CORPORATE INCOME TAX CONFERENCE

On May 5-6, 2005, OTPR, in cooperation with the University of California – Berkeley’s Burch Center for Tax Policy and Public Finance, will sponsor a conference to be held in Ann Arbor entitled “Taxing Corporate Income in the 21st Century.” The recent major legislative initiatives and the specter of further major proposals provide a unique opportunity to understand the economic effects of the taxation of corporate income and the interrelationship among accounting, governance and taxation issues.

OTPR has commissioned ten papers by leading academic economists and accountants who will present their findings in an open conference. The papers will appear in a conference volume to be published by Cambridge University Press.

The project has three parts. It will examine the impact of the 2003 tax act (and the 2002 bonus depreciation provisions) on corporate financial and real behavior, with an eye on how the response clarifies the “old” and “new” views of corporate taxation. Second, it will investigate the important but little-investigated interrelationships among governance, tax reporting, and accounting, including the effect of the Sarbanes-Oxley Act. Finally, the project will address the future of corporate and capital income taxation in the United States by drawing on the three decades of European experience with an integrated corporate and personal tax system and the states’ experience with a formulary apportionment system.

If you are interested in attending, please send an e-mail to otpr@umich.edu.

CORPORATE TAX SELFISHNESS

OTPR Director Joel Slemrod was invited to prepare a Beck Memorial essay for the December 2004 issue of the National Tax Journal entitled “The Economics of Corporate Tax Selfishness.” This paper offers an economics perspective on tax evasion and abusive avoidance done by corporations. It first reviews what is known about the extent and nature of corporate tax noncompliance and the resources devoted to enforcement. It then addresses the supply side of aggressive corporate tax planning—the industrial organization of the tax shelter industry—as well as the demand for corporate tax evasion and abusive avoidance, focusing on how the standard Allingham-Sandmo approach to tax evasion needs to be modified when applied to public corporations. It then discusses the implications of a supply-and-demand approach for the analysis of the incidence and efficiency cost of corporate income taxation, and the very justification for a separate tax on corporation income. Along the way it addresses policy proposals aimed at increased disclosure of corporate tax activities to both the IRS and to the public.
The Office of Tax Policy Research is currently working on numerous projects. Some of those projects are summarized in the following paragraphs.

Evaluating Norwegian Tax Reform

Tax systems can have powerful effects on the allocation of capital, the portfolio composition of wealth holdings, and the rate of private saving and wealth accumulation. This is especially true for the Norwegian system of taxing capital income. Prior to 1992, it featured a graduated revenue rate structure that created clienteles for different assets. One of the objectives of the 1992 adoption of a dual income tax, which maintains a graduated tax on labor income but levies a flat-rate tax on capital income, was to move the tax system toward greater neutrality in its effect on portfolio and saving decisions, and to minimize the revenue loss, in efficient behavior, and distributional consequences of tax arbitrage. OTPR is participating in an effort, sponsored by the Research Council of Norway, to assess the impact of the reform and the current tax system on portfolio composition and clienteles, and on the rate of personal saving across households.

The Compliance Cost of Retail Sales Taxes

OTPR is a subcontractor to PricewaterhouseCoopers, which has been contracted to examine and analyze the costs borne by retailers of collecting and remitting state and local sales taxes within the United States. The study will determine the magnitude and nature of costs under the current sales tax system and, ultimately, the effect on those costs — including costs shifted from vendors to state governments — of changes to the system proposed by the Streamlined Sales Tax Proposal. The study also seeks to identify clearly the factors that generate the costs under various relevant conditions, including various types of retailers, different state and local sales tax regimes, different technological circumstances and different collection processes. The data will come from a mail survey sent out to a stratified random sample of several thousand retailers throughout the country, organized by the National Opinion Research Center.

Trip to Taiwan

Joel Slemrod traveled to Taiwan on August 31 and September 1, 2004 to deliver a series of lectures on “Corporate Tax Policy in a Global Economy.” These lectures were presented as part of National Taiwan University’s Seminar on Fiscal Policies and Economic Development, offered to college and university professors of economics from throughout the country. While there, Professor Slemrod visited the world-famous Tarako Gorge and met with Sheng-Cheng Hu, Chairman of the Council of Economic Planning and Development, to discuss the issues in the ongoing debate about tax reform in Taiwan.

