

 **CANADA**

INSTITUT C.D. HOWE

W. Robson et A. Laurin, « [Adaptability, Accountability and Sustainability: Intergovernmental Fiscal Arrangements in Canada](#) », 14 juillet 2015, 40 pages.

**Les transferts
intergouvernementaux du
fédéral aux provinces :
avantages et inconvénients.**

In recent years, transfers from the federal government to provinces, territories and local governments have grown rapidly. They now account for about one-fifth of the revenues of those governments, and about one-third of federal program spending. Central governments in federations typically raise more than they need to fund the programs and services they provide directly, and sub-central governments typically raise less than they need. But when these gaps, and the transfers that bridge them, are large, the fundamental federal principle that governments at each level are sovereign in their respective spheres gets strained. While transfers can, in principle, help achieve national-scale public goods, address spillovers among provinces, and support minimum standards for public services and other programs across the country, Canada's past and present system does not

consistently reflect these purposes. On the downside, their potential to undermine accountability and induce unsustainable fiscal policies means Canadians should be cautious about assuming that expanding transfers further will have good effects. Looking ahead, pressure to expand federal transfers to provincial governments seems likely. Demographic change will damp the growth of government revenues in Canada, and put upward pressure on program spending, particularly at the provincial level. Responding effectively to this pressure will require a mix of tax increases and spending restraint from provinces, and ideally some partial prefunding of programs such as pharmacare and long-term care. Such reforms are likelier if the federal government limits growth in intergovernmental transfers, and reduces its tax take, in consumption taxes for example, so as to make more tax room available to the provinces.

INSTITUT C.D. HOWE

M. Hamilton, « [Do Canadians Save Too Little?](#) », 4 juin 2015, 32 pages.

**L'épargne des
contribuables
canadiens : une
perspective
différente.**

The common notion that Canadians save too little for retirement, which often underpins discussions of pension reform, requires closer examination. The author brings fresh thinking to the issue and comes to a very differ-

ent conclusion. First, he assesses the assumptions underlying the assertion that few middle-income workers have sufficient retirement savings. They are: 1. the household saving rate, which is calculated by Statistics Canada as a by-product of Canada's National Accounts, is a reliable estimate of the amount that Canadian workers set aside for retirement; and 2. to maintain their pre-retirement lifestyle after they retire, Canadians need to replace 70 percent of their gross employment income. Neither assumption is correct, says the author. To demonstrate why, he examines the failings of the household saving rate as a measure of retirement savings; takes a closer look at the factors that have contributed to the decline in household saving and to explain how this decline has been misinterpreted; discusses the limitations of the 70 percent replacement target and asks how much Canadians really need to save for retirement. Finally, he questions the reliability of the studies on which the Province of Ontario has relied in making the case for the Ontario Retirement Pension Plan and discusses the policy implications. Canadians are reasonably well prepared for retirement, he concludes. Most save more than the 5 percent household saving rate. Most can retire comfortably on less than the traditional 70 percent replacement target. The greatest challenges come early in their adult lives when the burdens of acquiring a home and supporting young children strain the family budget. After that, things get easier. As studies of our retirement system become more sophisticated, we focus more on the distribution of outcomes and less on the averages. We inevitably discover that while many appear to be saving too much relative to the arbitrary thresholds chosen for these studies, others appear to be saving too little. The size of the group that appears to be "at risk" cannot be accurately determined nor can the attributes of its members be usefully described. When studies conclude that gross replacement targets are unreliable measures of retirement income adequacy due to the diversity of our population, they are also concluding that programs like the Canada and Quebec Pension Plans can go only so far in addressing our retirement needs. They can establish a lowest common denominator – a replacement target that all Canadians should strive to equal or exceed. Beyond that, we need better-targeted programs – programs that are better able to recognize and address our individual needs.

CANADIAN TAX FOUNDATION

C. Campbell, « J.L. Ilsley and the Transition to the Post-War Tax System: 1943-1946 », *Revue fiscale canadienne*, vol. 63, no 1, 52 pages.

Le système fiscal canadien de l'après-guerre : les années 1943-1946.

