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Backgrounder

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Why Canada Must Undertake Business Tax Reform Soon

by

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Finance Minister Paul Martin's recent Economic and Fiscal Update lays out important tax relief principles for Canadians. Two of these principles are that broad-based tax relief should focus initially on personal income taxes and that Canada's business tax system should be internationally competitive. In his Update, the finance minister acknowledged the critical need for reform of business taxes in Canada, and asked Canadians for their advice on when the process of tax reduction for business should begin. In my view, if Canadians are to have opportunities to find work in Canada rather than elsewhere, the need for business tax reform is urgent and the process should begin in 2000. Postponing business tax reform would impose considerable economic costs on the Canadian economy.

In the past decade, Canadian per capita incomes have hardly grown, once corrected for inflation and taxes. Perhaps even more telling, the average after-tax income per capita in Canada is now almost $8,000 less than that of the US level, compared with a difference of only $3,460 in 1981 (all numbers expressed in 1998 US dollars). The unemployment rate in the United States is now almost one-half the unemployment rate in Canada; the rates were virtually identical in 1981. All this points to one conclusion: Canada is losing out in terms of its standard of living.

A country's standard of living depends on four important factors: productivity, employment creation, the terms of trade with its trading partners, and government policy. Growth in incomes reflects citizens' capacity to work, invest, innovate, and learn. Government poli-

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cies create opportunities for people to realize higher levels of income by, for example, educating them to adopt skills in today's "new economy" and increasing the availability of jobs by improving the economic environment for business.

Significant factors that influence business location are public services, such as infrastructure and education, and the overall tax system. While Canada has achieved considerable success in educating its population and providing good transportation and other infrastructure needed to support business, its business tax system has become a significant barrier to economic growth and improvements in Canadians' standard of living.

In 1996, the minister of finance appointed the Technical Committee on Business Taxation to review corporate income, capital, and payroll taxes paid by businesses. As part of its terms of reference, the committee was asked to provide a set of recommendations that would be consistent with the fiscal position of the federal government as well as to recognize the important role paid by the provinces in determining tax policies. The committee's report, released in April 1998, argued for a business tax regime that would be more neutral among businesses with competitive rates of taxation. Its primary recommendation was to reduce the general corporate income tax rate from a combined federal-provincial rate of 43 percent to 33 percent. It also recommended several base-broadening measures that would result in no change of corporate income tax revenues paid to federal and provincial governments. The minister immediately distanced himself from the report, suggesting that the recommendations would serve as a basis for business tax reform over the coming years after adopting cuts to personal taxes for middle- and lower-income Canadians. Business tax cuts are not politically popular and the Technical Committee's package of reforms — with revenue neutrality — did not receive strong support from the business community, which was looking for a reduction in business taxes.

One and a half years after the report's release, the need for substantial business tax reform in Canada is now even more urgent, since many other countries have undertaken significant business tax reforms during the past decade. There have been two critical economic pressures for such reforms. First, business consolidation at the international level has resulted in much greater sensitivity of mobile business inputs to differences in tax levels across jurisdictions. Second, the disintegration of business production and processes has allowed many companies to shift low-value-added production to low-wage countries while keeping high-value-added production in those countries with a good pool of skilled labor and competitive tax rates.

Many governments have undertaken business tax reform to meet head on the need to improve the productivity of their economies while maintaining revenues to finance needed public services. As a result, corporate income tax rates are rapidly declining — the average corporate income tax rate among members of the Organisation for Economic Co-operation and Development (OECD) is now 34 percent, compared with more than 45 percent less than 20 years ago. At the same time, governments are preserving business tax revenues by relying more on the profit-insensitive taxes businesses pay. By 2000, Canada will have the second-highest general corporate income tax (43 percent) in the world; only Japan's will be higher. It will also have the highest tax burden on capital on services industries of all the Group-of-Seven (G-7) large industrialized countries. Moreover, Canada's effective tax rate on capital invested in manufacturing industries will be higher than those in any country except Japan. Thus, there will be increased pressure on firms to shift business out of Canada and into the United States, where the market is much bigger and the pool of skilled labor is more dense.

Canada, therefore, faces tremendous pressure to maintain jobs and incomes as opportunities south of the border attract business production where product, capital, and labor markets are significantly larger. Higher business taxation in Canada reduces the competitiveness of Canadian businesses, even after factoring in the benefits of public services in Canada that are comparable to those in other countries. Although other economic factors, such as skilled labor and public expenditures on infrastructure, are critical to investment, Canada cannot offer an advantage that is significantly large enough to offset the disadvantages arising from the smallness of the Canadian market and the tax policies of Canadian governments.

