

# **RUNAWAY TAXES**



**WHO PAYS TAX IN CENTRAL  
AND EASTERN EUROPE?**

# RUNAWAY TAXES

## Who pays tax in Central and Eastern Europe?

This report was produced by civil society organisations in six countries across Central and Eastern Europe including: Bulgaria (Za Zemiata), Czech Republic (Glopolis), Hungary (Demnet), Latvia (Lapas), Poland (IGO) and Slovenia (Ekvilib Institute).

Research was coordinated and written by Finance Uncovered, [www.financeuncovered.org](http://www.financeuncovered.org)

The authors believe that all of the details in this report are factually accurate as of 5 December 2016.

**Authors:** Collective of Authors

**Published by:** Za Zemiata, Glopolis, Demnet, Lapas, IGO & Ekvilib Institute, Prague 2017

**Publisher of English version:**

Glopolis, Soukenicka 23, 110 00 Prague 1  
tel. / fax: +420 272 661 132 [www.glopolis.org](http://www.glopolis.org)

© Za Zemiata, Glopolis, Demnet, Lapas, IGO & Ekvilib Institute 2017



This publication has been produced with the financial assistance of the Czech Development Agency and the Ministry of Foreign Affairs of the Czech Republic and of the European Union. The contents of this document are the sole responsibility of authors and can under no circumstances be regarded as reflecting the position of the financial donors.

This publication has been realized in the framework of the „Tax Justice Together - Mobilising European citizens to place inequality and tax justice at the heart of the European development agenda during EYD2015 and beyond“ project financed by European Union.

**ISBN 978-80-87753-29-3**

# WHO PAYS TAX IN CENTRAL AND EASTERN EUROPE?

## Introduction

With participants from six Central and Eastern European Countries, Hungary, the Czech Republic, Slovenia, Poland, Latvia and Bulgaria we set out to look at the tax position of major companies in each country.

Our work was inspired by Dimitar Sabev, a tax justice campaigner in Bulgaria, who had already carried out research into this area in 2015.

Dimitar asked a simple question. How much do the top ten companies in Bulgaria contribute in corporation tax to the government budget?

The answer he found was startling. In 2015 the top ten companies by revenue in Bulgaria received a net tax credit. In other words as a group, the ten biggest companies in Bulgaria received more from the state in terms of tax rebates and offsets than they put back in.

We decided to repeat this exercise in five other countries where our researchers were based: The Czech Republic, Latvia, Slovenia, Poland and Hungary. Although no countries had such extreme results as Bulgaria, some interesting issues emerged. For example, we found that in Slovenia, one of the region's most well known companies, Gorenje, has not paid any corporation tax in their home country of Slovenia for five years. There is no suggestion that Gorenje has acted in an unlawful way.

We can also see that Hungary appears to have established itself as the region's tax haven. The government is seeking to [reduce](#) the headline rate of corporation tax to 9%, but the top companies don't even pay that. By using tax exemptions and allowances the tax rate paid by the largest companies in the country is less than 0.5%.

As part of our study we also looked at how the tax burden is divided between workers, corporations and consumers.

Here we could see that in Hungary, it is not just the top ten companies which pay relatively less tax. Hungarian businesses as a whole contribute relatively less of their profits to the tax bill. Instead, the tax burden in Hungary falls on its citizens who pay a larger share through value added taxes and other taxes paid by individuals.

In our study, the Czech Republic was the only country where the amount of corporate tax as a proportion of total tax revenue was comparable to the amount of tax paid by individuals on their incomes. In every other country there was a significant gap between the amount paid by corporates and individuals.

# Policy recommendations

## Increase the transparency of tax incentives and tax deals

The report shows that some large companies benefit from favourable tax incentives which enable them to pay a lower amount of tax.

In addition, a report from EURODAD shows that there has been an increase in the number of tax deals between tax authorities and multinational companies in recent years.

In order to improve policy making by national governments it is important that the public have the full facts about the cost of tax incentives as well as the deals made between governments and multinationals.

Governments should therefore regularly publish details of the costs of tax incentives, and the agreements they make with multinationals.

## Support public country by country reporting

This study uncovered some evidence that countries in Central and Eastern Europe are not immune from profit shifting by multinational companies.

One of the most effective means of uncovering profit shifting is for companies to publish their accounts on a country by country basis. This would allow the public to understand better where multinationals are locating profits and whether they are moving profits from higher tax to lower tax jurisdictions.

Central and Eastern European governments should support the adoption of full public Country-by-Country-Reporting in the EU.

Engage with the EU's proposals on a Common Consolidated Corporate Tax Base

Our study has revealed that companies are able to exploit different tax rules in different countries in order to pursue a more favourable outcome in terms of tax. European countries should therefore commit to working together to make sure there is a level playing field between countries and a common set of rules for determining the tax base. An opportunity exists with the European Commission's proposals for a Common Consolidated Corporate Tax Base. Central and Eastern European countries should engage positively with this debate at an EU level.

## Who pays tax?

It is often said that there are two things which are certain in life: death and taxes. But who actually pays taxes is by no means certain.

Broadly speaking there are three types of taxation:

- Taxes on labour, such as personal income taxes;
- Taxes on capital, such as capital gains tax and corporation tax; and
- Taxes on consumption, duties on tobacco, sales taxes and VAT.

These taxes are paid by different sections of society:

- Taxes on labour are paid by workers;
- Taxes on capital are paid by the owners of capital (i.e. shareholders); and
- Consumption taxes are paid by consumers.

Social security payments, which make up a significant part of the tax burden of most countries can be split between employer contributions and employee contributions, however, both constitute a tax on labour.

Consumption taxes are widely considered to be the most regressive of taxes, which means they fall proportionally more on lower income people. That is because rich or poor, we all have a base level of consumption which we need to sustain ourselves, and we will all pay the same amount of taxes on that basket of basic goods.

On the other hand, because income taxes and social security are often charged as a percentage of income, higher earners pay more for the same number of hours of work than lower earners.

How the tax burden is divided between consumers, businesses and workers is of course up to national governments and parliaments to decide.

### **What does the CEE region have to say on corporate taxation and why?**

Recent years have seen a massive proliferation of the corporate tax policy debate amongst politicians, media, civil society, and other actors in Europe. LuxLeaks and more recently, the Panama Papers have substantially contributed to the raising of awareness of different forms of tax avoidance being used by multinational enterprises.

But while the debate in certain regions of Europe has engaged a wider audience, civil society and political parties in Central and Eastern European (CEE) has been relatively silent on the issue.

Taxes hold a variety of social connotations in Central and Eastern Europe, but they are rarely seen as a fair means of redistribution by everyone, for everyone. Moreover, the public debate concentrates on the more visible forms of taxation for the voter, such as personal taxes and consumption taxes rather than corporate taxation and business taxes. As a consequence, the fight against Value Added Tax (VAT) fraud – the least progressive form of taxation, has become almost synonymous with the tax debate in general. Corporate tax evasion and tax avoidance rank relatively low as objects of public outrage in this region.

The majority of governments in the region are proponents of the approach that advocates and encourages foreign investment under the promise of job creation, capital infusion, regional development etc. Some of the reasons for this can be traced back to the specific geopolitical environment in the region. Though not uniform per se, there are common characteristics: many countries have gained an independence of sorts relatively recently, there has been a gradual transition since the early 1990s of opening up to world markets, many countries occupy a relatively peripheral position in EU, there has been a gradual dismantling of public services, etc.

