Why Tax Corporations?

Richard M. Bird
International Centre for Tax Studies
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Abstract

Popular opinion seems to be that, if anything, corporations do not pay enough in taxes. In contrast, although economists recognize that it is often convenient to utilize corporations as agents to collect taxes from customers (sales taxes), employees (payroll and personal income taxes) and owners (dividend and withholding taxes), they often see no good reason why corporations *as such* should pay any taxes, particularly since corporation income (and capital) taxes may impose significant economic costs on society. This paper discusses this apparent divergence of views, noting a number of reasons why corporations as such might properly be taxed. Properly designed, such taxes might in some limited instances be desirable means of collecting public revenue in ways that would improve economic well-being. More importantly, although the openness of the Canadian economy clearly imposes limits on the extent to which Canadian corporation taxes can exceed those imposed elsewhere, particularly in the United States, that same openness makes it not only desirable but necessary to impose some form of corporation tax. Even from a purely domestic perspective, so long as the main form of personal taxation is a personal income tax, some form of corporation income tax will be a necessary part of the tax system.

Although none of the possible rationales for taxing corporations is particularly strong, in total it is clear that we not only should but must impose some explicit taxes on corporations. It is much less clear that either the present level or the present mix of corporate taxes in Canada can be justified. On the one hand, given the existence of corporation income taxes in Canada's trading and investing partners, the very globalization of capital markets that has often been said to weaken the case for taxing capital actually makes the case for a corporate income tax in Canada stronger than it would otherwise be – although this does not imply that the present level of that tax is optimal. On the other hand, it is hard to find any rationale at all for taxes on corporate capital, although a case might be made for a more neutral form of factor taxation in the form of a low "income-type" value added tax, particularly at the provincial level.

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1. Economic vs. Popular Opinion

Economists are sometimes accused of agreeing on almost nothing and of never reaching a clear conclusion. Most readers have probably heard the joke about the policy maker who advertised for a "one-handed economist" on the grounds that his or her answer to any question would be less likely to be followed by "On the other hand...." One important policy question on which most economists appear to agree, however, is that there is very little to be said in favour of taxing corporations.[1] Many would agree, for example, that the title of a recent paper – "The Corporate Income Tax and How to Get Rid of It" (Vickrey, 1991) – adequately conveys the main message of the extensive economic literature on this subject. The reason for such unanimity is primarily the substantial economic costs associated with taxes on corporations, although the uncertainty as to who really pays such taxes no doubt also contributes to the disdain in which they are generally held by economists.

Numerous *distortions and costs* are created as a result of corporate taxes (Gravelle, 1994). Choices with respect to such matters as organizational form (the incorporation decision), financial structure (debt-equity ratio) and dividend policy (pay-out ratio) may be distorted by such taxes. Similarly, at the margin investment decisions with respect to industry, asset mix, location, risk-taking and timing may be influenced by variations in effective tax rates (Mintz, 1995; Chen and McKenzie, 1995). Inter-temporal decisions, like inter-sectoral decisions, are also affected by taxes on capital income, with the result that private savings are diminished. Moreover, the complexity of corporate taxes may impose significant costs and barriers to expansion of new and small firms, while uncertainty as to the precise tax implications of various corporate decisions may act as a general deterrent to investment. All in all, the analysis in the public finance literature of the potential "dark side" of corporate taxation is extensive – and sufficiently persuasive to convince most economists that there is very little, if anything, to be said for corporation taxes. On the contrary, there may be substantial economic gains from reducing and even eliminating such taxes.

In sharp contrast, recent events in many countries have once again demonstrated that the general public is almost equally unanimous in holding the opposite conclusion, namely, that corporate taxes are among the best of all taxes. It is, of course, easy for economists to demonstrate that these popular views must largely be wrong, since they are based on fundamentally unconvincing beliefs about the incidence of corporate taxes – and in fact, as already suggested, the inherent uncertainty about corporate tax incidence actually provides another reason for suggesting that there is no place for such taxes in a tax system concerned to achieve efficiency and equity.

[1] Many of the following arguments apply equally well to all taxes on capital income or business. Since corporations are of course the major form in which business activity is carried on in most countries, as well as the major source of capital income, the categories of corporate income, capital income and business income clearly overlap, although they are equally clearly not identical. This paper for the most part, focusses on taxing corporations and does not develop these distinctions in detail.

The popular rationale for corporate taxes may be loosely viewed as a version of the *ability-to-pay rationale*. A particularly naive version of this argument is that since corporations are separate legal "persons" and some of them have a lot of money, they must have substantial "ability to pay" their taxes and should therefore do so. Popular as such arguments are – witness the numerous media articles deploring the decline in the share of corporate taxes – they are clearly fallacious. Only people, not things, can "pay" taxes in the sense of having their private real incomes decreased, and a major problem with corporate taxes from the equity perspective is that no one can be very certain who is actually paying them.

While perhaps politically convenient, such ambiguity in incidence makes it equally difficult to assess another often-asserted "ability" rationale for corporate taxation, namely, that the incidence of such taxes is progressive. Are increases in corporate taxes paid by the rich? To the extent that corporate taxes reduce the income of shareholders, and shareholders are on average richer than others, such taxes may indeed be progressive in their incidence. But any such progressivity is "blind" in the sense that it takes no account of the total position of the shareholder and imposes the same tax on the impoverished elderly pensioner as on the multimillionaire rentier. Moreover, corporate taxes may equally (or, more accurately, may to varying extents) impinge on all recipients of capital income, on wage-earners in general or corporate employees in particular, or on the consumers of corporate products. Despite the frequency with which economic models assume that all corporate taxes impinge on the normal return on capital, it is important to remember that this is an assumption, not a fact. One might equally well assume – as a recent study of the Japanese tax system notes is generally assumed in that country (Ishi, 1995) – that the corporate tax is shifted forward in prices, in whole or in part.

The difficult question of incidence also lies at the heart of a third "ability" argument that has sometimes been made – e.g. by the Royal Commission on Taxation (1967) in Canada – to the effect that, whatever the incidence of the corporate tax might be, *reducing* the tax would probably have adverse distributional effects, essentially by bestowing windfall gains on existing shareholders to the extent the existing taxes have been capitalized in share prices. While no one can know the magnitude of such a shift, its existence does not seem implausible. Even so, it is perhaps best considered as another possible "cost of change" to be borne in mind in assessing the desirability of tax change rather than a valid distributional argument for maintaining existing corporate taxes.[2] I shall return to this point in the final section of the paper.