Déjà en 1943, le gouvernement canadien avait déplacé son attention du financement de l'effort de guerre vers la

planification et le financement de la reconstruction d'après-guerre, y compris l'adoption possible de plusieurs programmes importants d'aide sociale. Cela signifiait qu'il continuerait de dépendre, comme en temps de guerre, d'une base de fiscalité élargie touchant les particuliers et les sociétés et qu'il devrait prendre de nouveaux arrangements avec les provinces pour la poursuite ou la modification des accords de location fiscale conclus en 1941. À titre de ministre des Finances, J.L. Ilsley avait la responsabilité première de cette initiative. Bien que les propositions du gouvernement n'aient pas fait l'unanimité à la Conférence fédérale-provinciale prolongée de 1945-1946, la transformation du régime fiscal canadien effectué en 1943 est demeurée essentiellement intacte.

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CANADIAN TAX FOUNDATION

S. Tillotson, « Warfare State, Welfare State, and the Selling of the Personal Income Tax, 1942-1945 », *Revue fiscale*

Évolution de l'État providence : réactions, protestations et critiques pendant l'après-guerre 1943-1946).

canadienne, vol. 63, no 1, 38 pages.

Cet article porte sur les protestations des Canadiens à faibles revenus relativement aux incidences fiscales pour les particuliers du

financement canadien de la guerre pendant la Deuxième Guerre mondiale. Il décrit les critiques liées aux modifications de 1942 à la Loi de l'impôt de guerre sur le revenu et les moyens par lesquels les Canadiens à faibles revenus ont manifesté leur désaccord, notamment par l'absentéisme, l'organisation ouvrière et la participation au débat public, tirant profit de leurs ressources en tant qu'électeurs (par l'entremise des partis politiques) et en tant que contributeurs éventuels aux campagnes pour l'épargne de guerre. Le ministre des Finances et d'autres ministres ont jugé que ces protestations pouvaient sérieusement nuire au financement de la guerre et au programme de stabilisation. En conséquence, le ministère des Finances et le ministère du Revenu national, ainsi que la Commission d'information en temps de guerre, ont répondu vigoureusement aux protestations par diverses campagnes de relations publiques et par une série de modifications à la loi fiscale. Ces réponses aux protestations ont contribué au processus, normalement perçu comme mené par une idéologie macro-économie ou de sécurité sociale, ou les deux, qui a conduit à la Loi sur les allocations familiales du Canada, un moment charnière de l'évolution de l'État-providence canadien. En mettant l'accent sur l'influence qu'ont eue les protestations par les contribuables à faible revenu sur la décision de renforcer l'État-providence, l'histoire dont il est question ici démontre comment l'opinion publique communautaire des années de guerre était également modelée en partie par des politiques de portefeuille intéressées.

CANADIAN TAX FOUNDATION

G. Loomer, « The Disjunction Between Corporate Residence and Corporate Taxation: Is Improvement Possible? », *Revue fiscale canadienne*, vol. 63, no 1, 42 pages.

Dans cet article, l'auteur analyse le concept de résidence d'une société, l'accent étant mis plus particulièrement sur les lois britannique et

Résidence et imposition des sociétés : analyse des aspects à améliorer.

canadienne. Si on accepte la prémisse voulant que l'imposition des sociétés soit justifiée, il y a néanmoins une disjonction entre une imposition significative selon le pays de résidence et les définitions actuelles de résidence d'une société dans la loi nationale et les conventions fiscales. Cette disjonction existe parce que les diverses significations juridiques attribuées à la résidence d'une société exigent peu en matière d'attachement économique au supposé État de résidence. L'auteur commence par un bref examen du phénomène de la mobilité des entreprises motivée par la fiscalité, puis fait un résumé des mesures prises par le gouvernement pour répondre à cette mobilité. Dans le corps de l'article, il soutient que les concepts de résidence qui avaient pour but à l'origine de faire état des importantes activités de gestion d'entreprise ont été en grande partie éclipsés par les critères de constitution en société prévus par la loi au Royaume-Uni et au Canada, et ont été autrement affaiblis par des interprétations judiciaires de « centre de gestion et de contrôle » lorsqu'appliqués aux multinationales. L'auteur soutient alors que bien que le concept de « siège de direction effective » dans les conventions soit prometteur parce qu'il pourrait dénoter une gestion réelle et importante, cette interprétation a été jusqu'à présent écartée par les tribunaux supérieurs, du moins dans le cas des sociétés. Des causes récentes portant sur la résidence des fiducies sont indiquées parce qu'elles illustrent une approche contrastante, et peut-être préférable, à la résidence d'une entité. Étant donné que les formulations actuelles de résidence d'une société semblent comporter des lacunes, l'auteur propose des pistes concernant la façon de les améliorer pour se concentrer sur la réalité ou l'irréalité objective de l'établissement d'une entreprise.