In other words, at present, Canada provides few advantages to businesses to create jobs in this country for its well-trained labor force. The "brain drain" will simply follow the "jobs drain" to the United States.

Canada cannot wait several years to review business taxation. Although it is important — and politically popular — to reduce personal taxes, it is the business tax system that creates the greatest leverage in improving productivity and growth of incomes in Canada, as other countries, such as Ireland, have found out. Business tax reform should not be ignored — changes to the business tax system should be coupled with personal tax cuts.

Canada has a great opportunity to improve its position dramatically relative to the United States in attracting businesses here. Instead of simply matching the United States, Canada should create a competitive advantage through its business tax policies. It could do so, and without a significant loss in revenue, by pursuing tax policies that have four elements to improve the competitiveness of its business sector:

- reduce corporate income tax rates to levels well below those in the United States;
- improve the neutrality of the business tax system so as to reduce excessively high tax burdens on the services sectors, where most jobs are now created; this would make the tax system less complex, more efficient, and fairer;
- reduce reliance on inefficient profit-insensitive taxes that have little correspondence to the costs of public services provided to businesses;
- lower the tax burden on businesses in Canada to levels found in other major industrialized countries, especially the United States.

Recent Worldwide Experience

Many other industrialized countries have already gone to considerable effort to reform their business taxes. Some of the most important examples include the following:

Scandinavian Dual-Income Taxes: Throughout the past decade, Denmark, Finland, Norway, and Sweden have undertaken substantial tax reforms to reduce taxes on capital income, capital gains, and corporations. Corporations and capital income are taxed at relatively low rates compared with labor income in order to encourage more capital formation, as well as to reduce the incentive for shifting capital income to low-tax jurisdictions. Corporate income tax rates are now less than 30 percent except in Denmark, where the existing rate of 32 percent is expected to be reduced in the near future.

Italy: In 1998, Italy abolished its 16 percent regional corporate income taxes in favor of a new regional value-added tax of 4.25 percent, levied on corporate accounts. The new tax applies to revenues received from the sale of goods and services net of expenditures on non-capital inputs purchased from other businesses and depreciation. The new Italian corporate income tax, now only a federal tax, provides for deduction of the cost of new eq-

uity finance, although the total corporate income tax paid cannot fall below 27 percent of profits as defined under the previous regime.

The United Kingdom: In the past several years, the United Kingdom has reduced corporate income tax rates from as high as 34 percent to 30 percent in 1999. It has also fundamentally changed the system used to integrate personal and corporate income taxes.

Ireland: Almost a decade ago, Ireland introduced a tax holiday for manufacturing and financial services income with a rate of 10 percent, compared with the regular corporate income tax rate of 28 percent. These changes contributed to Ireland's having the highest growth in per capita incomes among all OECD countries in the 1990s. Its unemployment rate, about 17 percent in the early 1980s, has been halved to less than 8 percent in the late 1990s. Moreover, migration has reversed itself in the past three years: a historical outflow (mostly to the United Kingdom) has now become a net inflow of migrants to Ireland. As a result of challenges from its European Union partners, Ireland is undertaking a substantial reform that will result in a 12.5 percent corporate income tax rate for all activities, with the elimination of integration measures for corporate and personal income.

Germany: In recent years, Germany has eliminated municipal capital taxes (as a result of a court case) and reduced the federal corporate income tax rate from 57 percent to 52 percent on undistributed profits. It is proposing a further substantial cut to corporate income tax rates from 52 percent to either 35 or 38 percent, with base-broadening measures related to the taxation of international income and the integration of corporate and personal taxes.

Australia: The Business Tax Review in Australia has recommended reducing the corporate income tax rate from 36 to 30 percent. A number of base-broadening measures would be adopted to remove special preferences, especially for resource industries. The Commonwealth government has announced its intention to adopt many of the recommendations in the report by July 2001.

Japan: Japan has announced its intention to bring corporate income tax rates down to 40 percent over time; it has already reduced the rate from 52 percent to 48 percent in 1999. Japan is also undertaking a number of other significant reforms to improve the corporate income tax system, such as consolidation of accounts for members of a corporate group.