Popular support for taxing corporations, thus, has weak logical and empirical underpinnings. In contrast, the economic opposition to such taxes has strong logical (if not so impressive empirical) support. Nonetheless, my argument in this paper is that, when all of the qualifications needed in the real world of policy are taken into account, the two positions are not nearly so far apart as may at first appear. There may be no one good argument for taxing corporations, but there are at least a dozen arguments supporting some form of corporate taxation in certain circumstances. When one adds these arguments up in the context of any particular country, it generally turns out to be the case, at least in my view, that not only should there be taxes on business and capital

[2] Perhaps it should be noted that any conceivable "progressivity" arguments with respect to wealth taxes supporting corporate capital taxes are even more tenuous and irrational (Bird, 1991) than those mentioned above.

income and especially on corporations, but that the taxes we now have may not be all that far from the best we can do in the circumstances. This is not to say that we cannot do better – clearly, many and sometimes significant changes may be desirable in corporate tax policies in Canada, as in most countries – but the basic structure of corporate taxation that now exists is by no means all bad.

Broadly, three answers may be suggested to the question posed in the title of this paper: why tax corporations? Canada – like every other country – may impose taxes on corporations (1) because it is desirable to do so, (2) because it is necessary to do so to achieve certain objectives, (3) because it is convenient to do so, or for some combination of these reasons. While the distinctions between these three possible rationales for corporation taxes – desirability, necessity, and convenience – are not always sharp, they are explored under these headings in the next three sections of this paper. The fifth section then briefly discusses how corporations should be taxed in light of these various rationales, and the final section considers a few additional factors that seem relevant in deciding upon changes in the level and structure of corporate taxation.

2. Because It May Be Desirable

Taxation is often discussed as though all taxes are inherently bad in the sense that society would be better off in their absence. Quite apart from any offsetting benefits from public expenditure, this is not correct. There are in fact three types of tax that may make any particular country better off than it would otherwise be.

- The first is a so-called ***Pigovian tax***, one that improves market efficiency by inducing economic agents to take social costs correctly into account – and at the same time provides revenue for the state.
- The second is a ***tax on economic rent***, or pure profits. Unlike a Pigovian tax, which alters allocative decisions in a socially beneficial way, a rent tax has no effect at the margin, and hence imposes no economic costs, while providing revenue that can be used either to finance public goods or achieve distributional goals.
- The third and least commonly mentioned member of this magic fiscal trio is a tax that is paid by a foreigner. From the point of view of any particular country, a tax that can be costlessly exported (i.e., without offsetting effects on investment flows or trade patterns) is clearly a very good tax indeed, in the sense of providing additional revenue for public purposes without reducing the domestic resources available for private use.

It seems obvious that the first concern in designing tax policy in any country should be to impose as many "good" taxes as possible before turning to the dreary and unpleasant task of raising the additional revenue needed to finance public-sector activities in as undistorting a fashion as possible.

Two taxes on rent that have received considerable attention over the years, for example, are taxes on land value – Henry George's famous single tax (Tideman, 1994) – and various forms of taxes on corporate cash flow (Mintz and Seade, 1991; Shome and Schutte, 1993). Similarly, much ink

has been spilled in recent years on the possible uses (and limits) of environmental or "green" taxes – a form of Pigovian tax (Dewees, 1992; Goulder, 1994). While the academic literature has understandably been less forthcoming with respect to the potential (national) virtues of tax exportation, some aspects of this subject too have been explored by analysts (e.g. Findlay, 1986; Bruce, 1992). The balance of the present section discusses the extent to which corporate taxes may be good, desirable taxes from these different perspectives.

Taxes as Prices

Corporate activity may give rise to negative externalities, in effect imposing non-priced costs on society as a whole (e.g. through environmental degradation). A possible fiscal solution to this problem is to impose appropriately corrective levies on the activities giving rise to the problem. Designing and implementing such pollution taxes, green levies, liability-based charges, or whatever they may be called may obviously be a difficult task in practice and cannot be discussed here in detail, but in principle the rationale for imposing such charges seems clear (Dewees, 1992). But what seems equally clear, and is more directly relevant in the present context, are two additional points. First, although corporations, like other economic agents, may appropriately be subject to corrective environmental taxes, there is no reason why corporations' income should be so taxed. Second, this line of argument provides no possible case for any form of general corporate taxation. In short, green taxes may sometimes be very good taxes indeed, but no possible rationale for taxing corporations *as such* is to be found in such arguments.

Much the same can be said with respect to what may in some ways be considered a variant of the same argument, namely, that to the extent particular public activities result in identifiable cost-reducing benefits being received by particular firms, they can and should be charged for them. There is of course an excellent case for applying user charges to corporations or any other direct beneficiary where feasible (Bird and Tsiopoulos, 1996). Moreover, although the subject has been little studied, it seems likely that a significant fraction of public expenditures, particularly perhaps at the local government level, directly benefits businesses.[3] In view of the difficulty of designing and implementing direct user charges in many instances, a limited case may perhaps be made for some more generalized form of taxation on business to cover unattributable benefits.[4] Not only is there no apparent reason for levying such a tax on corporations alone, however, but any such tax should likely be local rather than national in scope and relatively low in rate. Moreover, as discussed further in Section 5, those who support business taxes for this reason generally argue for taxes on all factor costs or value added as the most appropriate base, rather than separate taxes on profits, payroll or capital, which invariably introduce biases into private allocative decisions (Oakland and Testa, 1995).

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[3] Kitchen and Slack (1993) estimate, for example, that on average close to 40% of (non-education) municipal expenditures in eight Ontario cities accrue to non-residential properties, though the share is less than 20% if education is taken into account. Oakland and Testa (1995) estimate the "business share" of state and local expenditures in the United States to be 13%. In both cases, it should be noted, business as such pays a considerably higher share of the taxes levied by the respective governments.

[4] For example, such arguments are sometimes used to rationalize (at least some of) the local property tax (Bird and Slack, 1993) as well as taxes on motor fuels (Bird, 1976).

Such specific "benefit" arguments for imposing tax-prices should not be confused with two distinct versions of a more general benefit rationale for taxing corporations that may be found in the literature (Bird, 1979; Messere, 1993). First, corporations may benefit generally from government actions (e.g. in providing the basic legal and institutional framework and physical infrastructure within which market activity takes place), in educating the labour force, and in maintaining a high and stable level of economic activity. Such corporate-government partnerships might be considered to justify some sharing of the profits (and, presumably, losses). Even if there is thought to be something in this rather vague line of argument, however, there is no apparent reason why it should apply only to corporations rather than to businesses in general, or indeed to income in general.