CANADIAN TAX FOUNDATION

W. S. Clark et A. Klemm, « Policy Forum: Effective Tax Rates for Multinationals—The Role of Tax Incentives and Tax Planning », *Revue fiscale canadienne*, vol. 63, no 1, 52 pages.

On utilise fréquemment des taux d'impôt effectifs (tie) (marginaux et moyens) pour l'analyse et la conception de politiques fiscales touchant l'investissement; le présent article fournit divers exemples récents. Il aborde les questions soulevées lorsqu'on calcule les tie dans un

contexte international, comme pour les investissements transfrontaliers. Il explique concrètement comment des incitatifs fiscaux et des stratégies de planification fiscale peuvent

Quelle est l'influence du taux d'imposition effectif dans le processus décisionnels des multinationales?

être inclus dans le calcul des tie.

L'article fait ensuite état des difficultés habituelles liées à leur interprétation, dont bon nombre sont accentuées dans un contexte international. En particulier, la gamme de tie pour un pays donné augmente, et les niveaux et les classements du pays dépendent d'hypothèses relatives à des paramètres fiscaux et non fiscaux.



ÉTATS-UNIS

NATIONAL BUREAU OF ECONOMIC RESEARCH

Hilary W. Hoynes et Ankur J. Patel, *Effective Policy for Reducing Inequality? The Earned Income Tax Credit and the Distribution of Income*, juillet 2015.

L'impact anti-pauvreté du Earned Income Tax Credit aux États-Unis surpasse les attentes.

In this paper, we examine the effect of the EITC on the employment and income of single mothers with children. We provide the first comprehensive estimates of this central safety net policy on the full distribution of after-tax and transfer income. We use a quasi-experiment approach, using variation in generosity due to policy expansions across tax years and family sizes. Our results show that a policy-induced \$1000 increase in the EITC leads to a 7.3 percentage point increase in employment and a 9.4 percentage point

reduction in the share of families with after-tax and transfer income below 100% poverty. Event study estimates show no evidence of differential pre-trends, providing strong evidence in support of our research design. We find that the income increasing effects of the EITC are concentrated between 75% and 150% of income-to-poverty with little effect at the lowest income levels (50% poverty and below) and at levels of 250% of poverty and higher. By capturing the indirect effects of the credit on earnings, our results show that static calculations of the anti-poverty effects of the EITC (such as those released based on the Supplemental Poverty Measure, Short 2014) may be underestimated by as much as 50 percent.

TAX POLICY CENTER

Donald Marron, Eric Toder et Lydia Austin, *Taxing Carbon: What, Why, and How*, 25 juin 2015, 27 pages.

Une taxe sur le carbone pourrait aider à construire une économie efficace et plus propre.

The case for a carbon tax is strong. A well-designed tax could efficiently reduce the emissions that cause climate change and encourage innovation in cleaner technologies. The resulting revenue could finance tax reductions, spending priorities, or deficit reduction—policies that could offset the tax's distributional and economic burdens, improve the environment, or otherwise improve Americans' well-being. But moving a carbon tax from the whiteboard to reality is challenging. To help policymakers, analysts, and the public address those challenges, this report examines the what, why, and how of implementing a carbon tax and using the revenue it would generate.

TAX POLICY CENTER

Elaine Maag, *Federal and State Income Taxes and Their Role in the Social Safety Net*, 4 août 2015, 30 pages.

**Le rôle
des
impôts
dans le
filet de
sécurité
sociale.**

Federal and state income taxes play an important role in providing income support for low-income households by administering refundable tax credits, such as the earned income tax credit (EITC). Using the Urban Institute's Net Income Change Calculator (NICC), which provides state- and federal-level information on

tax and transfer programs in 2008, I calculate the value of TANF and SNAP as well as state and federal income taxes for a single parent working full-time at the minimum wage with two children. In many cases, state and federal tax credits exceed the value of the more traditional safety net programs.

TAX POLICY CENTER

Mike Pergamit, Elaine Maag, Devilin Hanson et al., *Pilot Project to Assess Validation of EITC Eligibility with State Data*, 4 juin 2015, 117 pages.

