0Haven Indicator 15: Deduction limitation for interest

What is measured?

This indicator focuses on the limitation of interest expenses by using a fixed ratio rule. It measures whether or to what extent a jurisdiction applies a fixed ratio rule to limit the deduction of interest paid to non-resident group affiliates ('intra-group interest payments') from the corporate income tax base.

Jurisdictions may use various measures to limit the deduction of intra-group interest payments.[1] The leading model used by the Organisation for Economic Co-operation and Development (OECD) is the fixed ratio rule based on the entity's net interest-to-Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) ratio.[2] This has been inspired by a rule that was first introduced in Germany in 2008. In Action 4 of the Base Erosion and Profit Shifting (BEPS) project, the OECD recommends the adoption of a fixed ratio rule based on the net interest-to-EBITDA ratio and set a corridor of 10%-30% EBITDA as the best practice measure to tackle base erosion and profit shifting involving interest payments ('best practice measure').[3] Later, in 2016, the European Union employed the best practice measure limitation rule suggested by the OECD, and included it in its Anti-Tax Avoidance Directive.[4]

In practice, the EBITDA-based interest limitation rule means that companies are not able to deduct intra-group interest payments from the pre-tax profit of a company if they exceed the aforementioned fixed corridor. For example, if a company has €100 of earnings (EBITDA), from which it pays €40 in intra-group interest payments, and is required to apply the best practice measure of 30% EBITDA, the allowable deduction will be limited to €30. This means that €10 of the €40 intra-group interest payments could not be deducted according to the rule. As a consequence, these €10 would be included in the taxable profit of a multinational corporation.

The scoring matrix is shown in Table 15.1, with full details of the assessment logic presented in Table 15.4 below.

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Table 15.1: Haven scoring matrix for haven indicator 15

Regulation	**Haven Score** [100 points = maximum risk; 0 points = minimum risk]
<u>No limits are applied on the deduction</u> No limits are applied on the deduction of intra-group interest payments.	100
<u>Either the group ratio rule or the global debt-to-equity ratio opt-in is applied (regardless of whether the applied restrictions on the deductions are lax or not)</u> Restrictions are applied in combination with a group ratio rule or global debt-to-equity ratio opt-in.	90
<u>Lax restrictions are applied on the deduction (but no group ratio rule or global debt-to-equity ratio opt-in)</u> A deduction is allowed either for intra-group interest payments worth 30% EBITDA (or above) and/or for other interest deduction limitation method using a fixed ratio rule (e.g. automatic application of thin capitalisation rules). The haven score increases in 5 points if an exclusion provision for financial undertakings is applied.	75 80 if financial undertaking exclusion is applied
<u>Restrictions are applied on the deduction (but no group ratio rule or global debt-to-equity ratio opt-in)</u> A deduction is allowed for intra-group interest payments worth between 10% EBITDA and below 30% EBITDA. The haven score increases in 5 points if an exclusion provision for financial undertakings is applied.	50 55 if financial undertaking exclusion is applied
<u>No deduction of intra-group interest payments is permitted</u>	0

A 100 points haven score is given if a jurisdiction applies no limits on the deduction of intra-group interest payments. The haven score of a jurisdiction is reduced to 75 points in two cases which we consider as lax restrictions on interest deductions:

a) a jurisdiction allows an interest deduction limitation only for payments worth 30% EBITDA or above; or
b) the jurisdiction allows any other interest deduction limitation method using a fixed ratio rule, such as thin capitalisation rules based on a debt-to-equity test, unless their application is discretionary rather than automatic.[5]

This is because when a country applies thin capitalisation rules based on comparisons with corporate indebtedness in arm's length situations,[6] the impact of thin capitalisation rules on total leverage is reduced to about half.[7] We treat jurisdictions as if no interest deduction limitation method is applied in cases where thin capitalisation is discretionary, like in Switzerland. This is based on the weakest link principle used in the Corporate Tax Haven Index.[8]

The haven score is further reduced to 50 points if a jurisdiction applies the best practice measure and allows a deduction limitation for payments worth between 10% EBITDA and below 30% EBITDA.