Secondly, corporations differ from other businesses in possessing certain legal characteristics bestowed by government, which may be considered to bestow a special benefit. For example, limited liability, perpetual life, easy transfer of ownership and such related features as easier access to capital markets are clearly worth something. Since the state has a monopoly on granting these privileges, it can charge for them whatever the market will bear. In efficiency terms, however, such charges are warranted only to the extent incorporation gives rise to social costs, and since the only real such costs would appear to be record-keeping, at most a small registration fee or similar levy would seem to be justified by this argument. With some stretching, some of the capital taxes found in Canada may perhaps be justified along these lines, but it pushes this argument much too far to assert that the privilege of limited liability warrants general corporate taxes of the scope or scale of those found in Canada or most countries. In short, like the Pigovian argument discussed above, neither of these versions of the benefit argument appears to justify significant general taxes on corporations.

Rent Taxation

Economic rents or pure profits may be created, either transitorily or for a longer period of time, for a variety of reasons. Although there is again no reason to limit the argument to corporations in principle, in practice it seems likely that many such rents – for example, those arising from the exploitation of natural resources or monopoly positions – will in fact accrue to corporations. Indeed, a traditional argument for imposing a special tax on corporations, even a graduated tax, was precisely to tap monopoly rents or so-called "excess" profits (Groves, 1937). Although this view, which appears to have been motivated largely by distributive concerns, receives little support today, the modern professional literature makes it clear that there is a strong efficiency case for taxing economic rents at the corporate level (Mintz, 1995).[5] By definition, taxes on rents secure revenue for public purposes without disturbing private economic decisions, which is, as noted above, about as good as a tax can do. It is thus not surprising that taxing rents is one of the major rationales commonly asserted for taxing corporate profits and that, in particular, several recent proposals for reformed corporate taxation are aimed at taxing only the "rent" element of corporate profits.

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[5] Vigneault and Boadway (1996) note, a particularly interesting case in which corporate taxes are in effect non-distorting "rent" taxes is when investment costs are "sunk" so that investment is hard to reverse. This point is related to an argument mentioned later with respect to foreign direct investment.

International Aspects

An important aspect of the argument for taxing rents relates to the taxation of foreign investment. Foreign firms would seem to be at an inherent disadvantage relative to domestic firms. One reason why they may nonetheless be able to compete successfully is because they have some special advantage, in terms of know-how, skill, access to finance or markets and so on, that they can exploit to offset their "foreignness." In other words, they have some firm-specific assets that generate rents for them. In this view, the mere existence of direct foreign investment may be taken to imply that the profits accruing to such operations must contain a rent element (Bird, 1986; Sorensen, 1995). Although care must be exerted in order not to kill the goose, so to speak, judicious taxation of such rents may therefore make good sense. Indeed, as noted in the next section, if the host country does not tax the profits earned by foreign investors, the home country likely will, and hence the case for levying taxes on the earnings of foreign investors – at least up to the level of the taxes imposed by their home country – is very strong.

Two other aspects of international investment are also relevant in this context. Firstly, some authors (e.g. Musgrave, 1987) have asserted that the host country is entitled to a share of the profits generated by foreign investment as a matter of right. The argument is analogous to the case often cited that the locality in which a particular natural resource is located has first claim on taxing the resource. Of course, others have asserted that such claims have no validity beyond the sorts of benefit and liability arguments mentioned earlier (Boadway and Hobson, 1993). Still others have attributed the strength of this "source" argument to the simple fact that the country (or region) in which the rent-generating resource is located has, it were, the first kick at the fiscal can (Brean, Bird and Krauss, 1991). On the whole, although this so-called "national rental" argument for host-country taxation (Musgrave and Musgrave, 1972) has a long tradition, whether one accepts it or not appears to be a matter of taste rather than logic.

Secondly, and quite distinct from the international variants of the rental argument, governments view favourably taxes that do not impinge on their own voters. One way to achieve this happy state, as just noted, may be to tax non-resident owners. Another may be to tax foreign consumers of domestically produced goods, to the extent a country's exports are sufficiently important to influence world prices (MacDougall, 1960).

International tax exportation is a difficult subject to study, and no one has a very clear idea if, or to what extent, taxes imposed on corporations in one country may be exported through higher market prices to consumers abroad or through lower distributions to foreign owners. But to the extent that the world, and Canada, differ from the conventional frictionless "small open economy" model – as it undoubtedly does – this possibility cannot be dismissed out-of-hand. On the other hand, so little is known about this question that it would be foolish to predicate tax policy on it. From a national political point of view, it may indeed be desirable to tax foreigners whenever one can get away with it, but this dictum is of little use as a guide to policy.[6]

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[6] The main possible exception relates to large natural resource deposits, and it is no coincidence that much of the "rent" tax literature has focussed on this case (Garnaut and Clunies-Ross, 1983).

3. Because It May Be Necessary

The previous section suggested that taxes on corporations in some instances might be a desirable means of collecting public revenues in ways that would either improve economic well-being (Pigovian taxes), not harm economic well-being (rent taxes), or impose costs on those beyond the political pale (tax exporting).[7] Whether or not corporate taxes are considered desirable for these reasons, they may prove to be necessary for closely related reasons. Specifically, the existing international tax regime makes it virtually essential for countries to impose taxes on corporate profits, as discussed next. Moreover, there may in practice be no other way to tax rents effectively other than through some form of corporate tax. Finally, as noted later in this section, some taxation at the corporate level seems likely to constitute an essential component of any adequate system of personal taxation.[8]

International Investment Revisited

One reason most countries tax corporate profits is because most countries tax corporate profits. To put it another way, in a world in which cross-border investment flows are important, an increasingly influential element in the design of domestic tax systems is their interaction with tax systems in other countries. Canada is no exception. As Brean (1984) and others have shown, Canada's corporate tax system interacts in a number of ways and levels with the systems of corporate taxation found in other countries, particularly larger developed countries and especially with that of the United States, which is by far the dominant country with respect to cross-border investment flows.

Oversimplifying considerably, it may perhaps be said that as long as the United States taxes corporate profits, Canada should also do so. This does not mean, of course, that the Canadian system should be a clone of that of its neighbour to the south. Nor is it a clone, as evidenced by the very different approaches taken to corporation-shareholder taxation in the two countries. But the importance of cross-border investment and the dominance of the United States do imply that there are limits to the degree to which Canada's corporate tax system can diverge from that of the United States.