Specific historic and cultural conditions mean that many people in the region interpret the discussion about cooperation in the field of tax policy as an attack on the hard earned sovereignty of the nations and the market. While many different tax jurisdictions coexist and overlap within the EU and also within the CEE region itself, this makes tax reporting complicated and creates space for loopholes that can and do get exploited.

With tax justice receiving more attention from civil society, clear appeals for a more transparent, coherent and coordinated tax system are heard throughout the EU. The need for harmonization of tax rules is higher than ever before – firstly with increased transparency. When the information on what is going on in international and corporate taxation becomes publicly available, the critique and the search for alternatives also become better informed.

Secondly, measures can be taken to end Base Erosion and Profit Shifting (BEPS), which is one of the terms used to describe efforts to divert profits and lower the taxes effectively paid. And lastly, a global tax authority could be established, should there be public and political interest. Even if there are subsidiary concerns present, one can see the bigger objective that can benefit all, instead of the few: a stronger public sector, better public services, and an evenly distributed tax burden across the body of the population.

This report was devised with both, the regional peculiarities, as well as the bigger picture in mind. Whereas the CEE region indeed has differences from Western Europe, it on the other hand fosters many similarities in how it is affected by an ineffective and obsolete international tax system. Therefore, it is crucial to look at the potential alternatives from the CEE perspective as well, and make sure it is heard. If the CEE region opens up to the tax justice debate and contributes with its experience, the hope is that the EU, the OECD and the UN will also open up to the voice of the CEE.

## General findings

Our research suggests that, contrary to the theory put forward by some economists that low and flat taxes increase corporate tax revenue by stimulating economic activity; tax cuts on corporates and higher earners appear to have simply shifted the tax burden onto ordinary citizens. This has resulted in a disproportionately large tax burden on goods and services when compared with the OECD average. Furthermore, charging the same tax rate on lower and higher earners has encouraged income inequality.

This is an issue which governments in Central and Eastern Europe are increasingly waking up to, and Estonia, the first country to introduce the flat tax, has started to abandon it.

Overall, we have found that the amount of corporate taxes as a percentage of GDP in five of the six countries we studied is considerably lower than the OECD average. Only the Czech Republic collects more corporate taxes as a percentage of total taxation than the average for the OECD group of 35 countries.

To compensate, in every country, income taxes on individuals contributed more to the government's total tax take than taxes on corporate profits. That is before other taxes which fall on labour and consumers, such as VAT and social security are taken into account.

The country which had the smallest difference between the amount contributed by corporates and individuals was the Czech Republic, with a difference of less than 1%. In Latvia, the difference was 14 %.

### % corporation tax of total taxation and % income tax as total taxation

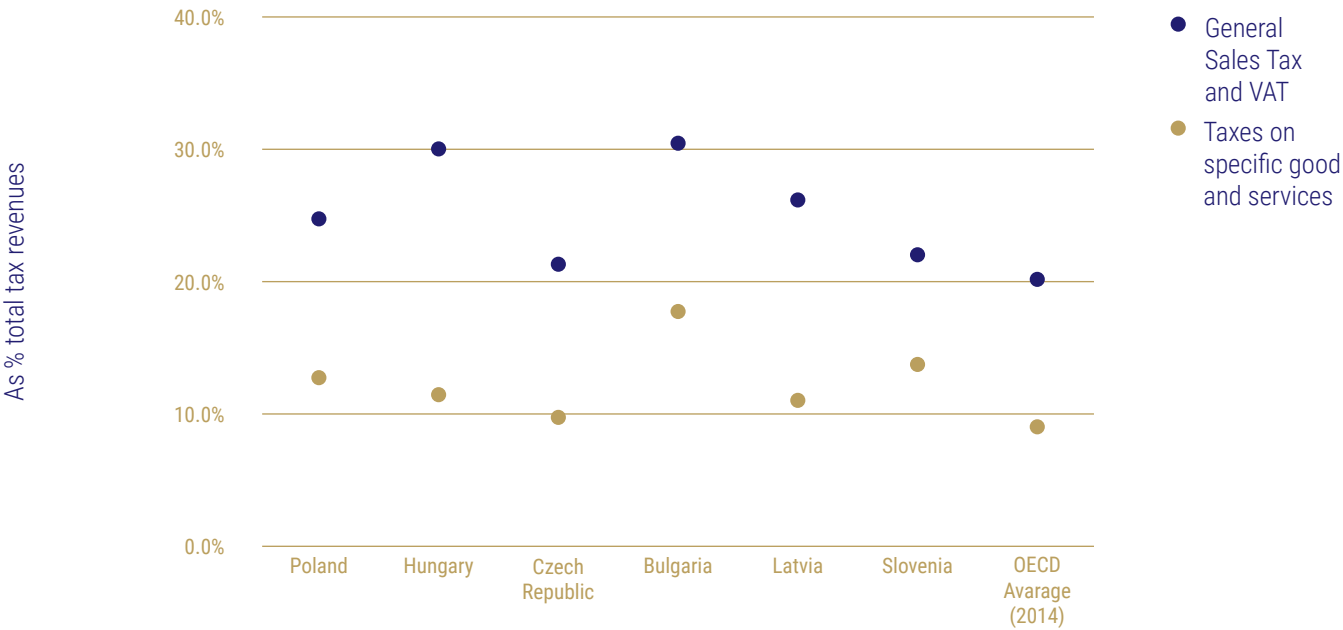


When compared to the OECD average, we can see that across the OECD there is also a large gap between the amount of direct taxes contributed by corporates and individuals.

In addition, if we look at the absolute figures, we can see that in every country other than the Czech Republic, businesses contributed less in taxes as a proportion of the total tax revenues of the government than the OECD average.

To compensate, countries took much more of their tax revenues from taxes on consumers, such as VAT, sales taxes and excise duties. In each case we looked at, the amount of tax revenue comprised of these taxes on consumption was higher than the OECD average, although in the Czech Republic and Slovenia this was only marginally so.

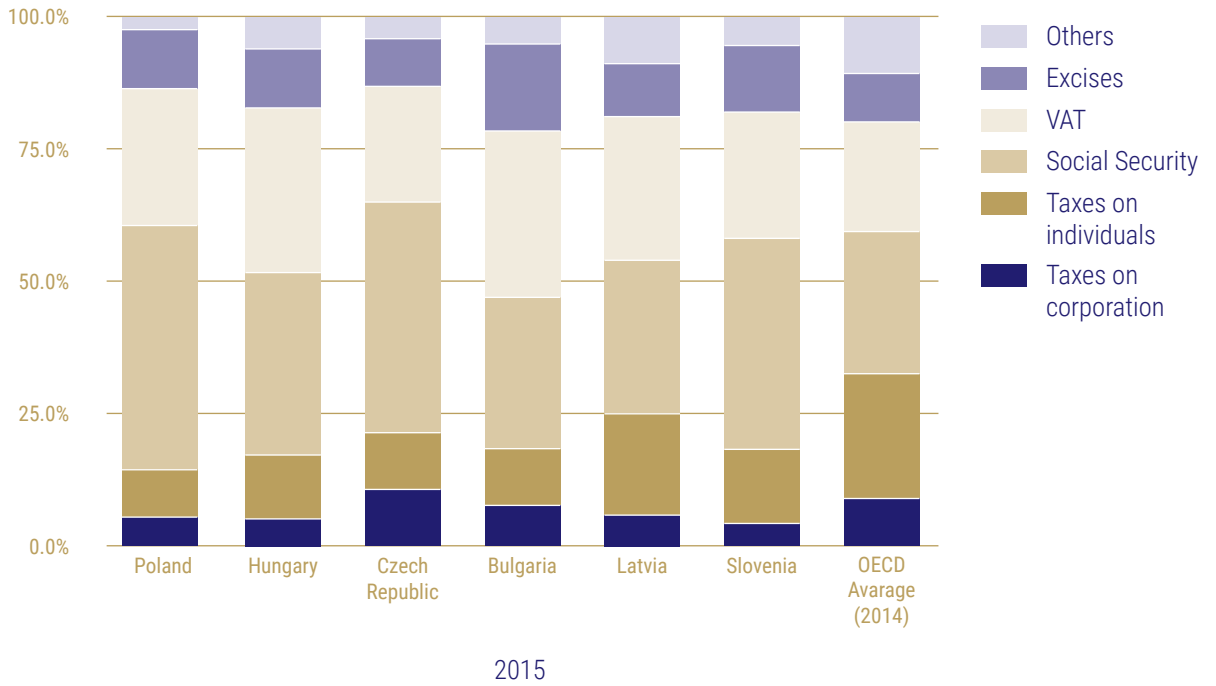
### Taxes on goods and services vs OECD average



