Corporate tax rates are getting ridiculously low. Guess who will pay more?

By Eric Reguly
February 1, 2017 – *The Globe and Mail*

If the people speak to governments through elections, governments speak to the people through taxes. Tax rates and the activities being taxed, from transferring a house deed to filling your tank, tell you a lot about a government's direction, economic philosophy and vulnerability to lobbying power. Yearly changes can be minor. But trends emerge over the long term, and the one that stands out now says that governments are far kinder to corporations than they are to individuals.

Governments in the industrialized world are allowing corporations to pay ever-smaller proportions of the national income tax haul, meaning that individuals have had to pick up the slack. When the middle class in Canada, the United States and Europe whine about being taxed to death, they have a point. But probably few of them realize the extent of the tax burden piled upon them in recent decades.

Take Canada, a country that is not regarded internationally as a lavish corporate coddler. The historical revenue tables published by the Department of Finance suggest it is. In the 1966-67 fiscal year, 64% of Ottawa's revenues from personal and corporate income taxes came from individuals, and companies paid the remaining 36% (this excludes revenue from other tax sources, such as sales taxes, non-resident taxes and employment insurance premiums). By the 2015-16 fiscal year, the proportion paid by individuals reached 78%, while the corporations' share fell to 22%.

The shift of the burden to personal taxpayers is clear by other measures as well. Personal income taxes as a share of Canada's GDP climbed from 4.7% in 1966-67 to 7.3% in 2015-16, while corporate income taxes fell from 2.7% to 2.1%. In Britain, corporate tax revenues (including bank surcharges and levies, and the petroleum revenue tax) have declined since the 1980s, when they were close to 4.5% of GDP. In the latest fiscal year, they were 2.5% of GDP.

Is it time for the trend to reverse itself? Not a chance. The tax race to the bottom is actually picking up momentum in the United States and Europe. Unless governments choose to run up budget deficits to crisis levels, individuals will almost surely be forced to pay more. But individuals, like old oil wells, start to run out of puff. Before then, they may very well grab pitchforks and lanterns and storm the taxman's fortress.

The trouble is that the ugly side of globalization is relentless corporate tax competition. Big companies migrate to tax havens, which is why Apple set up a factory in Ireland.

In Britain, there is little doubt Prime Minister Theresa May's Tory government will soon cut its corporate taxes substantially. Even before George Osborne was ousted as Chancellor of the Exchequer after last June's Brexit referendum, he wanted to reduce corporate rates to 15% from 20%. The referendum result boosted pressure on his successor, Philip Hammond, to get on with the tax-cutting job. The government is now terrified that banks and industrial companies will flee to European Union tax havens such as Ireland, Luxembourg and the Netherlands, or to the United States.

In last year's U.S. presidential election, Donald Trump won the hearts of corporate America with his campaign promise to cut the federal corporate tax from the top posted rate of 35% (the effective rate was often far less) to 15%.

The new rate would be among the lowest in the industrialized world.

Trump wants to reduce personal taxes, too—he promised to “massively cut taxes for the middle class, the forgotten people.” But various studies have concluded that those Trumpian reductions would benefit America’s richest 1% the most, far less so the middle class, and would actually raise taxes for working single parents.

As Britain and the United States drive down corporate taxes, Canada and other Western countries will have to do the same. Canada’s basic combined federal-provincial corporate tax rate, after abatements, is 26% to 31%, depending on the province. But executives are always whining about that load, which they say is uncompetitive and sends jobs overseas. The whining will surely intensify.

A decade ago, corporate Canada was gripped by the income trust craze. Between 2000 and 2006, the value of income trusts on the TSX went from $18 billion to $200 billion, as companies all but vanished from the tax rolls by converting into trusts and shooting the lion’s share of their profits to their investors. Trust unitholders then paid tax on the hefty, post-conversion distributions. But Conservative Finance Minister Jim Flaherty killed the income trust market. Having argued that the average Canadian was overtaxed, he didn’t want to shift more of the national tax burden onto individuals.

Yet the push for lower corporate taxes never disappeared. Relative corporate tax loads are still coming down in pretty much every country. The message from governments is that they consider individual taxpayers to be chumps. For decades, that assumption has never been proved wrong.