Specifically, under present U.S. rules, it is unlikely that any foreign corporate profits taxes disallowing the deduction of interest would be considered creditable against U.S. tax (McLure and Zodrow, 1996). This alone may rule out some of the more drastic forms of corporate tax revision sometimes advocated, as discussed in Section 5. In addition, U.S. rules may also restrain the growth of taxes on corporate capital unless perhaps they take the form of alternative

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[7] It should be mentioned, as Vigneault and Boadway (1996) emphasize, that similar pressures to tax the "outsider" exist *within* a country, with the result that sub-national corporate taxes are likely to reduce national well-being. As Dahlby (1996) notes, such "fiscal externalities" are especially likely to be important when they are, as in Canada, reinforced by the working of the system of equalization transfers.

[8] While the division between the arguments in this section and those in Section 4 (on the "convenience" of taxing corporations) is obviously rather arbitrary, the basic idea is that the present section discusses reasons why corporate taxes are needed to achieve policy objectives that could not otherwise be achieved, while the next section concentrates on reasons why it may be administratively more convenient to tax corporations than to achieve the same goal in some other conceivable, but more costly, way.

"minimum" taxes to conventional corporate profits taxes (Sadka and Tanzi, 1992). And finally, as some Canadian provinces have already discovered (with respect to special taxes on resource companies), other less conventional forms of taxing corporations may also become considerably less attractive if they fail to conform to American expectations of what a "good" corporation tax should look like – namely, as much like the U.S. corporate income tax as possible.

More generally, even apart from the important U.S. constraint on Canada's tax policy freedom in this area, the world-wide prevalence of a particular variety of corporate taxes makes it difficult for any relatively small country to deviate very far from this norm without incurring some penalties in the form of loss of investment, or tax revenue, or both. The conventional corporation income tax undoubtedly has many defects, but so long as everyone else has one, Canada likely has to have one also, at least in form.

Indeed, in total the international arguments for taxing corporations, and specifically corporate profits, are impressive. At least seven such arguments may be found in the literature, most of which have already been mentioned.

- First, some taxation of foreign capital income may be desirable to exploit any international market power (MacDougall, 1960). That is, since the international supply of capital is not perfectly elastic there is some room for nationally non-distortionary taxation.
- Second, when economic profits (rents) are not fully taxed under the domestic tax system in both capital-exporting and capital-importing countries, both countries should impose taxes on foreign capital (Bruce, 1992).
- Third, if other production inefficiencies exist, such taxes may be warranted on efficiency grounds even if economic profits are fully taxed (Hartman, 1986). As Findlay (1986) notes, the non-optimality of taxes on non-capital income in most countries provides one reason why taxes on foreign income may be required.
- Fourth, from a more narrowly national perspective, in all instances in which multinational firms reap "location-specific rents," source countries can impose taxes on such profits without affecting investment (Bird, 1986).
- Fifth, taxes on international capital flows may be used to exploit revenue transfers from capital-exporting countries that have foreign tax credit systems (Bond and Samuelson, 1989).
- Sixth, given political constraints on high direct taxes, a source-based corporation tax may be the best way available to tax immobile factors (Sorensen, 1995).
- Seventh, combining several of the earlier efficiency and institutional arguments with a particular equity perspective, such taxes may be an appropriate way for countries to share the rents earned by international investment (Musgrave, 1987).

Backstopping the Personal Tax

No tax is perfect. Certainly the present Canadian personal income tax is not. One important role for the corporate income tax is to close some of the gaps in the personal tax system, for example, by imposing some taxation on capital gains as they accrue at the corporate level.[9] In the absence of taxation at the corporate level, shareholders would have strong incentives to postpone taxes by leaving retained earnings at the corporate level rather than taking them out as (taxable) dividends.[10] Similarly, corporate income taxes may, to some extent, be considered an appropriate offset to the lack of Canadian personal taxation on capital income received by foreigners. A quite distinct "backstopping" role for the corporate tax may be to aid the enforcement of the personal tax, for example, by withholding tax on dividends paid to individuals that might not otherwise come to the attention of the fiscal authorities. All this is in addition to the indispensable role played by corporations in modern fiscal systems as third-party collectors of taxes and suppliers of information, as developed further in Section 4.

Given the complexity of the relations among individuals and corporations (as suppliers of labour and capital, recipients of profits and purchasers of products), the role of taxation at the corporate level is likely to remain central in any fiscal system, in terms of enforcement and administration. If, for example, the present personal income tax were to be replaced by a tax on wages alone or a tax on personal expenditure, or, for that matter, by a comprehensive income tax including gains on an accrual basis, the gap-filling role of corporate taxes might be diminished, but the enforcement role might even be strengthened.[11] For both domestic and international reasons, some taxes must thus continue to be imposed on corporations as long as direct personal taxes consitute part of the tax system.

4. Because It May Be Convenient

Section 2 suggested a few reasons why it may be desirable to tax corporations. Section 3 added reasons to explain why it may be necessary to tax corporations to achieve certain policy objectives. This section argues that even if it were not desirable or necessary to tax corporations, it is so convenient to do so that a system that does not seems virtually inconceivable. Several decades ago the Royal Commission on Taxation (1967) seized on what it called the conduit theory of corporations – that corporations were essentially only a conduit channelling profits to their ultimate owners – to argue that there was no reason for imposing taxes on corporations. Sections 2 and 3 essentially argued that this view was seriously deficient in neglecting the desirability of taxing economic rents, particularly those accruing to foreigners, and the potential

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[9] This argument should be distinguished from the generally invalid "ability" arguments for corporate taxes discussed earlier.

[10] This paper does not discuss the question of whether, how, and to what extent the corporate and personal income taxes should be integrated: see Sorensen (1995), Head (1996), and Cnossen (1996) for three recent reviews of this question.

[11] For example, most proposals for expenditure rather than income taxation, especially if they retain any degree of graduation in rate structure, would substantially increase evasion pressure on the always difficult business-personal expense frontier, and would probably require the widespread institution of corporate-level taxes on fringe benefits and so on to protect the revenue.

usefulness of corporate taxes as a complement to inherently imperfect personal taxes. In contrast, this section basically reformulates the conduit view to say that because so much of modern economic activity flows through the conduit of the corporation it is therefore so convenient to impose taxes at this level that not doing so is virtually inconceivable.