Below, we have set out the tax structure of each country, which shows how much each country we looked at collects in terms of taxes on consumption, labour and business profits.



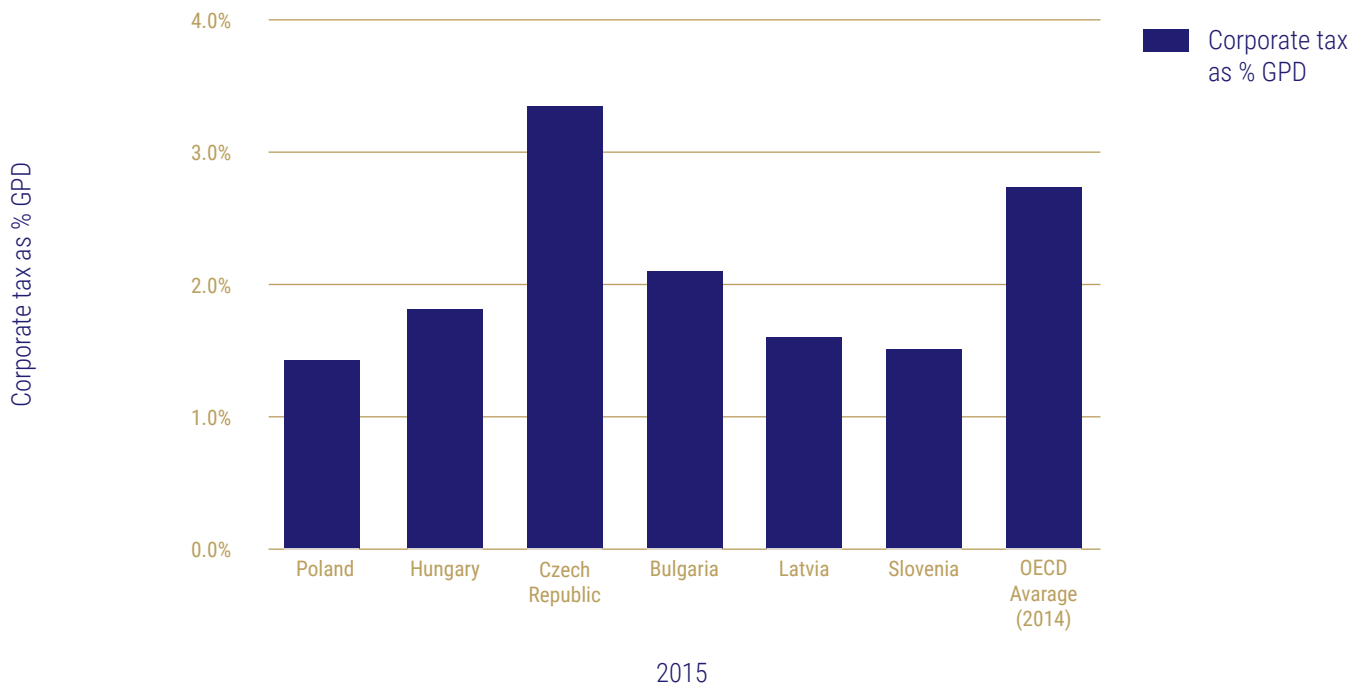
## Tax Structure of CEE countries



Our next graph compares corporate tax receipts to GDP, to understand how much of a contribution businesses make in the context of all other economic activity.

Again, here we see that the Czech Republic in 2015 had a relatively much higher tax take from corporations than other countries, even those with similar tax rates. For example, Poland has a similar corporation tax rate to the Czech Republic, yet it also has a much smaller tax take compared to GDP.

## Corporation tax receipts as % GDP





## How we analysed the tax burden in Central and Eastern Europe

The country level statistics found in this report were drawn from the OECD statistics database for the Czech Republic, Hungary, Latvia and Slovenia. Poland, although an OECD member, did not have data for 2015 available on the OECD database. For Poland and Bulgaria we therefore drew our data from the websites of their ministries of finance. All the ratios included in the report are calculated using official data.

The OECD database includes definitions of taxes which differ from the definitions used in some countries. For example, the OECD definition of total tax revenue includes social security contributions, whereas in Poland the Ministry of Finance does not include social security contributions in their tax revenues figure. We therefore sought to get data that was as comparable as possible and in Poland's case added social security revenues to the total tax figure ourselves.

The figures we used for the OECD average are from 2014 because the OECD has not yet published figures for 2015. But OECD averages do not change much from one year to the next so we judged that this still provided a valid comparison.

When it came to recording the amount of tax paid by individuals and corporates we took the broad measures contained in the OECD database to try to capture taxes on both profits, income and capital gains. Therefore we used the measure of taxes paid on profits and capital gains rather than the simple measure of corporation tax receipts.

When it came to indirect taxes, again we used the broader categories in the OECD database. We used the category of general taxes on goods and services, rather than VAT or sales tax. This is because VAT and sales taxes are often used as substitutes, as some countries do not have sales taxes at all, while others do and instead do not have VAT. Using the broader category captures the taxes levied on goods and services, which raise prices for consumers. The same holds for the taxes paid on specific goods or services, which captures all the taxes which are item specific, such as taxes on cigarettes and alcohol.

Data on each country's tax rate was also collected via the OECD database or industry publications such as Deloitte's tax source.

### **The Top Ten**

The statistics for the top ten companies were compiled by Glopolis, Demnet, Za Zemiata, Lapas, Ekvilib and IGO organisations working in each country we studied. Each partner was asked to find a list of the top ten companies in the country by revenue. These were often derived from lists published by business publications.

Each participating organisation was then asked to collect a set of specific measures on the company, revenues, gross profits, profits before tax and tax. These figures were entered onto a central spreadsheet to facilitate cross company, and country analysis.

These figures were taken from the published annual accounts of each company.

Some further research was then carried out on companies which seemed to have tax rates that differed from the statutory tax rate over a number of years. This included studying the notes of the annual accounts.

# Who pays tax in the Czech Republic

## Corporation tax rate - 19 %

GDP	4 554 615 000 000 Kč
Total tax revenue	1 524 423 000 000 Kč
Taxes on the profits of companies	162 100 000 000 Kč
Direct taxes on individuals (i.e. income tax)	164 500 000 000 Kč
Tax take as % GDP	33,47 %
% corporation tax of total taxation	10,63 %
% income tax as total taxation	10,79 %
Social Security contributions	659 700 000 000 Kč
Social Security %	43,28 %
General Taxes on Goods and Services (Sales and VAT)	333 274 000 000 Kč
% total Value Added	21,86 %
Taxes on specific goods and services	154 100 000 000 Kč
% Taxes on specific goods and services	10,11 %

## Czech Republic

The Czech Republic was the best performer in our group in terms of:

- 1) The amount of tax collected from corporations;
- 2) The amount of corporate tax as a percentage of total tax returns; and
- 3) The amount of corporate tax as a percentage of GDP was highest too.