**L'Earned Income Tax Credit est
identifié comme le programme
ayant le taux d'erreur de
versement le plus élevé.**

The Earned Income Tax Credit (EITC) annually delivers over \$60 billion to low-income working families. The Office of Management and Budget identifies the EITC as having the highest improper payment rate among 13 high error programs. We explore whether state SNAP and TANF administrative data can be used by IRS to reduce erroneous payments and target outreach efforts. Too few EITC claimants receive TANF to make the TANF data useful. SNAP data are unlikely to be useful during pre-refund audits, but may be helpful in audit case selection or in flagging erroneous EITC claims for people without custodial children.

BROOKINGS INSTITUTE

Leonard E. Burman, William G. Gale, Sarah Gault et al., *Financial transaction taxes*

in theory and practice, 30 juin 2015, 54 pages.

**Une taxe sur les transactions
financières bien conçue pourrait
augmenter les revenus du trésor
américain d'environ 50 milliards
de dollars par année.**

This paper addresses these issues, with particular attention to the question of the potential applications of such a tax in the United States. Our review and analysis of previous work suggests several conclusions. First, the extreme arguments on both sides are overstated. At the very least, the notion that an FTT is unworkable should be rejected. Most EU countries have or are planning to adopt FTTs, and many world financial centers, including Hong Kong, Switzerland, Singapore, South Africa, and the United Kingdom, thrive despite the presence of FTTs. Similarly, the idea that an FTT can raise vast amounts of revenue—1 percent of gross domestic product (GDP) or more—has proved inconsistent with actual experience with such taxes.

INTERNAL REVENUE SERVICE

C. M. Hoxby, *Computing the Value-Added of American Postsecondary Institutions*, juillet 2015, 40 pages.

**Existe-il vraiment une plus-
value relativement aux
politiques fiscales concernant
les études postsecondaires?**

Computing postsecondary institutions' value-added is an essential step if we are to evaluate the costs and benefits of any policy that affects college-going. For instance, if tax credits and deductions for higher education expenses affect enrollment, the benefits that would offset the costs of these tax expenditures must come from value-added. Similarly, value-added calculations are necessary for evaluating the deductibility of student loan interest, the untaxed nature of many scholarships, tax-preferred education savings accounts, the tax exempt status of most

colleges, the deductibility of charitable contributions to colleges, and numerous government spending programs that support higher education. Value-added is also crucial for whether the Treasury will ultimately to recover outstanding student debt. This paper illustrates a method for estimating the value-added of U.S. postsecondary institutions. The key challenge is overcoming vertical selection (some colleges' students are more qualified than others) and horizontal selection (colleges' students may be similarly qualified but differ on geography or family background). We use natural experiments to address selection: quasi-randomization by admissions staff to address vertical selection and quasirandomization by students to address horizontal selection. We combine the results from the many experiments using paired comparison techniques. We apply the method to comprehensive administrative data on college-going and wage outcomes, and we report policy relevant descriptions of the value-added evidence.

INTERNAL REVENUE SERVICE

C. M. Hoxby et G. B. Bulman, *How Tax Credits for Higher Education Affect College-Going*, juillet 2015, 55 pages.

Les crédits pour études postsecondaires incitent-ils vraiment les gens à poursuivre leurs études?

The federal tax deduction for tuition is appealing: it potentially increases investments in postsecondary education with minimal administrative cost. We assess whether it actually causes greater investments by applying regression discontinuity methods to the income cutoffs that govern eligibility for the deduction. Although a substantial share of eligible households take nearly the maximum deduction allowed, we find no evidence that the deduction has a causal effect on attending college (at all), attending full- versus part-time, attending four-versus two-year college, the instructional and other resources experienced in college, the amount paid for college, or student loans. Also, we find that a significant share of households who would be just above a cut-off manage their incomes so that they fall slightly below it. We

show that this income management generates bias due to reverse causality, and we impose statistically appropriate "doughnut-holes" to avoid bias. A logical analysis suggests that the deductions' inefficacy may be due to superficial details of salience, timing, and the method of receipt. We speculate that the deductions might increase collegegoing if they were modified in simple ways that would not materially change their nature, administrative costs, or potential tax expenditures. We outline how such modifications could be tested.



INTERNATIONAL

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

H. Blöchliger et J. Kantorowicz, *Fiscal constitutions: An empirical assessment*, 23 juillet 2015, 46 pages.

Fiscal constitutions comprise the set of rules and frameworks guiding fiscal policy that are enshrined in a country's fundamental laws.