As Tax Collector

At one level, the rationale for many taxes imposed at the corporate level is simple. To paraphrase bank-robber Willie Sutton, who when asked why he robbed banks, responded "because that's where the money is," – corporations are taxed largely for the same reason. Most of the money earned and spent by Canadians passes at some point through the hands of a much smaller number of corporations, which generally keep better records and are easier to locate and track than individuals. Thus there is obviously a strong administrative rationale for collecting taxes from corporations rather than individuals. The key to effective taxation is information, and the key to information in the modern economy is the corporation (including particularly, but not exclusively, financial corporations such as banks). The corporation is thus the modern fiscal state's equivalent of the customs barrier at the border. Or, if one prefers, it is the informational goose that produces the fiscal golden egg. The dilemma, as always with tax policy, is how large an egg can be extracted without resulting in the decline and perhaps eventual demise of the goose.[12]

This general administrative rationale applies to using corporations as withholding agents for personal income taxes (e.g. on wages, interest and dividends) and as collection agents for sales and excise taxes or even, potentially, as in Australia and other countries, as pre-payers of income, sales and other taxes legally due from unincorporated suppliers of goods or services to corporations or purchasers of corporate products (Soos, 1990). Corporations act as withholding agents for some payroll taxes and, legally, as direct payers of others. To the extent employer payroll taxes may be considered to be paid in the end by workers (Dalhby, 1993), these taxes might perhaps be considered as simply a less direct means of withholding. On the other hand, to the extent payroll taxes, whether formally levied on employees or employers, have an impact on the costs of doing business they – like taxes on corporate capital[13] – presumably affect the choice of factor inputs in an unneutral fashion, as discussed further in Section 5 below.

Taxes are paid in money, and most money at some stage passes through some corporation. Taxes may be enforced effectively to the extent the authorities have adequate information about the existence and value of taxable transactions, but most of the essential information is in the hands of corporations. Thus, in a real sense, the modern tax system rests on the extent to which the conduit

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[12] It is no coincidence that the part of economic activity that does not appear on the books of organized business entities is called the "hidden economy," and is the subject of much concern in fiscal circles. There has been considerable discussion in recent years over the size of this unrecorded part of the Canadian economy, with estimates ranging from 3% to over 20% of GDP, but there seems little question that one important factor related to the growth of unrecorded transactions has been the growth of taxation on recorded transactions (Hill and Kebir, 1996).

[13] As argued in Bird (1991a), the view that corporate capital taxes might in some way be viewed as a "pre-payment" or "in-lieu" levy substituting for a personal wealth tax seems too far-fetched to deserve much attention.

of the corporation has replaced the customs house as the channel through which the tax base flows and where it can best be trapped and tapped. From this perspective, recent trends to out-sourcing increasing shares of corporate activity – some have envisaged a world in which no firm has employees, just an endless series of shifting subcontractors – raise serious questions for tax administrators.[14] If such trends become dominant, much more recourse may have to be made to presumptive levies such as the Australian "pre-payment system" for contractors mentioned above, although this theme is not further pursued here.

As Tax Base

Of course, the simple convenience of levying taxes as income and expenditure flows impinge on or pass through corporations does not justify imposing taxes on corporations *as such*, except perhaps in the crudest of proxy arguments. In political economy terms, the main reason for the prevalence of taxes on corporations in most countries may simply be because they are there – what may perhaps be called the existence or "Mt. Everest" argument[15] – combined with the obvious political feasibility – perhaps even the political necessity (Sorensen, 1995) – of such taxes. Most of the arguments mustered above as to why taxes on corporations per se might be desirable or necessary would appear to provide at most weak support for taxes of the level or type now found in most countries, were it not for the important fact that, as emphasized in Section 5, such taxes already do exist in most countries. But the political argument itself, though often ignored or downplayed by economists, is worth developing at least briefly.

Taxation is as much a political as an economic phenomenon. Governments that go against popular perceptions of who should pay how much in what way do so only at their peril. If popular feeling, despite decades of economic argument to the contrary, is that large corporations should pay large taxes, then it is usually incumbent on any government that wishes to stay in office to bow to these perceptions at least to some extent.[16] Expedients such as minimum corporate taxes and corporate capital taxes seem hard to justify on any other grounds. This rather disparaging comment does not mean, however, that the political argument alone may not be sufficient to justify such taxes. Quite apart from the obvious desire of any government to remain in office, if the political cost of raising taxes from corporations is low, even if the economic cost is high, it may still be perfectly rational to do so: both costs are real, and optimal tax policy will equate total costs at the margin with total benefits.[17]

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[14] For some preliminary discussion of the possible future of taxation in the face of such trends as globalization and computerization, see Bird and Mintz (1994).

[15] When Sir Edmund Hillary was asked why he wanted to climb Mt. Everest, he is reported to have replied: "Because it is there."

[16] As the Ontario Fair Tax Commission (1993, p.399) reported: "For many of those who appeared at our hearings, declining revenue shares from corporate income and capital taxation stood as a symbol of increasing unfairness in our overall system of taxation." This symbolic aspect of taxation is developed further in Bird (1991a).

[17] For arguments along these lines, see Gillespie (1991) and Hettich and Winer (1988).

Some taxes on corporations that seem economically irrational may make perfect sense in the larger political-economy picture. Of course, such arguments need to be used with caution lest all things that exist are seen as justified simply because they exist. When such taxes induce significant economic distortions, such costs – which are usually hidden from public and political eyes – must be explicitly weighed agains the possible "acceptability" gains from raising revenue in this way.[18]

Policy Flexibility

A final reason for taxing corporations is that it may be useful from a number of different policy perspectives to have a tax instrument through which to influence their economic behaviour.[19] As noted earlier, most economic activity in modern countries takes place in corporate form, and as long as governments wish to play an active role in shaping economic activity – which will likely be as long as governments exist – they would be foolish to reject out of hand the opportunity of doing so through corporate tax policy. Policies to encourage or discourage investment in general, in particular types of assets or in particular locations; policies to foster exports, to encourage investment abroad and foreign investment in Canada; or policies to promote small, new, or technology-intensive business – or whatever is the economic or political flavour of the month have always been popular with governments and will likely continue to be. There is no obvious reason why taxes and tax reliefs should be excluded from the set of policy implements that governments use to achieve their various distributive and allocative goals (Bird and Mintz, 1994).

Of course, such policies may entail costs and may fail to achieve their goals, but tax policies are no different from others in these respects, and it seems unreasonable, and indeed nonsensical, to expect any government to take a vow of non-interference with tax policy for nonfiscal reasons. In short, a potentially important reason for imposing taxes on corporations is simply because corporations are important actors in modern society, and governments need – or at least want – all the tools they can to influence important actors.