Alongside the best practice measure, the OECD recommends the introduction of a group ratio opt-in rule, which weakens the deduction limitation by allowing an entity to exceed the 30% limit in certain circumstances based on a relevant financial ratio of its worldwide group.[9] This group ratio rule opt-in rule allows a company with net interest expenses above the jurisdiction's fixed ratio to deduct interest up to the level of its group's net third party interest-to-EBITDA ratio or a benchmark fixed ratio based on relevant financial ratio of its group, such as equity-to-total assets. In other words, it enables a company to deduct a higher level of interest expense. Therefore, we consider this group ratio opt-in rule an escape clause from the interest deduction ceiling, undermining the application of the best practice measure.[10] The same holds true for applying a safe-harbour debt-to-equity ratio for thin capitalisation rules given that this allows a company to fully deduct the interest as loss as the fixed proportion is not exceeded.[11] Thus, in cases where either the group ratio rule or the global debt-to-equity ratio rule opt-in is enabled, then regardless of whether the restrictions applied on the deduction are lax or not, we consider it as an exception to the best practice measure and the haven score is reduced only to 90 points (rather than to 75 in the case of lax restrictions or to 50 points in the case of stronger restrictions) .

In addition, the OECD indicates a problem in applying the EBITDA-based interest limitation rule on entities operating in banking and insurance groups, as well as on regulated banks and insurance companies in non-financial groups.[12] This is because, according to the OECD, fixed ratio rules will either have no impact on these sectors or are not a suitable measure for economic activity across them. Nonetheless, the OECD emphasised that its recommendation does not imply complete exclusion of these sectors from the best practice rule but rather specific fixed ratio rules should be applied that are designed to address the risks these sectors pose. The OECD also mentioned that further work is required to identify these specific rules.[13] However, following public consultations on interest limitation rules in the banking and insurance sectors[14] and receiving comments,[15] the OECD has not produced any specific limitation rules for the banking and insurance sectors in its latest update of Action 4.[16] In a similar way, the EU Anti-Tax Avoidance Directive introduced a carve out provision in Article 4 (paragraph 7) while declaring in its preface that "the discussions in this field are not yet sufficiently conclusive [...] to provide specific rules".[17] Given that these kinds of specific rules are yet to be designed, we consider that applying the exclusion provision for financial undertakings without providing specific limitation rules is a loophole in the tax system. For this reason, in cases where a country applies the exclusion provision for financial undertakings but does not provide a corresponding specific limitation rule for these sectors, we increase the haven score by 5 points.

A zero haven score is granted if a jurisdiction does not permit any deductions of intra-group interest payments at all.

The data for this indicator was collected primarily from country analyses and country surveys in the International Bureau of Fiscal Documentation (IBFD) database.[18] In some instances, we have also consulted additional websites and reports of accountancy firms, academic journals and other local websites.

All underlying data can be accessed in the Corporate Tax Haven Index database[19]. To see the sources we are using for particular jurisdictions please consult the assessment logic in Table 15.4 and search for the corresponding info IDs (IDs 517, 518 and 519) in the database report of the respective jurisdiction.

Why is this important?

In most countries, interest on debt is considered a deductible cost, which reduces the tax base. In contrast, dividend, or other equity returns, are generally not deductible. The difference in the tax treatment of debt and equity in the cross-border context creates a tax-induced bias towards debt financing because the more debt a company takes on, the more interest it pays. This in turn reduces its tax bill. The opportunities surrounding outbound investment potentially create competitive distortions between multinational companies and entities operating in the domestic market. Such distortions set up tax preferences for assets to be held by multinational companies rather than domestic companies, and thus undermine capital ownership neutrality.[20]

The distortion is also used by many multinational companies to avoid taxes.[21] Multinational companies can easily shift profits to tax havens by heavily loading subsidiaries operating in high-tax jurisdictions with debt and then use excessive deductions and make interest payments to low tax jurisdictions. The difference in the tax treatment of debt and equity can also lead to other forms of base erosion and profit shifting. This includes using hybrid instruments that give rise to deductible interest payments with no corresponding taxable income and using loans to invest in assets resulting in returns that are not taxed or taxed at a reduced rate.[22] These forms of base erosion and profit shifting lead countries to engage in the race to the bottom in taxation, while reducing governments' revenues needed to protect the human rights of their citizens.