One cannot help but be overwhelmed by the rapid changes that are now occurring to improve business tax systems throughout the world. Only Canada and the United States are failing to reform business taxes in a substantial way at this time. But Canada's fiercest competitor, the United States, is now looking at its taxation measures, which could result in substantial tax cuts, perhaps for businesses as well as individuals in the future. With such substantial business tax reform under way in so many countries, Canada's competitive position risks serious impairment.

Rapidly Falling Corporate Income Tax Rates in the OECD

The statutory corporate income tax — the rate at which income as defined for tax purposes is taxed — is critical both to investors in determining the effective burden of taxes and to government in terms of revenue yield. Although other provisions of the tax system, such as tax deductions for capital costs, affect the tax burden on corporations, the statutory tax rate plays a key role in today's integrated global economy. Profits earned are quite sensitive to tax rates since they can be easily shifted among countries without changing real production decisions. Corporations can,

therefore, avoid some of the burden of high statutory tax rates by shifting income to low-tax jurisdictions while governments lose significant revenue by imposing high tax rates on profits.

For example, Ireland, with an average corporate income tax rate that is less than one-third the rate in Canada, collects more corporate tax revenue as a percentage of gross domestic product (GDP) than Canada. In other words, in Ireland corporate profits as a percentage of GDP are least three times the level in Canada.

A recent KPMG corporate tax rate survey[1] of global corporate income tax rates of developed and developing countries found that statutory corporate income tax rates have been declining dramatically in many developed countries (see Table 1). Over the past four years, the average corporate income tax rate among OECD countries has dropped by almost three percentage points (to 34.8 percent).

By comparison, the general corporate income tax rate in the United States is 39 percent, and in Canada it is about 43 percent — although the deduction for manufacturing and processing income reduces the tax rate for manufacturing in Canada to 35 percent.[2]

Besides a general reduction in the tax rates, Table 1 also shows a trend in tax changes toward standardization and simplification. For example, Ireland is replacing its two-tier system with a single general rate for all corporations by January 1, 2003. Similar changes have also happened in the Netherlands, where the two-tier system (with a higher rate applied to the first 100,000 guilders) was changed to a flat rate in 1998.

Indeed, not only are Canada's general corporate income tax rates among the highest in the world, they are also vary by business size, type of activity (manufacturing, resource, investment income, and nonmanufacturing), and province. This approach to tax policy makes little sense in a world in which business activities cannot be easily categorized and governments cannot prevent profits from being shifted among various categories of income to reduce taxes.

Lower Tax Burdens on Corporate Investments in G-7 Countries

The statutory tax rate is, however, only one of many ways to compare tax burdens among different jurisdictions. The ultimate impact of taxes on business activities, under a given set of economic and financial conditions, is determined by all the provisions of the corporate income tax system, including allowances for capital costs under the corporate income tax.[3] Further, in addition to the corporate income tax, governments levy profit-insensitive taxes such as capital taxes on business assets or net worth, property taxes, and the property transfer tax that affect the incentive to invest in capital.

Table 2 provides an estimate of effective federal and provincial corporate tax rates on capital, aggregated for manufacturing and services sectors among G-7 countries. The estimate ignores the property tax, which is generally levied at the municipal level to pay for municipal services and which varies by locality.[4]

As Table 2 shows, in 1996 the effective tax rate imposed on corporate investments in Canada was comparable to or below that of most other G-7 countries for the manufacturing in-

1 KPMG 1999b; the survey covers 60 countries, including the 29 OECD member and Asian and Latin American countries.

2 The 5 percent withholding tax on dividends under the Canada-US tax treaty raises the effective Canadian tax rate to more than 38 percent for income repatriated to US parent companies.

3 For example, a corporate tax regime with a higher income tax rate combined with a more generous tax depreciation allowance may result in a lower effective tax rate than a regime with a combination of both a lower income tax rate and a lower tax depreciation allowance.

4 Property taxes are highest in Canada, Japan, the United Kingdom, and the United States. In Canada, property tax is generally levied on real estate assets; in Japan and the United States, it is levied on fixed assets, including machinery and, in some US states, inventories.