5. How to Tax Corporations

Several possible rationales for wishing to impose taxes on corporations have now been discussed. What is perhaps most noteworthy about these rationales is that none of them is, in itself, particularly strong. Moreover, none of them – except to some extent the copycat motive – lends much support to the present mix or structure of corporate taxes found in Canada (or elsewhere). However, much the same might be said about many of the other taxes with which we are familiar such as the property tax and social security contributions. Tax policy, like all public policy, is the product of attempts to achieve often partially conflicting goals in a heavily constrained and changing economic, political and institutional context. The simple fact that there is no clear rationale for what we now do, does not mean that it would therefore clearly be better to do

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[18] A well-known early example of this approach was Galbraith's (1958) advocacy of regressive sales taxes as a politically acceptable way to expand the size of public-sector expenditures.

[19] For examples of this "flexibility" argument, see Ontario Fair Tax Commission (1993, p. 417), Messere (1993, p. 327), and Ip and Mintz (1992). Policy flexibility was also the only reason the Royal Commission on Taxation (1967) gave for maintaining a national sales tax (in case it might prove useful for stabilization policy).

something else. On one hand, the existence of (say) 10 possibly good reasons for taxing corporations in particular circumstances suggests that there likely should be some taxes on corporations in most circumstances and countries. On the other hand, given the potentially high costs of increased policy uncertainty on investment and growth, there is much to be said for the adage that "an old tax is a good tax" – even if, as in the case of most corporate taxes, it is not very clear why the tax exists in the first place.

Despite this general caveat, I shall assume that at least some of the varied bag of possible reasons discussed earlier are considered persuasive. What are their implications for the design of corporate taxes? That is, to what extent does the *why* govern the *how*, and, if so, just how should tax design be influenced by the presumed rationale of the tax being designed?[20] Three aspects of this question are considered briefly in this section. First, should there be a tax on corporate profits and, if so, what form should it take? Second, should there be specific taxes on particular corporate inputs such as labour and capital, and, if so, what form should they take? And third, is there anything in the rationale for corporate taxation that tells us what the appropriate "mix" of corporate taxes should be?

Taxing Profits

It seems clear that there is only one possible argument mentioned above that might possibly support a substantial tax on corporate profits such as that which now exists, namely, the fact that everyone else, and particularly the United States, has such a tax. But this is by no means an unimportant or trivial argument.

Take Canada's participation in the North American Free Trade Agreement (NAFTA), for example. Both Mexico and Canada are economic small fry compared to the United States, and the leverage they can exert over U.S. policy and U.S. interests is slight compared to the influence the U.S. has over them. Even in the world of pure trade theory, if all economies are completely open to trade and factor flows, large open countries interested in maximizing their welfare will play by different rules than small open countries. From this perspective, the United States is clearly big in the context of the NAFTA, and what is in its national interests may not always be in the best interests of the other NAFTA parties. If this fact is coupled with one of those vital lessons that we were all supposed to have learned in kindergarten – that if you play with the big boys, you generally have to play by the big boys' rules – and the fact that international law is what nations let it be, there is little evidence in the economic sphere that U.S. lawmakers have been willing to let foreigners make law for U.S. citizens. If anyone's tax policy gets changed as a result of the NAFTA, it is more likely to be that of the weak than that of the strong. Nothing in the NAFTA may bear very directly on tax policy, but the reality is that closer international integration with the United States will make it even more appropriate for Canada to think very carefully about how any significant tax changes will relate to its dominant neighbour (Bird, 1995). In no area is this more likely to be true than with respect to corporate taxation.

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[20] Of course, this discussion is not concerned with the traditional litany of tax designers – equity, efficiency and simplicity. With respect to corporate taxes, as with respect to all taxes, such matters should naturally be kept constantly in mind; but they are not the focus of the present discussion.

Specifically, two points seem to be critical with respect to taxing corporate profits in Canada. First, the statutory rate of any tax should be close to that used in the United States. If the statutory rate is much higher, it will undesirably attract deductions from abroad (a greatly underrated form of tax avoidance by transfer-pricing), and hence, reduce revenues. If it is much lower, some revenues may again be unnecessarily lost, though in this case to the U.S. Treasury rather than to the firm in question.[21] Second, the base of any tax should also be close enough to that of the U.S. tax to ensure full creditability, which in particular means, under the existing rules as commonly understood, that it must permit full interest deductibility (McLure and Zodrow, 1996).

What this means, in turn, is that Canada should likely be one of the *last* countries to consider leading the way in adopting pioneering cash-flow profits taxes, desirable as such levies increasingly appear to some analysts from many perspectives (Cnossen, 1996). Indeed, if these constraints are taken seriously, while there of course remain many possible areas for desirable changes in the present corporate tax – with respect to dividend relief, resource allowances, inventories, and so on – the two most basic aspects of Canada's corporate profits taxes (the rate and the base, broadly defined) should probably not be tampered with, in the absence of clear evidence of similar changes in the United States.

Canada has a profits tax of the sort it does largely because its principal investment partners have such a tax. As long as this remains true, presumably we should continue to levy a tax on corporate profits. The fact that such a tax may have additional rationales such as backstopping the inadequate taxation of capital gains under the personal income tax (assuming the traditional objective of levying relatively comprehensive personal income taxation remains valid) and to some extent taxing entrepreneurial and other rents earned in the corporate form, is in a sense incidental. So to some extent are the distortion costs arising from the extent to which the present tax impinges on the normal return to capital – costs, which, in an open economy in a world where profits taxes are almost universal, to some extent at least arise only with respect to the "excise" differential from the "normal" average (worldwide) tax. Perhaps, surprisingly from this perspective, the very globalization of capital markets, which has often been said to make the future of the corporate profits tax dim (Gordon, 1986), appears to provide a sounder rationale for Canada's present corporate tax than would exist in a closed economy.

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[21] It should be remembered that these comments, like all brief remarks on the complex world of international taxation, are necessarily oversimplified – though probably not seriously misleading. Note also that if the *effective rate* mirrors the statutory rate the effects may be quite different. A higher effective rate marginal effective tax rate (METR) – net of any offsetting firm-specific benefits – may again reduce revenues by discouraging investment, but a lower one may increase tax base and revenues. The optimal position for Canada in relation to the United States would thus seem to be to have a slightly higher statutory rate but a lower effective rate, although this case is certainly not proved here.

Taxes on corporate profits are how the Canadian public sector shares in the profits of firms operating across borders. They are also the way in which economic rents generated by foreign investment in Canada are tapped. And, to a limited extent, they may be a way in which Canada can "export" some taxes to foreigners.[22] Such taxes are not going to go away. Nor should they.