For all these reasons, cross-border intra-group financing makes intra-group interest payments one of the most important concerns for tax base erosion for both developed and developing countries. Developing countries are even more prone to the erosion of their tax base through outbound intra-group interest payments because of their dependence on foreign direct investment, which is mostly financed by loans.[23]

To prevent base erosion and profit shifting arising from the excessive deduction of intra-group interest payments, some jurisdictions adopt limitation rules, but many of these rules have not been very successful so far. The OECD explains the reason for this:

> the fungibility of money and the flexibility of financial instruments have made it possible for groups to bypass the effect of rules and replicate similar benefits using different tools. This has led to countries repeatedly introducing new rules, or amending existing ones, creating layers of complexity without addressing the key underlying issues.[24]

To address this problem, the OECD in Action 4 recommends countries adopt the best practice measure of a fixed ratio rule based on a net interest-to-EBITDA ratio within 10%-30%, as explained above. This current best practice measure represents a very soft approach and it may not even address the targeted problem. This is because setting the top margin of the fixed ratio on 30% of EBITDA is very high. It comes as no surprise that the highest margin of 30% has been chosen by many countries that have adopted the new best practice measure.[25] This high ratio will probably impact only a small number of highly indebted companies.[26]

In order to discourage companies from over-leveraging themselves, it would be more effective if jurisdictions adopt at least the lower margin of the best practice rule, that is, 10% of EBITDA. Unfortunately, some countries have moved from the lower to the upper margin or even replaced a more rigorous measures with the EBITDA-based limitation rule. For example, Romania first introduced 10% of EBITDA-based limitation rule for intra-group interest payments, effective as of 1 January 2018.[27] However, not long after, it raised the interest deduction limitation cap from 10% to 30% of EBITDA, effective as of 1 January 2019.[28] Similarly, Denmark has changed from an EBIT-based limitation to EBITDA-based limitation when it transposed the EU Anti-Tax Avoidance Directive into domestic law.[29] This represents a softening of the deduction limitation rules and facilitates more interest-driven profit shifting.

Some argue that applying a fixed ratio rule is a blunt tool as it does not take into account that groups operating in different sectors may require different amounts of leverage. According to their claim, even within a specific sector, some groups may be more highly leveraged for non-tax reasons and a fixed ratio rule could lead to double taxation for groups which are leveraged above this level.[30] However, if these highly leveraged groups existed in reality, the deduction limitation could incentivise a de-leveraging of these groups in order for them to avoid double taxation. Furthermore, in order to mitigate against the claimed risks of double taxation, the group ratio rule could be implemented. Yet, the implementation of this rule requires a jurisdiction to have detailed financial information about the specific worldwide group and in-depth analytical capacity at the tax administration. These conditions may often not be met, especially for developing countries. In addition, as explained above, the group ratio opt-in rule acts as an escape clause from the interest deduction ceiling, undermining the application of the best practice measure.[31] Applying a domestic cap on interest payment deductions is essential to prevent corporate tax base erosion, even if the leverage of that company is at or below its group level.[32] In a similar vein, applying an exclusion provision for financial undertakings without providing a corresponding specific limitation rule for the banking and insurance sectors constitutes a loophole that undermines the best practice rule.

Furthermore, some jurisdictions have also introduced unanticipated carve-outs to their EBITDA rules that weaken their implementation. For example, some EU member states that have transposed the EU Anti-Tax Avoidance Directive (ATAD) into domestic legislation for imposing intra-group interest deduction limitation, opted to exclude such limitation on interest payments that are related to loan agreements signed before 17 June 2016.[33] Given that this exclusion may allow for such agreements to be abused by circumventing the deduction limitation and that there is no indication of enforcement measures in place to prevent this, this exclusion is considered a loophole to the limitation. Thus, in cases where EU member states have opted to apply this exclusion, we have concluded that in effect these countries have not imposed intra-group interest deduction limitation, even though they may have addressed other issues posed by the European Commission in this regard. For example, after the European Commission decided to bring Austria before the European Court of Justice if it had not acted to transpose the ATAD interest barrier rule within two months,[34] Austria transposed the rule into domestic law that became applicable to fiscal years commencing 1 January 2021. However, Austria opted to exclude interest payments made until 2025 that are based on agreements signed before 17 June 2016.[35] Another example is Belgium that already in 2019 transposed the EBITDA rule as required by the ATAD, but applied an exclusion for entities that are not classed as financial undertakings.[36] On 2 July 2020, the European Commission criticised Belgium for excluding "from the interest limitation rules certain types of entities, which do not qualify as 'financial undertakings' under ATAD."[37] In other words, some non-financial undertakings have been excluded and were thus not required to implement the EBITDA rule in line with the ATAD. While by end of 2020 Belgium addressed this loophole in its legislation, it has nevertheless joined several other EU countries in opting to apply the exclusion to the limitation on interest payments that are related to loan agreements signed before 17 June 2016.[38].