Table 1: *Statutory Corporate Income Tax Rates, Selected OECD Countries, 1996 and 1999*

	Corporate Income Tax Rate			
	July 31, 1996	**January 1, 1999**	**Direction of Change**	**Intention (Year)**
	(percent)			
Australia	36.0	36.0	no change	30.0 (2001)
Canada[a]	34.9/43.2	35.0/43.3	no change	
Denmark	34.0	32.0	lower	
France	41.7	36.7/40.0[b]	lower	36.7 (2000)
Germany	56.1	51.9[c]	lower	35.0 – 38.0 (2000)[d]
Ireland	10.0/38.0	10.0/28.0	lower	12.5 (2003)
Italy	53.2	31.3 – 41.3[e]	lower	
Japan	52.2	48.0	lower	
Netherlands	37.0/35.0	35.0	lower	
Norway	28.0	28.0	no change	
Poland	40.0	34.0	lower	22.0 (2004)
Sweden	28.0	28.0	no change	
Switzerland	35.5	25.1	lower	
Turkey	44.0	33.0	lower	
United Kingdom	33.0	30.0[f]	lower	
United States[g]	39.2	39.2	no change	

[a] The rate is a combination of the federal corporate income tax rate (22.1 percent and 29.1 percent, respectively, for manufacturing and others) and the average of provincial corporate income tax rates weighted by provincial GDP by industry. The minor difference between the two years reflects some changes in provincial corporate income tax rates.

[b] The rate is a combination of the corporate income tax rate of 33 1/3 percent and surtaxes of 10 percent and 20 percent, respectively. The lower surtax is applied to smaller-scale firms owned mainly by individuals. For 2000 and future years, the lower rate will apply to all firms. See Ernst & Young (1999b) for details.

[c] Estimate based on Ernst & Young (1999b). It includes a corporate income tax rate of 40 percent, an average trade tax of 16.75 percent (ranging from 13 percent to 20.5 percent) that is deductible for corporate income tax purposes, and a surcharge of 5.5 percent on corporate income tax payable.

[d] The higher rate includes the current solidarity surcharge of 5.5 percent on the assessed corporate tax, which was not included in the latest government proposal for tax reduction. See Ernst & Young (1999a).

[e] The higher rate of 41.3 percent includes a general corporate income tax rate of 37 percent and a regional tax of 4.25 percent that is levied on Italian-source income from productive activities, which includes interest payments and labor costs. The general corporate income tax rate may be reduced to 19 percent for qualifying taxable income corresponding to the ordinary remuneration (currently 7 percent) of the net equity increase. However, the average corporate income tax rate for a company may not fall below 27 percent, which, combined with the regional tax rate of 4.25 percent, results in the lower aggregated income tax rate of 31.3 percent.

[f] Effective as of April 1, 1999.

[g] Estimate based on an average state corporate income tax rate of 6.5 percent (ranging from 1.0 percent to 12 percent).

Sources: The 1996 rates are based on Coopers & Lybrand 1997; the 1999 rates are from KPMG 1999a, unless otherwise specified.

dustries and the third-highest for firms in the services sectors. By 1999, however, with cuts in business taxes in Germany, France, Italy, and Japan, Canada's rate had become the third-highest for manufacturing and the highest for services. If Germany implements its recent proposal to further reduce the corporate income tax rate in 2000, Canada would become the highest-taxed country for services and the second-highest for manufacturing among G-7 countries.

Business Taxes and the Standard of Living

Taxes are only one of many factors affecting Canadians' standard of living. While the standard of living is measured as personal income

Table 2: *Effective Tax Rates for Domestic Firms in G-7 Countries, 1996, 1999, and 2000*

	Canada	United States	United Kingdom	Germany	France	Italy[a]	Japan
				(percent)			
Manufacturing							
1996	25.2	22.6	19.8	36.9	25.2	31.2	31.2
1999	25.2	22.4	17.7	32.8	24.4	24.2/17.9	27.6
Proposed 2000	n.a	n.a.	n.a.	20.2	22.7	n.a.	n.a.
Services							
1996	33.4	22.8	19.4	35.8	27.9	35.3	32.8
1999	33.4	22.6	17.3	31.8	27.0	28.0/21.3	29.2
Proposed 2000	n.a.	n.a.	n.a.	19.6	25.4	n.a.	n.a.

[a] The lower effective tax rates are a result of the lower combined corporate income tax rate of 31.3 percent as explained in Table 1.

per capita, the growth in per capita incomes depends on employment, investment, and productivity. Productivity results from improvements in human capital stock (education, training, and health care) and innovation, including good business management.

In terms of the growth of GDP per capita, Canada has certainly lagged behind all G-7 countries and Ireland, as Table 3 shows. In fact, Ireland, with its aggressive business tax policies, has achieved a substantially higher growth rate than its European Union partners over the past ten years (see OECD 1999). Although only suggestive, these data indicate that business taxes can have a powerful impact on the growth of per capita income.