Taxing Costs

In contrast to the slightly disreputable arguments (at least in purely academic terms) that may rationalize to a certain extent something along the lines of the present tax on the profits realized by corporations, several more respectable arguments for imposing some form of tax on business activities in general were mentioned earlier. Specifically, to the extent it is not possible to recoup the marginal cost of cost-reducing public-sector outlays through user charges or to price negative externalities through appropriate charges, some form of additional broad-based general levy on business activity may well be warranted. Since corporations are the predominant form in which businesses are organized, and the easiest way to tax business activity, some form of taxation related to corporate inputs or outputs may perhaps be justified.

It is hard to find any support along these lines for taxing any one input, however, whether labour (payroll taxes) or capital (capital taxes). Instead, what this line of reasoning suggests is that a broad-based levy neutral to factor mix should be imposed, such as a tax on value added. Since the rationale for this tax – as with the original conception of the value-added tax (Sullivan, 1965) – is, loosely speaking, related to benefits, the appropriate basis would appear to be a low-rate, income-type value-added tax (VAT), or what Head (1996) calls a VAIT (value-added income tax) as opposed to a consumption-type VAT such as the Federal Goods and Services Tax (GST).[23]

Compared to a conventional VAT like the GST, a VAIT has two important distinguishing features. First, it is a tax on *income*, not consumption: that is, it is imposed on profits as well as wages or, to put it another way, investment as well as consumption. Second, it is a tax on *production*, not consumption: that is, it is imposed on exports, not on imports. Another distinction might be in the way the tax is assessed (e.g. by the subtraction or addition method rather than by the more familiar invoice-credit system) or collected (e.g. on an accounts rather than transaction basis), but this is much less fundamental than the differences in base noted above.

From one perspective, a system in which two different types of VATs are imposed simultaneously might seem odd – as indeed it did to many when a similar approach was first proposed in Meade (1978). But the apparent oddity resides largely in the similarity of the names. If it makes sense to levy taxes on both consumption and income in terms of base, it may equally make sense to levy one or both (or parts of each) indirectly in the value-added form at the business level as well as directly on income and/or consumption at the personal level. As the recent U.S. discussion of

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[22] Of course, tax exporting works both ways, and we may well import more than we export in this respect. Note that exchange-rate adjustments cannot adjust very accurately for such industry-based shifting: changes in relative prices are what matter, not changes in relative price levels.

[23] Certainly, a levy of this sort would seem to make more sense for sub-national corporate taxes than a conventional income tax (Oakland and Testa, 1995).

so-called "flat taxes" demonstrates, it is critically important to disentangle several issues regarding taxation: What is the tax *base* (income, consumption, some mixture)? *How* is it to be assessed (directly, indirectly, and if the latter, with what form of levy, e.g. retail sales tax or VAT)? And finally, and least important (although unfortunately too often the focus of public discussion), with what *rate* or rates (flat, graduated)? Only when this taxonomy of possibilities is laid out, can the effects of all the relevant variants then be analysed and the many conflicting claims of the virtues of this or that proposal evaluated.

Obviously, this task cannot be undertaken here: but it should be understood that the mere existence of a VAT (the GST) in principle has absolutely nothing to do with the question of whether or not an alternative form of VAT (the VAIT) may or may not be worth considering as one option for corporate-tax reform. Such a tax might make most sense at the local or provincial rather than the federal level, and it would presumably be levied on all business and not just those organized in the corporate form. But what is perhaps a more relevant implication of this line of thought in the present context is that, while other rationales may perhaps be found for payroll taxes,[24] no persuasive argument in support of capital taxes of the sort found in Canada appears to exist. Such taxes are perhaps best considered the outcome of an uneven combination of pandering to the public perception of the desirability of taxing corporations, especially large corporations, and the interaction between the federal and provincial corporate-tax systems.

Choosing the Corporate Tax Mix

An additional possible argument for some tax on corporate capital that should perhaps be mentioned concerns the potential role of such taxes as in-lieu or presumptive taxes on corporate profits, particularly for smaller, more hard-to-tax companies (Sadka and Tanzi, 1992).[25] In effect, the argument here is that a certain minimum rate of taxable income can be assumed to be earned on all assets employed by corporations. If the actual rate exceeds the presumed rate, the normal corporate tax applies. If it falls short, the presumed rate (stated as a percentage of assets rather than as a rate of profits tax on presumed income, but calculated in effect as the latter) applies.

Such levies may be justified on two grounds: (1) The companies subject to this minimum alternative tax are cheating; they really earned at least the average return and have somehow managed to conceal their real profits. (2) If they really did not earn at least the average return, they should have done so; that is, they are inefficiently using their assets and should turn them over to someone – preferably a taxpayer! – who can make better use of them. Such arguments are no doubt somewhat appealing in the developing countries where they were originally made. Mexico, for example, has for some years had a tax on corporate gross assets. But it is difficult to see that they have much relevance for Canada.

Indeed, apart from a simplistic variant of the policy flexibility rationale mentioned earlier – the more instruments, the better – the optimal corporate tax mix in terms of the arguments set out above would appear to be a tax on corporate profits at close to U.S. levels – preferably with

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[24] See Kesselman (1994, 1996) for general arguments for more use of payroll taxes in Canada. This range of questions cannot be considered in the present paper.

[25] See also Working Group (1992) for further discussion of alternative forms of minimum corporate taxes.

fewer distorting effects – combined with some form of general low-rate VAT on business (including capital goods) levied on an origin basis. The final section of the paper considers briefly whether such a system might be attainable in the circumstances of Canada today.

6. Getting There from Here

The previous discussion stressed the importance of the open economy assumption in deriving an optimal corporate-tax structure, whether viewed strictly in analytical terms or in a broader political-economy framework. As already suggested, albeit perhaps somewhat paradoxically, precisely because of the extent to which the present system has been shaped by international factors, the much-vaunted increased globalization of recent years has perhaps reduced rather than increased the need for such reform. To put this point another way, when reform is needed, it will come, much like the changes in the mid-1980s – because our major trading partners will be doing it too, and we will have no choice.[26]

Two other factors are also critical in determining what can and should be done with respect to reforming corporate taxes in Canada. The first is the interaction of federal and provincial taxes, which is not further discussed here (see Vigneault and Boadway, 1996). The second is the cost of change. This argument applies to all policy changes: unless the expected present value (taking political and well as economic costs and benefits into account) clearly outweighs the costs of change, change should not be made. As mentioned earlier, "old taxes are good taxes" in the sense that the system is adjusted to their existence, so if it is changed, the costs imposed by change in the form of increased uncertainty, the need to learn a new system and so on may be large in a complex modern economy. In no area is this more true than with respect to taxes on the main economic actors of our society – the corporation.[27] The net benefits from any major change must be very clear to make it worthwhile.