An alternative way to limit intra-group interest was introduced by the USA as part of its Tax Cuts and Jobs Act of 2017. The Act introduced a 30% EBITDA-based limitation rule for interest payments to both related and unrelated parties. However, according to the Act, as of 1 January 2022, the USA will start implementing the 30% EBIT-based limitation rule. The Tax Cuts and Jobs Act has also created another fixed-ratio rule with the base erosion and anti-abuse tax to disallow excessive deductible payments (including interest, royalties and management fees), made by certain US firms to related non-US firms.[39] The base erosion and anti-abuse tax is a minimum tax that is imposed at a rate of 10%[40] to the taxpayer's modified taxable income,[41] which is calculated by adding back most categories of related-party deductible payments.[42] This tax applies to corporations with average annual gross receipts of US$500m for the preceding three-year period; and a base erosion percentage of at least 3% for a tax year, which in practice means a threshold of base erosion payments as a percentage of total deductions.[43]

Nonetheless, while limiting intra-group interest deductions is better not imposing any limitations, the preferred approach by the Tax Justice Network would be to completely disallow any deductions for intra-group interest payments by treating all related party debt as equity for the purposes of corporate tax bills. From a practical point of view, one way to justify this is that there is little difference between a shareholder loan and a dividend, other than the fact that interest payments are usually paid at a fixed rate unlike dividends.[44] This distinction is further blurred when a company uses hybrid instruments, such as profit participating loans. In fact, the difference between a shareholder who lends money to a company and a shareholder who receives a dividend is that the interest paid on the loan is drawn from the company's profit before tax and the dividend is distributed from the profit after tax.[45]

Disallowing the deduction of intra-group interest payments would force companies to either borrow funds and share the risks among their local domestic subsidiaries (however, at a marginally higher cost than if it could be deducted)[46], or instead to borrow directly from the independent debt market. The effect of this would be to improve the fair market competition in the countries where multinational companies operate. It would help to create a level playing field between multinational companies and companies that solely operate domestically and thus do not have access to the more advantageous conditions that multinationals enjoy in the international capital markets.[47]

Therefore, while adopting the best practice measure may slightly improve the debt-bias problem (particularly if the lower margin of 10% is applied), only entirely disallowing the deductibility of intra-group interest payments is likely to help in protecting the tax base of host countries of multinationals, containing the race to the bottom and facilitating fair market competition in domestic markets.

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Results Overview

Table 15.2: Deduction Limitation for Interest Overview

Country	Haven Score	Interest limitation	Group ratio rule	Financial undertaking exclusion
Aruba	100	NO	N/A	N/A
Anguilla	100	N/A*	N/A	N/A
Andorra	100	NO	N/A	N/A
United Arab Emirates	100	N/A*	N/A	N/A
Argentina	90	YES, RESTRICTED LAX	Yes	Yes
Austria	100	NO	N/A	N/A
Belgium	100	NO	N/A	N/A
Bulgaria	80	YES, RESTRICTED LAX	No	Yes
Bahamas	100	N/A*	N/A	N/A
Bermuda	100	N/A*	N/A	N/A
Brazil	75	YES, RESTRICTED LAX	No	No
Botswana	80	YES, RESTRICTED LAX	No	Yes
Switzerland	100	NO	N/A	N/A
China	100	NO	N/A	N/A
Costa Rica	75	YES, RESTRICTED LAX	No	No
Curaçao	75	YES, RESTRICTED LAX	No	No
Cayman Islands	100	N/A*	N/A	N/A
Cyprus	100	NO	N/A	N/A
Czechia	80	YES, RESTRICTED LAX	No	Yes
Germany	90	YES, RESTRICTED LAX	Yes	No
Denmark	90	YES, RESTRICTED LAX	Yes	Yes
Ecuador	50	YES, RESTRICTED	No	No
Spain	90	YES, RESTRICTED LAX	Yes	Yes
Estonia	90	YES, RESTRICTED LAX	Yes	Yes
Finland	100	NO	N/A	N/A
France	90	YES, RESTRICTED LAX	Yes	No
United Kingdom	90	YES, RESTRICTED LAX	Yes	Yes
Guernsey	100	N/A*	N/A	N/A
Ghana	80	YES, RESTRICTED LAX	No	Yes
Gibraltar	90	YES, RESTRICTED LAX	Yes	Yes
Gambia	100	NO	N/A	N/A
Greece	80	YES, RESTRICTED LAX	No	Yes
Hong Kong	100	NO	N/A	N/A
Croatia	80	YES, RESTRICTED LAX	No	Yes
Hungary	90	YES, RESTRICTED LAX	Yes	Yes
Isle of Man	100	N/A*	N/A	N/A
Ireland	100	NO	N/A	N/A
Italy	100	NO	N/A	N/A
Jersey	100	N/A*	N/A	N/A