In fact it was the only country that scored higher than the OECD average on this measure.

In addition, the country also had barely any difference between the amount of direct profit taxes collected from corporations and income tax collected from individuals, which sets the Czech Republic apart from this Central and East Europe peer group and the OECD.

Interestingly the Czech Republic also has one of the highest tax rates in our group, which would seem to suggest that cutting tax rates does not lead to higher corporation tax returns.

### Corporate reporting

There appear to be significant issues with corporate reporting in the Czech Republic. Four companies out of the top ten highest earners in 2015 had yet to file their company accounts for that year at the time we conducted our study.

Under Czech law companies are required to file accounts by the end of the year following the closure of their accounts. This means that if the balance sheet date is the end of the 2015 calendar year, companies may not publish their accounts until December 2016. This is much later than other countries and makes corporate scrutiny harder.

As of October 2016 Foxconn, Unipetrol, Bosch group CR, Ahold and Lidl had yet to file their accounts for the 2015 accounting year with the Czech companies house. However Unipetrol, as a stock market listed company has published its accounts on its website. AHOLD had not filed accounts for the 2014 year either. AHOLD stated that as a result of a merger with another firm two accounting years have been combined to form one reporting period. The result of this is that the two years of accounts for 2014 and 2015 would be filed by the 2015 deadline (2016). AHOLD stressed that the company acts in strict compliance with all Czech accounting legislation. Due to lack of data from companies from 2015 we decided to work with 2014 data in the table bellow.

## The Top 11

In total the top 11<sup>1</sup> companies in the Czech Republic had an average tax liability of 21,68 %, which is slightly higher than the Czech statutory tax rate. However, as we can see there were some wide variations. In 2015 RWE was liable for tax equivalent to 46% of its profits. However, the company paid significantly lower than the statutory rate in previous years and so this could be due to a timing difference, where the company overpaid in one year to make up for underpayment in previous year. Other companies paid less than the statutory rate, and we go into some of the possible reasons for this below.

### Foxconn

Foxconn paid a relatively low amount of tax, and has consistently paid less tax than other companies in the top ten in the Czech Republic over a number of years, according to our research. This appears to be because of investment incentives. In Foxconn's 2011 report it is stated that Foxconn got a special tax incentive for the start of new production in 2011 and they also got a ten year tax incentive from 2009.

2014	Turnover	Profit before Tax	Paid Income Tax	Profit Margin	Tax as % of Profit before Tax
ŠKODA AUTO, a.s.	299 318 000 000 Kč	21 349 000 000 Kč	2 928 000 000 Kč	7,13 %	13,71 %
ČEZ, a.s.	201 751 000 000 Kč	28 656 000 000 Kč	6 244 000 000 Kč	14,20 %	21,79 %
AGROFERT, a.s	166 772 035 000 Kč	7 670 753 000 Kč	1 672 585 000 Kč	4,60 %	21,80 %
RWE Supply&Trading CZ, a.s.	146 075 223 000 Kč	3 251 640 000 Kč	1 507 823 000 Kč	2,23 %	46,37 %
FOXCONN CZ s.r.o.	125 099 465 000 Kč	1 524 211 000 Kč	106 349 000 Kč	1,22 %	6,98 %
Energetický a průmyslový holding, a.s.	100 900 000 000 Kč	19 799 104 196 Kč	6 193 039 578 Kč	19,62 %	31,28 %
UNIPETROL, a.s.	124 229 000 000 Kč	-1 362 000 000 Kč	-806 000 000 Kč	-1,10 %	N/A
České dráhy, a.s.	36 736 949 000 Kč	542 980 000 Kč	386 774 000 Kč	1,48 %	71,23 %
O2 Czech Republic a.s.	37 372 000 000 Kč	4 505 000 000 Kč	990 000 000 Kč	12,05 %	21,98 %
Lidl Česká republika v.o.s.	34 123 532 000 Kč	2 600 000 000 Kč	0 Kč	7,62 %	0,00 %
METROSTAV a.s.	39 577 391 000 Kč	547 111 000 Kč	94 099 000 Kč	1,38 %	17,20 %
<b>Total / Average</b>	<b>1 311 954 595 000 Kč</b>	<b>89 083 799 196 Kč</b>	<b>19 316 669 578 Kč</b>	<b>6,40%</b>	<b>21,68 %</b>

### Unipetrol

Despite the generally better performance of Czech companies in terms of paying tax, there is still some evidence of profit shifting by multinationals in the Czech Republic. Unipetrol, is part of the Polish Orlen group. The company refines oil in the Czech Republic, owns petrol station forecourts and produces plastics. The company has made a loss in the Czech Republic in four of the last five years.

The Orlen group itself is not loss making. PKN Orlen is Poland's largest company by turnover and made a profit of around 3,5bn Zloty in 2015. Its profit margin was around 4 % in 2015 and the company turned a profit in four out of five years between 2011 and 2015. The only year it made a loss was 2014 during the oil price crash.

There have been significant related party transactions between Unipetrol group and Orlen group. For example, Unipetrol's 2013 annual accounts show that the company had made purchases worth 57bn Krona from PKN Orlen. This was significantly more than half the turnover that year of 99.4bn Krona. Such a large amount of related party transactions is a significant risk factor in terms of profit shifting.

Orlen holds 60% of the shares of Unipetrol, with another 20 % held by Paulinino limited, a Cypriot company set up to manage the investments of a number of anonymous investors.

Unipetrol accepted the data we presented to the company and issued no further comment.

## **Lidl**

The data on Lidl presented an anomaly. Lidl in the Czech Republic has been established as a special form of company: a general commercial partnership or v.o.s. As a partnership the company pays no taxes, but instead the partners are liable for taxes on profits.

These companies are usually reserved for professional businesses such as architects, lawyers and accountants. It is very rare to see a major commercial enterprise set up in this way. No other companies in all of the countries we looked at are structured like this.

Lidl in the Czech Republic has two partners. A German company Beteiligungs GmbH and a Czech company, Lidl Holding s.r.o.

The research team was able to uncover the partnership agreement between Beteiligungs and Lidl Holdings, which disclosed that there is a profit sharing agreement that sees 99,99 % of the profits of Lidl in the Czech Republic diverted to Germany, with only 0,01 % remaining in the Czech Republic.

However, when we put this to the company it said that the German partner was tax resident in the Czech Republic and pays taxes in the country. In 2014 the two partners paid CZK 504 694 930 in taxes to the Czech government which is equivalent to a tax rate of around 19,5% on the profits of the partnership.

