates, income brackets and tax deductions can significantly influence the final tax burden. It is important to highlight that the values presented are estimates based on tax rates and do not consider other tax factors, such as deductions, social contributions, and other obligations specific to each country.

To make the tax regime in Portugal more favorable for companies, some measures could be implemented:

- Reduction in corporate tax rates, aiming to make the tax system more attractive for companies. This could be achieved by lowering effective tax rates on profits or introducing progressive brackets, with lower rates for small and medium enterprises (SMEs). For example, a reduction in the base rate from 21% to 15% on the taxable profits of all companies could attract investment and stimulate job creation;
- Implementation of tax incentives for investment and innovation, especially for the acquisition of technological equipment. This could boost business growth. The introduction of tax benefits for research and development, as well as the creation of startups, could promote sectors with high economic potential;

- Reinforcement of fiscal and financial incentives for investment in less-developed regions, aiming to decentralize economic activity and promote more balanced regional growth.

These suggested measures are based on the results of the comparative study and aim to make the Portuguese tax regime more favorable for companies. However, any change to the tax regime must be carefully analyzed to ensure economic stability and fiscal sustainability.

Regarding the analysis of corporate income in terms of personal income tax, data relating to the simulation of different scenarios will be presented.

Figure 2 explores the tax due in different countries at different levels of net income.

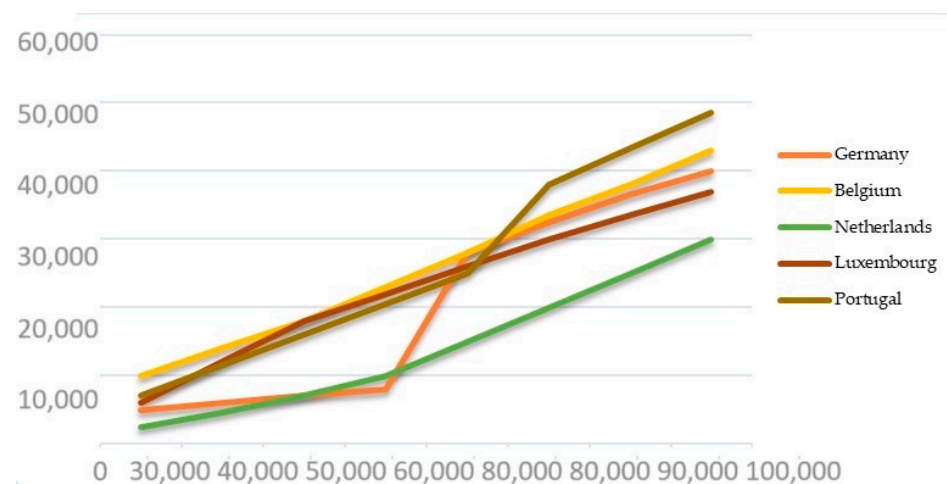


Figure 2. Tax due in different countries at different levels of net income. Source: Author calculations.

The taxation of corporate income in terms of personal income tax, varies significantly between the countries analyzed, with The Netherlands initially presenting a more favorable taxation, followed by Luxembourg, Germany, Belgium, and, finally, Portugal. However, as net income increases, differences in taxation arise, resulting in variations across the countries considered. For example, between EUR 40,000 and EUR 50,000, Germany becomes more tax-friendly compared to The Netherlands, while the same happens between Belgium and Luxembourg. Another relevant point is that, although Germany becomes less favorable up to a certain limit, it is overtaken by The Netherlands and Luxembourg in that range. Portugal is identified as the least favorable country among all those analyzed.

In general terms, the taxation of corporate income in the countries studied has the following characteristics:

- Belgium has a complex tax system, with corporate taxes varying according to the location and nature of the company's activities. The basic corporate tax rate is 25% and can reach around 30% with the inclusion of municipal taxes on companies, which vary according to the city and can reach 6.75% on taxable profit in Brussels;
- The Netherlands has a business-friendly tax system, with a corporate tax rate of 15% on the first EUR 245,000 of profit and 25% on profits above that amount. Additionally, there are tax benefits for innovative companies involved in research and development;
- Luxembourg is also recognized for offering an advantageous tax system for companies, with a corporate tax rate of 17% and a special tax regime for financial activities, resulting in potentially lower taxation for these companies;
- Portugal has made efforts to improve its tax system and attract foreign investment, with a corporate tax rate of 21% on the first EUR 15,000 of profit and 31.5% on profits above that amount. However, there are special tax regimes for certain activities that can benefit from a reduced tax rate;

- Germany has a complex tax system, with relatively high corporate tax rates. The basic rate of corporation tax is 15%, but with the addition of a 5.5% solidarity contribution on CIT, resulting in an effective rate of 15.825%. Additionally, there are municipal taxes on commerce that can significantly increase the effective tax rate.