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Country	Haven Score	Interest limitation	Group ratio rule	Financial undertaking exclusion
Kenya	80	YES, RESTRICTED LAX	No	Yes
Lebanon	100	NO	N/A	N/A
Liberia	100	NO	N/A	N/A
Liechtenstein	100	NO	N/A	N/A
Lithuania	90	YES, RESTRICTED LAX	Yes	Yes
Luxembourg	100	NO	N/A	N/A
Latvia	80	YES, RESTRICTED LAX	No	Yes
Macao	100	NO	N/A	N/A
Monaco	50	YES, RESTRICTED	No	No
Mexico	80	YES, RESTRICTED LAX	No	Yes
Malta	100	NO	N/A	N/A
Montserrat	100	NO	N/A	N/A
Mauritius	100	NO	N/A	N/A
Netherlands	75	YES, RESTRICTED LAX	No	No
Panama	100	NO	N/A	N/A
Peru	80	YES, RESTRICTED LAX	No	Yes
Poland	80	YES, RESTRICTED LAX	No	Yes
Portugal	80	YES, RESTRICTED LAX	No	Yes
Romania	75	YES, RESTRICTED LAX	No	No
Singapore	100	NO	N/A	N/A
San Marino	100	NO	N/A	N/A
Slovakia	55	YES, RESTRICTED	No	Yes
Slovenia	80	YES, RESTRICTED LAX	No	Yes
Sweden	75	YES, RESTRICTED LAX	No	No
Seychelles	100	NO	N/A	N/A
Turks and Caicos Islands	100	N/A*	N/A	N/A
Taiwan	80	YES, RESTRICTED LAX	No	Yes
Tanzania	100	NO	N/A	N/A
United States	75	YES, RESTRICTED LAX	No	No
British Virgin Islands	100	N/A*	N/A	N/A
South Africa	100	NO	N/A	N/A

*Note: Given that this jurisdiction has no corporate tax system or a zero statutory tax rate, we conclude the criteria of limiting intra-group interest deductions is not relevant and thus not applicable for this jurisdiction. The haven score is the highest possible due to the corporate tax avoidance spillover risks as a result of having no corporate tax system.

Table 15.3: Deduction Limitation for Interest – Haven Indicator Scores

Haven Score	ISO2: Country Name
100	AW: Aruba
100	AI: Anguilla
100	AD: Andorra
100	AE: United Arab Emirates
90	AR: Argentina
100	AT: Austria
100	BE: Belgium
80	BG: Bulgaria
100	BS: Bahamas
100	BM: Bermuda
75	BR: Brazil
80	BW: Botswana
100	CH: Switzerland
100	CN: China
75	CR: Costa Rica
75	CW: Curaçao
100	KY: Cayman Islands
100	CY: Cyprus
80	CZ: Czechia
90	DE: Germany
90	DK: Denmark
50	EC: Ecuador
90	ES: Spain
90	EE: Estonia
100	FI: Finland
90	FR: France
90	GB: United Kingdom
100	GG: Guernsey
80	GH: Ghana
90	GI: Gibraltar
100	GM: Gambia
80	GR: Greece
100	HK: Hong Kong
80	HR: Croatia
90	HU: Hungary
100	IM: Isle of Man
100	IE: Ireland
100	IT: Italy
100	JE: Jersey
80	KE: Kenya
100	LB: Lebanon
100	LR: Liberia
100	LI: Liechtenstein
90	LT: Lithuania
100	LU: Luxembourg
80	LV: Latvia
100	MO: Macao
50	MC: Monaco
80	MX: Mexico
100	MT: Malta
100	MS: Montserrat
100	MU: Mauritius
75	NL: Netherlands
100	PA: Panama
80	PE: Peru
80	PL: Poland
80	PT: Portugal
75	RO: Romania
100	SG: Singapore
100	SM: San Marino
55	SK: Slovakia
80	SI: Slovenia
75	SE: Sweden
100	SC: Seychelles
100	TC: Turks and Caicos Islands
80	TW: Taiwan
100	TZ: Tanzania
75	US: United States
100	VG: British Virgin Islands
100	ZA: South Africa