# Who pays tax in Hungary

**Corporation tax rate: 10 % on profits under 500m HUF and 19 % on profits over 500m HUF.**

GDP	Ft 33 999 000 000 000
Total tax revenue	Ft 13 280 871 000 000
Taxes on the profits of companies	Ft 625 196 000 000
Direct taxes on individuals (i.e. income tax)	Ft 1 688 645 000 000
Tax take as % GDP	39,06 %
% corporation tax of total taxation	4,71 %
% income tax as total taxation	12,71 %
Social Security contributions	Ft 4 428 900 000 000
Social Security %	33,35 %
General Taxes on Goods and Services (Sales and VAT)	Ft 4 082 900 000 000
% total Value Added	30,74 %
Taxes on specific goods and services	Ft 1 581 200 000 000
% Taxes on specific goods and services	11,91 %

Despite its reputation for low tax rates, the Hungarian government collects a very high amount of taxes. As a percentage of GDP, Hungary collects more in tax revenue than its neighbours. However, business pays comparatively little in terms of taxes on profits. Individuals shoulder a much higher burden in terms of profits and value added taxes. In Hungary social security payments are paid more by employers rather than employees (27 % vs 18,5 %).

## The Top 11

Our Hungarian research has uncovered some significant findings.

Hungary is Central and Eastern Europe's tax haven. Recently, the Hungarian government announced that the country will be cutting its corporation tax rates from 19 % (10 % for smaller companies) to 9 %. This appears to be an unnecessary cut because, in our study, most of the top eleven companies in the country paid low tax rates of around 1 % or less. On average the top eleven Hungarian companies paid just 0,35 % of their profits in taxes in 2015. The exception is Samsung, who paid a tax rate of around 16 % in 2015.

2015	Turnover	Profit before Tax	Paid Income Tax	Profit Margin	Tax as % of Profit before Tax
GE Infrastructure CEE Holding Kft.	Ft 0	Ft 2 865 595 000 000	Ft 68 000 000	N/A	0,0024 %
MOL Magyar Olaj- és Gázipari Nyrt. (MOL Hungarian Oil and Gas Company)	Ft 1 887 477 000 000	- Ft 190 072 000 000	Ft 70 000 000	-10,07 %	
Audi Hungaria Motor Kft	Ft 2 610 668 998 880	Ft 138 316 063 200	Ft 0	5,30 %	0,00 %
Mercedes-Benz Manufacturing Hungary Kft.	Ft 1 064 867 889 600	Ft 20 942 091 840	Ft 342 240 160	1,97 %	1,63 %
Samsung Electronics Magyar Zrt.	Ft 758 586 000 000	Ft 28 407 000 000	Ft 4 522 000 000	3,74 %	15,92 %

<b>Magyar Suzuki Zrt. (Magyar Suzuki Corporation)</b>	Ft 618 577 953 600	Ft 18 301 237 760	Ft 215 926 926	2,96 %	1,18 %
<b>Wizz Air Hungary Kft.</b>	Ft 492 606 646 400	Ft 71 623 625 040	Ft 726 751 520	14,54 %	1,01 %
<b>Flextronics International Kft.</b>	Ft 508 350 320 000	Ft 3 675 402 560	Ft 5 009 920	0,72 %	0,14 %
<b>MVM Magyar Villamos Művek Zrt. (MVM Hungarian Electricity Ltd.)</b>	Ft 12 364 000 000	Ft 24 365 000 000	Ft 66 000 000	197,06 %	0,27 %
<b>Robert Bosch Elektronika Kft.</b>	Ft 459 030 788 800	Ft 13 468 856 800	Ft 497 234 560	2,93 %	3,69 %
<b>Hankook Tire Magyarország</b>	Ft 220 148 000 000	Ft 57 667 000 000	Ft 4 258 000 000	26,19 %	7,38 %
<b>Total</b>	<b>Ft 8 632 677 597 280</b>	<b>Ft 3 052 289 277 200</b>	<b>Ft 10 771 288 960</b>	<b>35,36 %</b>	<b>0,35 %</b>

Overall, large businesses in Hungary makes a relatively small contribution to the government budget compared to small businesses.

The revenues of the top eleven companies Hungary make up 25 % of the GDP of the country. However, when it comes to the tax contribution our findings suggest they only account for less than 2 % of all corporate taxes paid in the country.

To achieve such low rates, the Hungarian government has made available a number of tax allowances and deductions available to companies. The most famous of these is the sports tax break, which allows companies to deduct payments made to sports teams from their tax bill. The amount of money which can be claimed back is greater than the amount given away, meaning that companies receive a subsidy from the government for giving to sports clubs.

## General Electric

In 2015 the GE Infrastructure CEE Holdings received an enormous 3tn Forints (€ 8,9bn in finance income from other parts of GE, on which it paid a tax rate of just 0,002 %. However, it is relatively common for companies not to be charged taxes on dividends from companies they wholly own.

The company stressed that other subsidiaries of GE in Hungary paid 300bn HUF on local industrial activities in 2015.

## Manufacturers

Despite low Hungarian tax rates, it appears that there is evidence that some companies are still engaging in profit shifting from Hungary. Major multinational manufacturing companies such as Audi, Suzuki and Mercedes Benz have large plants in Hungary. Almost all of them pay tax rates lower than the statutory rate. Interestingly, these companies also make a relatively small amount of profit in Hungary.

We looked at the operating margins of the major manufacturing companies based in Hungary, and compared them to the operating margins reported at a global level for all of these companies, activities. We found that without exception the Hungarian operations of multinationals were less profitable than the multinationals at a global level.

Company	Operating margin Global	Operating Margin Hungary
Audi	8,28 %	5,30 %
Mercedes Benz Cars	9,46 %	1,97 %
Bosch	6,50 %	2,93 %
Suzuki	5,95 %	2,95 %
Samsung	13,16 %	3,74 %

This could be because business costs in Hungary are higher than in other countries. Where we have seen such discrepancies in other countries, it can be a sign that companies are engaging in profit shifting and moving profits away via transfer pricing.

## Who pays tax in Bulgaria

### Corporation tax: 10 %

GDP	88 571 000 000
Total tax revenue	24 855 600 000
Taxes on the profits of companies	1 860 400 000
Direct taxes on individuals (i.e. income tax)	2 731 200 000
Tax take as % GDP	28,06 %
% corporation tax of total taxation	7,48 %
% income tax as total taxation	10,99 %
Social Security contributions	6 947 100 000
Social Security %	27,95 %
General Taxes on Goods and Services (Sales and VAT)	7 740 000 000
% total Value Added	31,14 %
Taxes on specific goods and services	4 525 000 000
% Taxes on specific goods and services	18,21 %

Looking at the tax structure of Bulgaria we can see that corporations as a whole pay more than in other countries in our study, and there is a more equal balance between the amount paid by corporations on their income and by individuals. Social Security contributions are also relatively low.

However the relatively low levels of tax paid by people on their income is made up by other indirect taxes paid by individuals. Compared to other countries in our study Bulgaria collects more in excises, taxes on individual items such as alcohol and tobacco, and on VAT than any other country. These taxes, of course, raise the cost of living and are generally considered to be more regressive than direct taxes.



