Intelligence MEMOS

From: Kevin Dancey
To: Federal and Provincial Ministers of Finance
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Re: **Corporate Tax Rates: Fake News Alert!**

For years, corporate income tax (CIT) rates have come down around the world. This is unsurprising in a globalized world where countries use tax policy and rates as an arrow in their quiver of options to remain both competitive as a country and attractive to business. As recently shown in the UK and as President Trump pledged, this trend will continue.

In the early 1980s, the CIT rates for Canada, the US, and other G7 countries hovered around 50 percent. They now hover around 30 percent (with the US rate higher at 38 percent and the UK rate lower at 20 percent). Ironically, these rate reductions over the last 35 years have not significantly reduced the share of taxes paid directly by corporations, whether measured as a share of taxes paid or as a percentage of GDP. Although part of the explanation resides in base-broadening measures, the link between CIT revenues and the business cycle is adamantly clear.

Some politicians and members of the popular press cite the most recent post-recession drop in CIT revenues as evidence that corporations are getting an unfair break (and should be taxed more) and that individuals are bearing a disproportionate and unfair share of the tax burden and need a break. This "logic" is a classic example of, to use the parlance of the day, "fake news". It is also an example of the old adage: "Statistics don't lie, but liars use statistics".

It is now well-established that taxes are actually borne by real people and not paid by artificial constructs such as corporations: to a corporation running a business, taxes are simply a cost of doing business, like all other capital and labour costs, and these are either passed on to consumers through higher prices or back onto shareholders or employees through lower dividends or salaries.

Results from empirical investigations over the last few decades have shown that in a small, open economy like Canada the bulk of the corporate tax burden is actually shifted to employees (and, by extension, to individual taxpayers) through lower wages. So while a corporation may "pay" the tax it doesn't actually bear the economic burden. Regardless of whether the corporate tax rate is raised or lowered, individual Canadians bear the majority of the economic burden of the corporate tax. The fact that many do not know this, or just refuse to believe it, or that some politicians and media commentators have in the past played up taxing corporations as a nice foil is unfortunate. Canadians need to realize that the target with almost any tax increase is their pocketbooks.

As federal and provincial Ministers of Finance ponder how to deal with possible US tax reform in an uncertain Canadian business environment, let's hope that they do so with an understanding of the real facts. This may lead them to not only better coordinate their approach to corporate tax rates, but also to be proactive and take a step in advance of potential US reforms to reduce the current climate of uncertainty in Canada that is holding back business investment.

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