Analytically, there are substantial difficulties in linking taxes directly to economic growth when comparing the experience of various countries. The most critical issue is that, while taxes impede work effort, investment, and innovation, they also fund public services that can add to a country's productive capacity. And the important decision to make is whether taxes are used to support public expenditure on social capital, such as infrastructure, or spent on consumption goods provided to the public. If taxes are spent on public services that, in turn, improve the economy's productive capacity, taxation will have a minimal impact on, or even improve, the standard of living, rather than reduce it.

One recent literature survey (Engen and Skinner 1996) suggests that taxes have a statistically significant negative effect on economic growth. The authors finds that a 1 percentage point increase in taxes as a percentage of GDP reduces economic growth rates by almost 0.5 percent per year. Although this effect seems small, a sustained increase in the tax-to-GDP ratio of 1 percentage point would reduce GDP per capita by almost 15 percent over 25 years. Engen and Skinner also conclude that economic growth depends not just on the amount of taxes levied but also on the mix of taxes: countries that rely on capital income taxes have lower economic growth rates.

Although many older studies suggested that taxes have little effect on investment, recent work (see, for example, Chirinko and Meyer 1997; Wasylenko 1997), based on better data, suggests that taxes do have a significant impact on investment decisions of firms. Studies have also shown that business taxes significantly affect crossborder investment decisions.[5] Importantly, these latter studies

5 Cummins (1996) and Altshuler and Cummins (1997) examine, respectively, inbound and outbound foreign direct investment for Canada.

suggest that differences in effective tax burdens among jurisdictions have a significant impact on the location of businesses, and it is now clear that Canada is losing its share of foreign direct investment in the North American market.

In summary, business taxes harm investment that improves the economy's productivity. Given the increased mobility of business inputs today, countries with aggressive business tax policies can create an advantage over others that are slower to respond to globalization.

"It's the Business Tax System, Stupid"

I have painted a rather bleak picture: Canada is an outlier in imposing high tax rates on businesses, and has had slow growth as a result. In sharp contrast is Ireland, which has used business taxation to promote economic growth and sharply reduce unemployment over the past decade and a half.

The Irish "miracle" has important lessons for Canada. Ireland offset its disadvantages — a small market, a poorly educated labor force, and a brain drain — by undertaking three key policies. First, it joined the European Union, which provided substantial subsidies for its development. (Other poor countries that joined the EU also received subsidies but did not enjoy the same economic growth.) Second, to prepare its work force for the "new economy," Ireland invested heavily in education, graduating far more students from secondary and postsecondary institutions to ensure that businesses had a pool of skilled labor on which to draw if they chose to locate in that country. Third, Ireland used its business tax system to encourage businesses to locate there, thus creating the opportunities for its skilled labor to work in Ireland rather than move to other countries. Ireland reduced its corporate income tax rates to 10 percent for manufacturing and international financial services; it has now agreed with its European partners to tax all companies at a single rate of 12.5 percent.

Canada has done a remarkable job of educating its population. In fact, the ratio of the population between the ages of 25 and 64 that has completed tertiary education is the highest of all OECD countries. Canada also spends more on education, as a percentage of GDP (an average of 7.4 percent over the 1992–96 period), than all other G-7 countries. Thus, Canada's problem is not a shortage of skilled labor, but more probably a mismatch of skills between those that business requires and those workers have to offer.

Table 3: *Cumulative Increase in Real GDP per Capita, 25 OECD Countries, 1988–98*

Rank	Country	Increase
		(percent)
1	Ireland	92.2
2	South Korea	60.9
3	Luxembourg	41.2
4	Portugal	32.6
5	Norway	30.3
6	Netherlands	26.2
7	Spain	25.7
8	Denmark	21.8
9	Austria	21.7
10	Australia	20.4
11	Belgium	19.3
12	United States	18.5
13	Japan	16.8
14	Mexico	16.3
15	Greece	14.9
16	France	14.5
17	Germany	14.3
18	United Kingdom	14.0
19	Italy	13.5
20	Finland	13.4
21	Iceland	10.7
22	Sweden	7.3
23	New Zealand	5.7
24	Canada	5.0
25	Switzerland	4.9

Note: The four poorest OECD countries — the Czech Republic, Hungary, Poland, and Turkey — are omitted.

Source: Fortin 1999, table 1.