## The Top Ten

2015	Turnover	Profit before Tax	Paid Income Tax	Profit Margin	Tax as % of Profit before Tax
Lukoil Neftohim	Lev 5 018 494 000	-Lev 143 036 000	-Lev 20 989 000	-2,85 %	N/A
Aurubis Bulgaria	Lev 4 193 984 000	Lev 242 934 000	Lev 23 958 000	5,79 %	9,86 %
National Electricity Company	Lev 3 200 564 000	-Lev 203 968 000	-Lev 175 914 000	-6,37 %	N/A
Lukoil Bulgaria	Lev 2 997 370 000	-Lev 6 458 000	-Lev 291 000	-0,22 %	N/A
Kaufland Bulgaria	Lev 1 487 325 000	Lev 92 021 000	Lev 9 717 000	6,19 %	10,56 %
CEZ Electro Bulgaria	Lev 1 401 593 000	Lev 9 771 000	Lev 1 090 000	0,70 %	11,16 %
Bulgargaz	Lev 1 399 550 000	Lev 23 863 000	Lev 3 498 000	1,71 %	14,66 %
OMV Bulgaria	Lev 1 024 522 000	Lev 37 332 000	Lev 3 814 000	3,64 %	10,22 %
Express Logistic and Distribution	Lev 990 594 000	-Lev 426 000	Lev 83 000	-0,04 %	-19,48 %
Saxa	Lev 942 381 000	Lev 18 222 000	Lev 1 885 000	1,93 %	10,34 %
<b>Total</b>	<b>Lev 22 656 377 000</b>	<b>Lev 213 291 000</b>	<b>-Lev 156 118 000</b>	<b>0,94 %</b>	<b>-73,19 %</b>

### No tax if you are big enough in Bulgaria

By Dimitar Sabev<sup>2</sup>

The ten companies with highest turnover for 2015 in Bulgaria paid a combined 44 million leva (€ 22,5 million) in corporate taxes. This is a relatively low contribution to the national budget.

The top ten Bulgarian companies' combined sales amount to roughly one quarter of the gross domestic product – yet the tax receipts from their business are equal to only 2,3 percent of the corporate taxes collected for the last year.

This is only half of a sad story since the Bulgarian business top ten is, strictly speaking, a receiver of taxes. The corporate tax laws allow for deduction of former losses from the tax base, and there are many companies in Bulgaria that have declared losses for many years. On and on they deduct them, and the future tax deductions turn into corporate assets. In that way the accountants of the Top Ten managed to declare 156 million leva tax credits for 2015. Thus Big Business is truly a “state inside the state”.

However, the biggest user of such tax credits, is the state itself, with the Bulgarian National Electric Company accounting for most of the tax losses in Bulgaria in 2015/16.

Some companies doing business in Bulgaria use a variety of techniques to reduce their profits and taxes. Some firms calculate enormous expenses for external services like consulting and management fees worth thousands of euros per day.

The owners give “credits” to the company and afterwards collect 10 percent or higher interest. Some retail chains use connected companies that own the stores, and pay – to themselves – rents considerably higher than the market rates. Others pay huge sums for their own trademarks held often by offshore companies, siphoning the profits to Lichtenstein or the British Virgin Islands.

We have discerned how on many occasions tax avoiding holding companies structure subsidiary firms “above” and “below” the Bulgarian-based manufacturing firm. Often these subsidiary firms supply expensive parts and materials and collect artificially high fees for distribution.

## Corporate disclosure

It is worth mentioning that transparency regarding taxes is relatively high in Bulgaria. The Trade Registry provides comprehensive and accessible data about the financial results of companies.

Yet the case of Bulgaria proves that transparency does not lead automatically to better public analysis and discourse. By providing or withdrawing advertising revenue, the biggest companies can control the narrative on taxes in the national media.

The National Revenue Agency (NRA) is preoccupied with not scaring foreign investors. And the politicians both right and left wing, accept the status quo of the country with lowest direct taxes in the European Union. Politicians do not seem to recognise that tax evasion and avoidance is a cause worth fighting for. Although the burden of indirect taxes in Bulgaria is much higher than the EU average, this is why the public in general is lethargic towards tax injustices.

There are many multinational companies that benefit from the loose Bulgarian tax regime. But the case of Lukoil Bulgaria is truly unique. The Russian oil giant is the biggest company in Bulgaria, yet in the last decade it declared 1.7 billion leva loss here and, not surprisingly, paid not one single cent in corporate taxes in Bulgaria. At the same time, back home in Russia the company was declaring large profits and as a result substantial taxes. Corporate taxes paid in Russia for just one year amount to roughly US \$ 1,5 billion.

Lukoil did not respond to our requests for comment.

The general tax picture in Bulgaria is bleak: if one is big enough one can not bother paying taxes. The loopholes in public finances opened by "smart" Big Business are offset by onerous invisible taxes levied on the general – and indifferent – public.

## Who pays tax in Poland

### Corporation tax - 19 %

<b>GDP</b>	1 798 302 000 000 zł
<b>Total tax revenue</b>	484 293 000 000 zł
<b>Taxes on the profits of companies</b>	25 813 386 000 zł
<b>Direct taxes on individuals (i.e. income tax)</b>	45 040 043 000 zł
<b>Tax take as % GDP</b>	26,93 %
<b>% corporation tax of total taxation</b>	5,33 %
<b>% income tax as total taxation</b>	9,30 %
<b>Social Security contributions</b>	221 673 000 000 zł
<b>Social Security %</b>	45,77 %
<b>General Taxes on Goods and Services (Sales and VAT)</b>	123 120 798 000 zł
<b>% total Value Added</b>	25,42 %
<b>Taxes on specific goods and services</b>	62 808 633 000 zł
<b>% Taxes on specific goods and services</b>	12,97 %

The Polish tax structure was the most reliant on social security of all of the countries in our study. It also is relatively more reliant on indirect taxes, excises and VAT than direct taxes. Both corporations and individuals pay relatively less direct taxes on income, which is considered to be a more progressive form of taxation as people who are wealthier may more, whereas poorer people still need to pay for basic goods where VAT is levied.

As a whole, companies in Poland paid a relatively small amount of tax. Corporate income tax receipts make up 5.3% of all taxes paid in the country, the second lowest after Hungary. This combined with the overall lower tax base in Poland meant that corporates in the country contribute less in direct taxes in terms of GDP than any other country in our study.

## The Top Ten

When it came to the top ten companies in terms of revenue, one remarkable feature is the low profits made by these companies. In 2015 the average profit margin at the top ten companies in Poland by revenue was 0,75 %. Low profits explain why despite often paying a tax rate in line with the statutory tax rate, Polish companies do not make a huge contribution to overall tax receipts. In fact, because a number of loss making companies in Poland ended up having to make some corporation tax contributions, the total amount of tax paid by Polish corporates was more than the amount of profits made by these companies in 2015. If we only include the profit making companies, the amount of tax paid by Polish companies on their profits was 19 %, in line with the statutory rate.

2015	Turnover	Profit before Tax	Paid Income Tax	Profit Margin	Tax as % of Profit before Tax
<b>PKN ORLEN S.A.</b>	zł 88 336 000 000	zł 3 698 000 000	zł 465 000 000	4,19 %	12,57 %
<b>Jeronimo Martins</b>	zł 39 253 872 516	zł 1 482 586 089	zł 367 093 262	6,98 %	24,76 %
<b>PGNiG Group.</b>	zł 36 464 000 000	zł 3 014 000 000	zł 878 000 000	8,27 %	29,13 %
<b>PGE S.A.<sup>3</sup>.</b>	zł 28 542 000 000	-zł 3 756 000 000	zł 461 000 000	-13,16 %	-12,27 %
<b>Grupa Lotos S.A.</b>	zł 22 709 442 000	-zł 195 274 000	zł 68 026 000	-0,86 %	-34,84 %
<b>Eurocash SA</b>	zł 20 318 212 635	zł 265 637 627	zł 35 426 257	1,31 %	13,34 %
<b>KGHM S.A.</b>	zł 20 008 000 000	-zł 5 122 000 000	-zł 113 000 000	-25,60 %	N/A
<b>PZU S.A.</b>	zł 18 359 044 000	zł 2 944 000 000	zł 602 000 000	16,04 %	20,45 %
<b>Tauron S.A.</b>	zł 18 375 224 000	-zł 2 187 771 000	-zł 383 556 000	-11,91 %	N/A
<b>PKO BP</b>	zł 14 338 809 000	zł 3 190 750 000	zł 589 497 000	22,25 %	18,48 %
<b>Total</b>	<b>zł 306 704 604 151</b>	<b>zł 3 333 928 716</b>	<b>zł 2 969 486 519</b>	<b>0,75 %</b>	<b>89,07 %</b>

The Polish companies we looked at should have a lower risk of profit shifting than others. This is because Poland still has a high number of large state-owned companies, or companies where the state has a significant interest. State-owned companies have less of an incentive to shift profits.