What this line of argument implies is that the most rewarding path is likely to be to make adjustments at the margin of the present corporate profits tax. Such adjustments may of course be very important, particularly for specific industries, but they seem unlikely to constitute a major corporate tax reform. As noted earlier, really major reforms (such as the introduction of some form of cash-flow tax) are unlikely to be sensible in a small open economy unless it is, so to speak, following the leader. Similarly, replacing present capital (and perhaps payroll) taxes by a low-rate VAIT seems unlikely to be worthwhile if only because no one at any level of government is going to want to explain to the Canadian people why they should have not just one, or two, but three VATs!

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[26] Of course, those involved in the arduous work of developing and carrying through the corporate-tax changes of the mid-1980s in Canada no doubt think, and rightly so, that their efforts had much to do with what happened. Similar reform teams in other countries could say the same. But the point is simply that when one observes a widespread phenomenon like the corporate tax changes of the 1980s, there is clearly much more at work than the exercise of purely domestic-driven policy concerns and choices: on this, see the introduction to Cnossen and Bird (1991).

[27] In the words of Vickrey (1991, p. 132), a strong advocate of abolishing the corporate tax, "It is an additional item on the bill of indictment against the tax that getting rid of it is so difficult."

Nonetheless, despite this general pessimism as to the possibility of major reform, perhaps it may prove possible, bit by bit, to expand the capital and payroll taxes in the direction of a VAIT, for example, by moving the base of the former to non-labour incomes generated (the sum of profits, interest paid, and rents paid or alternatively, and perhaps more attractively, to value-added less wage costs, but not deducting capital expenditures) and taxing payroll costs at the same rate. Perhaps, as and when it proved feasible, the provinces might similarly be induced to move their corporate taxes in this direction by disallowing the deduction of capital (and payroll) taxes for federal corporate tax purposes but allowing the deduction of more neutral general factor taxes.[28] Whether this can be done or not, perhaps the federal government should consider replacing its own present taxation of corporate capital in favour of a more general cost-based levy of the VAIT type. But further exploration along these lines must be left for another day, and another paper.

[28] This could be viewed as an extension of the current limitation of deductibility for increases in such taxes. From this perspective, it is unfortunate that the terms of the recent Memorandum of Understanding with respect to harmonization of the GST and the provincial sales taxes in several Atlantic provinces is in part at the cost of inducing further provincial recourse to differential factor taxes.

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Technical Committee on Business Taxation

The Technical Committee was established by the Minister of Finance, at the time of the March 1996 federal budget, to consider ways of:

- improving the business tax system to promote job creation and economic growth,
- simplifying the taxation of businesses to facilitate compliance and administration, and
- enhancing fairness to ensure that all businesses share the cost of providing government services.

The Technical Committee will report before the end of 1997; consultations with the public will follow the release of the report.

The Technical Committee is composed of a panel with legal, accounting and economic expertise in the tax field. The members are:

Mr. Robert Brown
Price Waterhouse
Toronto, Ontario

Mr. James Cowan
Stewart McKelvey Stirling Scales
Halifax, Nova Scotia

Mr. Wilfrid Lefebvre
Ogilvy Renault
Montreal, Quebec

Professor Nancy Olewiler
Department of Economics
Simon Fraser University
Burnaby, British Columbia

Mr. Stephen Richardson
Tory, Tory, Deslauriers & Binnington
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Edmonton, Alberta

Mr. Allan Lanthier
Ernst & Young
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Professor Jack Mintz (Chair)
Faculty of Management,
University of Toronto (on leave)
Clifford Clark Visiting Economist
Department of Finance
Ottawa, Ontario

Mr. Norm Promislow
Buchwald Asper Gallagher Henteleff
Winnipeg, Manitoba

The Technical Committee has commissioned a number of studies from outside experts to provide analysis of many of the issues being considered as part of its mandate. These studies are being released as working papers to make the analysis available for information and comment. The papers have received only limited evaluation; views expressed are those of the authors and do not necessarily reflect the views of the Technical Committee.

A list of completed research studies follows. They may be requested from:

Distribution Centre
Department of Finance
300 Laurier Avenue West
Ottawa, Ontario K1A 0G5
Telephone: (613) 995-2855
Facsimile: (613) 996-0518

They are also available on the Internet at http://www.fin.gc.ca/

Technical Committee on Business Taxation Completed Research Studies

☐ **WORKING PAPER 96-1**
Comparison and Assessment of the Tax Treatment of Foreign-Source Income in Canada, Australia, France, Germany and the United States
Brian Arnold (Goodman Phillips & Vineberg)
Jinyan Li and *David Sandler* (University of Western Ontario)

☑ **WORKING PAPER 96-2**
Why Tax Corporations
Richard Bird (University of Toronto)

☐ **WORKING PAPER 96-3**
Tax Policy and Job Creation: Specific Employment Incentive Programs
Ben Cherniavsky (Technical Committee Research Analyst)

☐ **WORKING PAPER 96-4**
The Effects of Taxation on U.S. Multinationals and Their Canadian Affiliates
Jason Cummins (New York University)

☐ **WORKING PAPER 96-5**
The Integration of Corporate and Personal Taxes in Europe: The Role of Minimum Taxes on Dividend Payments
Michael Devereux (Keele University)

☐ **WORKING PAPER 96-6**
International Implications of U.S. Business Tax Reform
Andrew Lyon (University of Maryland)

☐ **WORKING PAPER 96-7**
The Economic Effects of Dividend Taxation
Ken McKenzie (University of Calgary)
Aileen Thompson (Carleton University)

☐ **WORKING PAPER 96-8**
Capital Tax Issues
Peter McQuillan and *Cal Cochrane* (KPMG Toronto)

☐ **WORKING PAPER 96-9**
Compliance Issues: Small Business and the Corporate Income Tax System
Robert Plamondon (Ottawa)

☐ **WORKING PAPER 96-10**
Study on Transfer Pricing
Robert Turner (Ernst & Young, Toronto)

☐ **WORKING PAPER 96-11**
The Interaction of Federal and Provincial Taxes on Businesses
Marianne Vigneault (Bishop's University)
Robin Boadway (Queen's University)

☐ **WORKING PAPER 96-12**
Taxation of Inbound Investment
Gordon Williamson (Arthur Andersen, Toronto)