One might argue that since Canada spends less on research and development (R&D) as a percentage of GDP than many other smaller countries, such as Denmark, Finland, Norway, Sweden, and Switzerland, and less than any other G-7 country except the United States, it has thus failed to improve its prospects for economic growth and productivity enhancement.[6] Yet Canada's tax credit system for R&D is the richest in the world (Canada 1998, ch. 5), and those generous tax credits have made Canada a net exporter of R&D (Japan and the United States are the only other net exporters of R&D among G-7 countries). So it is not clear why Canada's productivity performance should be so relatively inadequate.[7]

Canadian businesses are slower to adopt product development R&D than are firms in other countries, even though Canada undertakes substantial R&D investments to reduce costs (see Fortin 1999). Given Canada's generous tax credit system, why is product development so slow in this country?

Since there are few economic studies that can answer this question, one must be a bit speculative here. The innovation process depends not only on R&D expenditure but also on good management (seeking new opportunities), marketing, and new ideas. Some of these factors are highly complementary to product development: without good management, marketing, and ideas, businesses are less likely to undertake product development. Thus, inadequate product development suggests Canada has a more deeply rooted problem. Perhaps it is because Canadians are not great innovators when it comes to new products. Why not? It may be that many of the stages of production that go beyond R&D — such as central management, marketing, manufacturing and distribution — are being undertaken in other countries. In other words, Canada's poor performance may be related to this country's relative unattractiveness as a place in which to do business that would use Canadian R&D efforts.

This all comes back to Canada's business tax structure. Canada taxes its industries too highly, especially those in knowledge-based services sectors — not just in terms of the corporate income tax but also other taxes such as capital and property taxes. There is little incentive, beyond R&D, to locate production processes here since other countries offer lower taxes, equally as much as good public infrastructure, bigger markets, and a larger pool of skilled labor. All this suggests that, to paraphrase a US president, "it's the business tax system, stupid," which must change if Canada wants to improve its economic prospects.

Some may argue that it is more important to cut personal taxes than business taxes to spur economic growth. While the case for cutting personal taxes is clear — rates are substantially high for most taxpayers, and reduce their work effort, savings, and risk taking — it is the business tax system that has the greatest impact on the mobility of business inputs at the international level, with the least revenue cost for the government. Electronic commerce is disintegrating production processes. Location is no longer as important for the firm as its knowledge assets. Countries with inefficient government services and high taxes on businesses will lose production to jurisdictions with better public services at lower tax levels. Business tax reform should be undertaken at the same time as personal tax cuts as part of a comprehensive approach to cut taxes.

Canada should undertake a business tax strategy to create a significant advantage for itself in the North American market. Canada may have a relatively small market, but it also has a relatively good pool of educated workers

6 In Canada, R&D spending, both private and public, is about 1.6 percent of GDP, a small improvement over the less than 1.4 percent of GDP of the early 1980s.

7 Canada imports less R&D than other G-7 countries except Japan and the United States. Canada pays about 0.16 percent of GDP in royalties, compared with 0.51 percent for Germany, 0.28 percent for the United Kingdom, and 0.20 percent for France.

and a stable political environment. Moreover, Canada could offer a significantly better business tax system than that of the United States and at little cost, since business tax cuts, unlike personal tax cuts, are not expensive for the federal or provincial governments.

Specifically, we should consider the following strategy:

- Reduce the general corporate income tax rate from 43 percent to 30 percent by 2004. This would put Canada's level below the average OECD rate and substantially below that in the United States.
- Broaden the tax base to make the business tax system simpler and more efficient. At the same time, revenues from base broadening would reduce the revenue loss faced by governments so that no more than $2 billion (a conservative estimate) would be needed to cut corporate income taxes. This loss in revenue would be small compared with the loss resulting from personal income tax cuts.
- Reduce the reliance on inefficient profit-insensitive taxes such as property and capital taxes. Governments should instead impose taxes that are more closely in line with the services provided to businesses. This includes making payroll taxes more closely related to the benefits workers receive from programs these taxes fund.

These recommendations are not dissimilar to those of the Technical Committee on Business Taxation. The key point is to create a significant advantage over the United States when it comes to business taxation. This is not an unrealistic objective since revenue losses would not be large. Many countries, of different political stripes, have already followed this strategy; indeed, the more politically left-wing Scandinavian countries have pushed corporate tax rates to levels well below most other countries in Europe. They have done so in the interest of improving the standard of living for their populations, which is what Canada should ultimately try to achieve.

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