The low profits in our study may be a function of the dominance of the oil and gas industry among the top Polish companies. Energy and mining firms have recently had to deal with the commodities crash and a resulting steep fall in profits.

## Corporate disclosure

The corporate disclosure in Poland is relatively opaque compared to other Central and Eastern European countries. Documents and Corporate Accounts are not available online. Instead the person seeking access to the accounts must visit the corporate registry in person. In every other country in our study corporate accounts were available online.

# Latvia

## Corporate tax rate 15 %

<b>GDP</b>	€ 24 348 500 000
<b>Total tax revenue</b>	€ 7 100 000 000
<b>Taxes on the profits of companies</b>	€ 400 000 000
<b>Direct taxes on individuals (i.e. income tax)</b>	€ 1 400 000 000
<b>Tax take as % GDP</b>	29,16 %
<b>% corporation tax of total taxation</b>	5,63 %
<b>% income tax as total taxation</b>	19,72 %
<b>Social Security contributions</b>	€ 2 000 000 000
<b>Social Security %</b>	28,17 %
<b>General Taxes on Goods and Services (Sales and VAT)</b>	€ 1 900 000 000
<b>% total Value Added</b>	26,76 %
<b>Taxes on specific goods and services</b>	€ 800 000 000
<b>% Taxes on specific goods and services</b>	11,27 %

In our study, Latvia had the greatest gap between direct taxes paid by individuals compared with taxes paid by corporates. In total 5,6 % of the government's tax receipts comes from corporate income tax, whereas 19,7 % of tax receipts come from individuals' income tax.

Latvia has a relatively high proportion of government revenue coming from VAT at 27 %, but the second lowest from social security contributions at 28 %.

## The Top Ten

The top ten revenue earning companies in Latvia are dominated by the energy and utilities sector, which accounts for five out of the top ten companies.

As a whole, Latvian companies tend to pay a corporate tax rate which is close to its stated corporation tax rate. The one company that diverges from this trend significantly is Latvenergo.

According to Latvenergo annual accounts, the company paid just 8 % of their profits in tax in 2015 and 0,0001 % in 2014.

In the accounts it is said that the company takes advantage of a tax incentive on the adoption of new technology to achieve this goal. This is particularly interesting in the context of Latvenergo having the highest profit margin by far in 2015.

Elko Grupa also consistently manages to achieve a tax rate that is lower than the statutory rate. In 2015 the company paid just 5 % of its profits in taxes. In 2014 and 2013 the company paid around 12 % in profits as tax, in 2012 and 2011 the company paid 6 % and 4,5 % respectively. NESTE Latvija also paid just 7,17 % in 2015, and 1,28 % in 2014.

Another noteworthy issue is raised by the Latvian subsidiary of the Polish group PKN Orlen. Orlen Latvija showed an operating profit margin of precisely 0,6 % in every year of the last five years. This would suggest that the company's revenues and costs are not subject to the normal market forces impacting most companies. This could be an indication that the company is engaging in profit shifting as it has decided to limit profits at its Latvian subsidiary.

We put this to PKN, who told us that the "Relationship between ORLEN Latvija and other companies from the ORLEN capital group fully comply with local and international tax legislation, requirements and best practices.

"Transactions between related parties are followed to the requirement of OECD Transfer pricing Guidelines for Multinational Enterprises and Tax Administrations and also to the Latvian specific legal requirements.

"Furthermore, before the implementation of the current transfer pricing methodology we communicated to the Latvian tax authority and later it was inspected by the tax authority. No objections were brought up."

2015	Turnover	Profit before Tax	Paid Income Tax	Profit Margin	Tax as % of Profit before Tax
<b>URALCHEM Trading</b>	€ 1 133 125 557	€ 29 629 382	€ 4 517 272	2,61 %	15,25 %
<b>RIMI LATVIA</b>	€ 785 281 263	€ 32 576 721	€ 4 623 326	4,15 %	14,19 %
<b>MAXIMA Latvija</b>	€ 688 799 668	€ 23 689 504	€ 4 219 672	3,44 %	17,81 %
<b>Latvenergo</b>	€ 521 145 687	€ 104 043 884	€ 8 465 000	19,96 %	8,14 %
<b>ORLEN Latvija</b>	€ 459 731 414	€ 2 758 410	€ 420 759	0,60 %	15,25 %
<b>Latvijas Gāze</b>	€ 444 690 000	€ 37 586 000	€ 4 274 000	8,45 %	11,37 %
<b>NESTE LATVIJA</b>	€ 407 320 000	€ 11 676 961	€ 836 909	2,87 %	7,17 %
<b>ELKO GRUPA</b>	€ 368 006 295	€ 9 155 805	€ 459 120	2,49 %	5,01 %
<b>Circle K Latvia</b>	€ 358 176 954	€ 25 809 423	€ 3 970 233	7,21 %	15,38 %
<b>LDZ CARGO</b>	€ 332 706 150	€ 4 148 505	€ 1 573 000	1,25 %	37,92 %
<b>Total</b>	<b>€ 5 498 982 988</b>	<b>€ 281 074 595</b>	<b>€ 33 359 291</b>	<b>5,11 %</b>	<b>11,87 %</b>

# Slovenia

## Corporation tax rate 17 %

<b>GDP</b>	€ 38 570 000 000
<b>Total tax revenue</b>	€ 14 100 000 000
<b>Taxes on the profits of companies</b>	€ 600 000 000
<b>Direct taxes on individuals (i.e. income tax)</b>	€ 2 000 000 000
<b>Tax take as % GDP</b>	36,56 %
<b>% corporation tax of total taxation</b>	4,26 %
<b>% income tax as total taxation</b>	14,18 %
<b>Social Security contributions</b>	€ 5 600 000 000
<b>Social Security %</b>	39,72 %
<b>General Taxes on Goods and Services (Sales and VAT)</b>	€ 3 200 000 000
<b>% total Value Added</b>	22,70 %
<b>Taxes on specific goods and services</b>	€ 2 000 000 000
<b>% Taxes on specific goods and services</b>	14,18 %

Slovenia is yet another country where companies seem to be making a relatively small contribution to government revenues. Corporation taxes accounted for just 4,26 % of government revenues in 2015, whereas income taxes on individuals accounted for 14 % of revenues. In total corporation taxes accounted for 1,56 % of GDP, which was the second lowest in the group.

The amount of value added taxes and excise duties collected by the government as a proportion of the total tax bill was lower than in other countries and much closer to the OECD average.

## The Top Ten

In total the eight largest companies in Slovenia – we were unable to find tax liabilities for two companies – were liable to pay around 19 % of their profits in taxes. However, behind that average there were huge variations between tax liabilities.

For example on a consolidated basis, Gorenje made a loss in 2015 but still paid € 5m in taxes. HSE Group paid €20m on losses of almost half a billion euro. In fact because of the very large losses incurred by HSE Group and the standalone company (see below) in total the top ten companies in Slovenia in 2015 made a loss.