Haven Score

Low Haven Score ← → High Haven Score

0 to <25 | 25 to <50 | 50 to <75 | 75 to 100

Table 15.4: Assessment Logic

Info_ID	Text_Info_ID	Answers (Codes applicable for all questions: -2: Unknown; -3: Not Applicable)	Valuation Haven Score
517	Outbound intra-group interest deduction limitation: Does the jurisdiction restrict or disallow deducting from the corporate income tax base interest paid to non-resident group affiliates?	0: NO: No deduction limitation for intra-group interest payments. 1: YES, RESTRICTED LAX: Deduction limitation only for payments worth 30% EBITDA or above, and/or any other interest deduction limitation method using a fixed ratio rule. 2: YES, RESTRICTED: Deduction limitation only for payments worth between 10% EBITDA and below 30% EBITDA. 3: YES, DISALLOWED: Deductions of intra-group interest payments are not	ID517=0: 100 ID517=1 Or ID517=2 & ID518=1: 90 ID517=1 & ID518=0 & ID519=1: 80 ID517=1 & ID518=0 &

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Info_ID	Text_Info_ID	Answers (Codes applicable for all questions: -2: Unknown; -3: Not Applicable)	Valuation Haven Score
		permitted.	ID519=0: 75 ID517=2 & ID518=0 & ID519=1: 55 ID517=2 & ID518=0 & ID519=0: 50 ID517=3: 0
518	Group ratio rule: Does the jurisdiction apply a group ratio rule opt-in alongside fixed ratio limitations on interest deduction?	0: NO, group ratio rule opt-in is not applied. 1: YES, group ratio rule opt-in is applied.	
519	Financial undertaking exclusion: Does the jurisdiction apply a financial undertaking exclusion alongside fixed ratio limitations on interest deduction?	0: NO, financial undertaking exclusion is not applied. 1: YES, financial undertaking exclusion is applied.	

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[1] These are: arm's length test, withholding tax on interest payments, disallowance of interest expense with a specified percentage, limitation of interest expense with a fixed ratio, limitation of interest expense with a group ratio, and disallowance of interest expense on specific transactions. For further details, see, OECD, *Limiting Base Erosion Involving Interest Deductions and Other Financial Payments, Action 4 - 2015 Final Report*, OECD/G20 Base Erosion and Profit Shifting Project (2015), 19, para 11. <http://www.oecd-ilibrary.org/taxation/limiting-base-erosion-involving-interest-deductions-and-other-financial-payments-action-4-2015-final-report_9789264241176-en> [accessed 21 August 2018].

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[6] An OECD report explains the inadequateness of an arm's length approach for developing countries as follows: "the disadvantage of utilising an arm's length approach is its large resource and skill requirements. In order to apply the arm's length approach, the tax auditor needs to understand the processes third party

lenders uses to determine the maximum amount they would lend to a specific taxpayer. Tax authorities need to have expertise to step into the role of the third party lender and establish the specific characteristics of the group affiliate to determine an appropriate amount of debt. In practice this means that, in implementing a pure arm's length approach: iii. tax auditors need to gain significant understanding of third party lending practices iv. ...and need to investigate the application of those criteria with regards to specific taxpayers, v. And, inevitably, this will require a degree of judgment to determine the proper treatment for each factual situation." OECD, 'Thin Capitalisation Legislation A Background Paper For Country Tax Administrations (Pilot Version for Comments)', 2012 <http://www.oecd.org/ctp/tax-global/5.%20thin_capitalization_background.pdf> [accessed 15 May 2019].

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[8] The "weakest link" research principle is used synonymously with the "lowest common denominator" approach. During the assessment of a jurisdiction's legal framework, the review of different types of legal entities each with different transparency levels might be necessary within one indicator. For example, to ascertain the haven score, a choice between two or more types of companies might have to be taken. In such a case, we choose the least transparent option available in the jurisdiction. This least transparent option will determine the indicator's haven score.

[9] OECD, *Limiting Base Erosion Involving Interest Deductions and Other Financial Payments, Action 4 - 2015 Final Report*. p. 57-58, para. 115, 118.

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[22] OECD, *Limiting Base Erosion Involving Interest Deductions and Other Financial Payments, Action 4 - 2015 Final Report*. p. 16.

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