It is important to highlight that this analysis provides a general and simplified view of the taxation of corporate income in the countries studied. In addition to corporate tax rates, other relevant factors such as tax benefits, investment incentives, double-taxation conventions, and the general business environment must be considered for a complete assessment of each country's tax regime.

Regarding the institutional theory point of view, we identify different institutional contexts.

Belgium's complex tax system reflects its fragmented political structure and the need to address regional disparities. Municipal taxes can vary significantly, adding to the complexity. This system indicates strong local governance and regional autonomy within the tax framework.

The Netherlands' business-friendly tax system with specific benefits for innovation and research indicates a policy focused on fostering a competitive and innovative business environment. This aligns with the Dutch institutional emphasis on economic liberalism and support for entrepreneurship.

Luxembourg's advantageous tax system, especially for financial activities, highlights its role as a financial hub. The institutional framework is designed to attract multinational companies and investments, reflecting a strategic national policy to position Luxembourg as a key player in global finance.

Portugal's efforts to attract foreign investment through special tax regimes indicate a policy shift towards economic openness. The higher rates for corporate profits suggest a need to balance fiscal revenues with investment incentives, reflecting institutional priorities of economic stability and growth.

Germany's tax system, with its complexity and relatively high rates, reflects the country's robust social welfare system and federal structure. The solidarity contribution, initially implemented for rebuilding East Germany, illustrates how historical and socio-political factors influence tax policies. The religious tax also underscores the institutional integration of church and state affairs in financial matters.

6. Conclusions

In conclusion, the taxation of corporate income, both in terms of corporate income tax and personal income tax, exhibits considerable variability across the countries under analysis. The hypothetical scenarios outlined provide insight into the intricacies of taxation in Belgium, The Netherlands, Luxembourg, Portugal, and Germany, shedding light on the nuances of each country's tax regime.

From the comparative analysis, it becomes evident that The Netherlands and Germany initially offer the most favorable tax burdens on corporate income, followed by Luxembourg, Portugal, and finally Belgium. However, this trend is subject to change as net income levels increase, with variations arising due to differences in marginal tax rates, income brackets, and tax deductions among the countries considered.

To enhance the tax regime for businesses in Portugal, several measures could be considered, including the reduction in corporate tax rates to attract investment and stimulate job creation, the implementation of tax incentives for innovation and investment, and the reinforcement of fiscal incentives for less developed regions to promote balanced regional growth.

The suggested measures aim to address the findings of this comparative study and make the Portuguese tax regime more favorable for businesses. However, any changes to the tax regime must be carefully evaluated to ensure economic stability and fiscal sustainability.

Moreover, the analysis of corporate income in terms of personal income tax highlights variations in taxation across the countries studied, with The Netherlands initially presenting a more favorable scenario, followed by Luxembourg, Germany, Belgium, and Portugal. However, these rankings can shift as net income levels change, underscoring the importance of considering multiple factors beyond just tax rates when evaluating each country's tax regime.

Using institutional theory to examine the taxation of corporate income highlights how tax policies are shaped by broader institutional contexts, including economic, political, and social factors. The comparative analysis across Portugal, Germany, Belgium, The Netherlands, and Luxembourg reveals significant variations influenced by each country's unique institutional frameworks. These insights can guide policymakers in designing tax systems that align with their institutional objectives, fostering economic growth while maintaining fiscal stability.

In summary, while this analysis provides valuable insights into the taxation of corporate income in the countries under review, it is essential to recognize that tax regimes are multifaceted and influenced by a myriad of factors. Therefore, a comprehensive understanding of each country's tax framework is crucial for making informed decisions regarding business operations and investments.

This study has limitations, namely at the sample level; there are only five countries. It would be relevant for future studies to include more countries and be able to have a global view of the comparison of these income rates.

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