Gen-I group made profits of € 8,5m but received € 62k back from the tax authority in that year. Krka was another company which received money back despite making substantial profits.

2015	Turnover	Profit before Tax	Paid Income Tax	Profit Margin	Tax as % of Profit Before Tax
Petrol Group	€ 3 816 881 799	€ 75 133 650	€ 6 349 277	1,97 %	8,45 %
GEN-I Group	€ 1 731 202 568	€ 8 501 259	-€ 62 402	0,49 %	-0,73 %
Mercator Group	€ 2 612 418 000	€ 26 797 000	€ 2 014 000	1,03 %	7,52 %
HSE Group	€ 1 224 011 025	-€ 469 173 610	€ 19 376 592	-38,33 %	-4,13 %
Krka Group	€ 1 164 607 000	€ 180 712 000	-€ 1 449 000	15,52 %	-0,80 %
Revoz	€ 1 027 310 000	€ 12 915 000	N/A	1,26 %	N/A
Lek Group	€ 1 059 336 443	€ 96 940 559	N/A	9,15 %	N/A
Gorenje Group	€ 1 225 029 000	-€ 3 988 000	€ 5 137 000	-0,33 %	-128,81 %
Telekom Group	€ 729 543 000	€ 64 000 000	€ 661 000	8,77 %	1,03 %
OMV Slovenija	€ 598 857 000	€ 21 398 000	€ 3 398 000	3,57 %	15,88 %
<b>Total</b>	<b>€ 12 997 278 835</b>	<b>-€ 183 789 142</b>	<b>€ 35 424 467</b>	<b>-1,41 %</b>	<b>-19,27 %</b>

When we look at the accounts on a standalone basis (i.e. without including all of the subsidiaries, which may be in other countries) we see that there are similarly large divergences in tax payments.

2015	Turnover	Profit before Tax	Paid Income Tax	Profit Margin	Tax as % of Profit Before Tax
Petrol	€ 3 063 509 316	€ 37 781 197	€ 4 938 680	1,23 %	13,07 %
GEN-I	€ 1 777 143 535	€ 8 762 770	€ 282 622	0,49 %	3,23 %
Mercator	€ 1 403 504 000	€ 392 000	€ 327 000	0,03 %	83,42 %
HSE	€ 1 303 650 513	-€ 315 007 781	€ 16 005 618	-24,16 %	-5,08 %
Krka	€ 1 086 526 000	€ 159 373 000	-€ 11 488 000	14,67 %	-7,21 %
Revoz	€ 1 027 310 000	€ 12 915 000	N/A	1,26 %	N/A
Lek	€ 849 413 493	€ 126 008 177	N/A	14,83 %	N/A
Gorenje	€ 683 408 000	-€ 3 057 000	€ 1 050 000	-0,45 %	-34,35 %
Telekom Slovenije	€ 634 105 000	€ 41 179 000	€ 199 000	6,49 %	0,48 %
OMV Slovenija	€ 598 857 000	€ 18 000 000	€ 3 398 000	3,01 %	18,88 %
<b>Total - companies (-7,8)</b>	<b>€ 10 550 703 364</b>	<b>-€ 52 576 814</b>	<b>€14 712 920</b>	<b>-0,50 %</b>	<b>-27,98 %</b>

## Gorenje

We delved deeper into the accounts of Gorenje, which to our judgement has particularly interesting tax liabilities.

Although some tax liability is displayed by the company in 2015, when it comes to looking at the detail of the accounts it is revealed that this payment was made up of 'other taxes' and not corporation tax. The company also managed to defer payments and write off profits against losses incurred in previous years. When all of this is taken into account, the company appears not to have made any corporation tax cash payments in five years to the Slovenian Government.



We asked Gorenje whether it was correct that the firm had not paid any corporation tax in Slovenia. The company did not challenge our findings. The company also clarified that the “other taxes” referred to in Gorenje’s accounts were “withholding taxes paid abroad”.

## **Krka**

Krka, the pharmaceutical company, also had a noteworthy tax history. Krka received an € 11m tax credit in 2015, despite the company making solid profits in that year. In the previous year the company paid more, but the year before that was liable for just a 5 % tax rate.

In total over a five year period, the company paid 10,39 % of their profits in taxes, well below the Slovenian statutory rate.

Krka explained to us that the tax rebate in 2015 was on account of an overpayment of taxes in the previous year.

Krka pays taxes in advance on the basis of profits from the previous year. In this case profits were lower in the subsequent year so the excess tax payment was refunded. Krka also confirmed that the tax rate of the company is lower due to tax incentives on research and development.

## Conclusions

Our study shows that low tax rates are not a free lunch for governments; there are trade-offs. If revenue is not collected from companies then the costs borne by government need to be met by other means. Low taxes on business lead to a higher burden being placed on citizens and greater tax inequality.

Throughout the region, it is generally the case that companies pay relatively low amounts of tax, both compared to the citizens of those countries and to OECD countries.

This means that the tax burden is disproportionately borne by citizens, either through paying relatively more tax, or through paying more indirect taxes on goods and services.

One way to prevent countries from engaging in a race to the bottom on business taxes is to work together on a European level to make sure there is a common set of rules and regulations on how companies are taxed. It is our view that countries in Central and Eastern Europe should engage positively with the current efforts to create a Common Consolidates Corporate Tax Base.

When we looked at the top ten companies in each country, we saw marked variations in the amount of taxes companies were liable to pay on their profits. This is in part explained by many countries having tax breaks which allowed companies to significantly lower their tax liability. In our view, countries must be much more transparent about the incentives they are providing.

We also suspect that the low tax rates seen in the CEE do not act as a disincentive for companies to stop engaging in tax avoidance and profit shifting, and there is some evidence to show that multinationals in the region are engaging in these practices. In order to create more transparency about what companies pay where, countries in the region should support efforts to to compel companies to report their profits on a country by country basis.

### (Footnotes)

- 1 As it was explained earlier in the case of AHOLD, annual accounts for 2014 and 2015 were not available. Therefore we did not include AHOLD in our statistics. In the case of BOSCH Group ČR, there are annual accounts available but only for individual entities - not for the whole group. So we also decided not to include BOSCH Group in our table below.
- 2 Dimitar Sabev is a tax justice campaigner in Bulgaria, who had already carried out research into this area in 2015.
- 3 PGE confirmed our figures but pointed out the tax figure we used is only the current tax charge and does not include deferred tax. Our other figures, it says, are not taxable figures, but accounting ones so consequently, the company argues tax ratios may be misleading. PGE says its effective tax rate amounted to 19 % - as described in note 8.2 of its 2015 financial statements.



the fact that the *de novo* synthesis of cholesterol is inhibited by the presence of cholesterol in the diet.

There are several reasons why the *de novo* synthesis of cholesterol is inhibited by the presence of cholesterol in the diet.

First, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the blood.

Second, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the liver.

Third, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the intestines.

Fourth, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the skin.

Fifth, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the brain.

Sixth, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the muscles.

Seventh, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the bones.

Eighth, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the hair.

Ninth, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the nails.

Tenth, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the teeth.

Eleventh, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the skin.

Twelfth, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the hair.

Thirteenth, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the nails.

Fourteenth, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the teeth.

Fifteenth, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the skin.

Sixteenth, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the hair.

Seventeenth, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the nails.

Eighteenth, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the teeth.

Nineteenth, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the skin.

Twentieth, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the hair.

Twenty-first, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the nails.

Twenty-second, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the teeth.

Twenty-third, the presence of cholesterol in the diet leads to an increase in the levels of cholesterol in the skin.