National Tax Association

In November of 2003, Joel Slemrod became the 2nd Vice President of the National Tax Association. His term ends on November 11, 2004, when he will become the 1st Vice President; in November, 2005, he will become President. He is also a member of the National Tax Association Executive Committee.

Lois and Bruce Zenkel Faculty Research & Development Fund

For the last three years, the Office of Tax Policy Research has received generous funding from the Lois and Bruce Zenkel Faculty Research and Development Fund. This funding has subsidized numerous OTPR projects including research on the impact of taxes on multinational firms, printing and mailing of this newsletter, and supporting our weekly Public Finance Seminar, co-sponsored with the Economics Department, that features speakers from both inside and outside the University of Michigan. We are able to sustain our research and education programs only thanks to the generosity of people such as Lois and Bruce Zenkel. We greatly appreciate their support.
The third edition of Taxing Ourselves, by OTPR Director Joel Slemrod and Williams College assistant professor Jon Bakija, was published earlier this year with a haunting new cover. It has been extensively revised and updated to cover all tax changes in tax law through May 2003 and to reflect the most recent research and relevant data. It also provides new or expanded treatment of issues in the current debate, including tax cuts and whether they stimulate the economy, savings incentives, double taxation of corporate income, the estate tax, corporate tax shelters, and the economic and political effects of budget deficits. In answer to many reader queries, the book cover photograph is not a depiction of Professor Slemrod attempting to fill in his own tax return.

World Tax Database

The World Tax Database contains tax data for over 100 countries during the last 50 years and is the only resource of its kind in the world. During this past year, we have been in the process of transferring the World Tax Database to the Stephen M. Ross School of Business’s server. This change will allow us to expand the contents of the World Tax Database and provide a more user-friendly environment. We are grateful to the Computing Services Department for the expeditious and efficient manner in which they handled the transition, and apologize for the inaccessibility of the Database during the transition.

We express our thanks and appreciation to the Center for International Business Education for a grant award received earlier this year to acquire new data for our World Tax Database. Our most recent focus has been verifying and annotating income, corporate and sales tax rate information for Japan. As of November 2004, data on individual income taxes, corporate taxes and the value added tax for Japan have now been included in the database.

Future updates will be announced in subsequent newsletters.

Students Graduate

Two of OTPR’s graduate student research associates recently received their Ph.D.’s from the University of Michigan and have begun new jobs in positions working around the world. Naomi Feldman accepted a position at Ben-Gurion University in Beersheva, Israel; and Peter Katuscak, who was recently awarded an Honorable Mention in the National Tax Association Outstanding Doctoral Dissertation, is at CERGE-EI in Prague, Czech Republic.

International Taxation

Recent working papers by OTPR Research Director James Hines offer new insights on international tax issues, including the economic effects of foreign tax havens and the burden of U.S. taxation of foreign income. Interest in foreign tax havens has grown along with the economic importance of foreign direct investment, and with recent political commentary about offshoring,
rate of 3.3 percent between 1982 and 1999, which compares favorably to the world average of 1.4 percent. Tax haven governments appear to be adequately funded, with an average 25 percent ratio of government to GDP that exceeds the 20 percent ratio for the world as a whole, though the small populations and relative affluence of these countries would normally be associated with even larger governments. Whether the economic prosperity of tax haven countries comes at the expense of higher tax countries is unclear, though recent research suggests that tax haven activity stimulates investment in nearby high-tax countries.


This paper reassesses the burden of the current U.S. international tax regime and reconsiders well-known welfare benchmarks used to guide international tax reform. Reinventing corporate tax policy requires that international considerations be placed front and center in the debate on how to tax corporate income. A simple framework for assessing current rules suggests a U.S. tax burden on foreign income in the neighborhood of $50 billion a year. This sizeable U.S. taxation of foreign investment income is inconsistent with promoting efficient ownership of capital assets, either from a national or a global perspective. Consequently, there are large potential welfare gains available from reducing the U.S. taxation of foreign income, a direction of reform that requires abandoning the comfortable, if misleading, logic of using similar systems to tax foreign and domestic income.

WP2011-4 – Do Tax Havens Flourish?

Tax haven countries offer foreign investors low tax rates and other tax features designed to attract investment and thereby stimulate economic activity. Major tax havens have less than one percent of the world’s population (outside the United States), and 2.3 percent of world GDP, but host 5.7 percent of the foreign employment and 8.4 percent of foreign property, plant and equipment of American firms. Per capita real GDP in tax haven countries grew at an average annual