This paper compares the fiscal constitutions of 15 federal countries by empirically assessing five building blocks: 1) the power of sub-national governments to conduct their own fiscal policy; 2) the degree to which sub-national governments are held responsible for fiscal policy outcomes; 3) the extent to which sub-national governments can shape fiscal policy of the federal level; 4) the strength of intergovernmental budget rules; and 5) the stability of fiscal policy arrangements. The results can be summarised as follows: Countries can be ranked along a single indicator, namely the degree of constitutionally guaranteed decentralisation. They can also be ranked along an indicator of institutional coherence which measures the extent to which building blocks "fit together". From 1917 to 2013, fiscal autonomy and responsibility declined – except in the 80s and 90s of the 20th century – while co-determination and budget frameworks were strengthened, and insti-

Comparaison des constitutions fiscales et de leur évolution dans 15 pays.

tutional coherence rose. Simple correlations suggest that the extent of decentralisation hardly affects fiscal outcomes such as deficits, debt or vulnerability to crises, while institutional coherence (or incoherence for that purpose) does.

SOCIAL SCIENCE RESEARCH NETWORK

A. J. Weichenrieder et F. Xu, *Are Tax Havens Good? Implications of the Crackdown on Secrecy*, juillet 2015, 18 pages.

Les ententes d'échange d'information réduisent le recours à l'investissement dans les juridictions concernées.

The pressure on tax haven countries to engage in tax information exchange shows first effects on capital markets. Empirical research suggests that investors do react to information exchange and partially withdraw from previous secrecy jurisdictions that open up to information exchange. While some of the economic literature emphasizes possible positive effects of tax havens, the present paper argues that proponents of positive effects may have started from questionable premises, in particular when it comes to the effects that tax havens have for emerging markets like China and India.

SOCIAL SCIENCE RESEARCH NETWORK

N. Pestel et E. Sommer, *Shifting Taxes from Labor to Consumption: More Employment and More Inequality*, juin 2015, 42 pages.

Les effets d'un déplacement de l'impôt sur le revenu vers les taxes à la consommation.

This paper investigates the effect of shifting taxes from labor income to consumption on labor supply and the distribution of income in Germany. We simulate stepwise increas-

es in the value-added tax (VAT) rate, which are compensated by revenue-neutral reductions in income-related taxes. We differentiate between the personal income tax (PIT) and social security contributions (SSC). Based on a dual data base and a microsimulation model of household labor supply behavior, we find a regressive impact of such a tax shift in the short run. When accounting for labor supply adjustments, the adverse distributional impact persists for PIT reductions, while the overall effects on inequality and progressivity become lower when payroll taxes are reduced. This is partly due to increases in aggregate labor supply, resulting from higher work incentives.

SOCIAL SCIENCE RESEARCH NETWORK

Tat Chee Tsui, *Does Smuggling Negate the Impact of a Tobacco Tax Increase?*, 17 juin 2015.

The tobacco industry claims that increases in tobacco tax will not discourage people from smoking because smokers will simply substitute taxed cigarettes with smuggled untaxed cigarettes. The experience in Hong Kong suggests that smuggled cigarettes are eating into some of the taxed cigarette market share, as the industry suggests. However, despite this increase in the illicit market, higher tobacco tax does effectively reduce total tobacco consumption.

La hausse des taxes sur le tabac et ses effets sur la contrebande.

SOCIAL SCIENCE RESEARCH NETWORK

M. De Roni, *How Can the Multilateral Tax Treaty Help Overcoming the Treaty Shopping Issue*, 12 juillet 2015.

One of the currently main challenges of International Tax Law is addressing the treaty abuse deployed by various multinationals. These, by taking advantage of their freedom of movement and establishment, have the chance to refine and enlighten their tax burdens by involving third countries and their tax relationship, therefore

gaining arguable and controversial profits.

Le chalandage de traités fiscaux pourrait être contrecarré par le recours à des traités multilatéraux.

This phenomenon has steadily grown, reaching nowadays the extent where many countries around the world are concerned given the fewer tax revenues. Amongst the most infamous busi-

ness, newspapers reported Apple, Google, Ikea, Pepsi, Amazon and P&G, whose strategies proved being effective. What is now left to the countries is finding a strategy to curb abuses of law. At this regard, seen the inefficiency of Bilateral Tax Treaties, various legal devices were tested along the years but none of them led to a proper solution. Moreover, constraints arising from European Law may look like inflicting the coup de grace on the residual hope. Although it would look consequent that Tax Law cannot offer a proper antidote, the countermeasure planned by the OECD may finally help resolving these issues: a Multilateral Tax Treaty. With it, it would be possible to involve several countries in a single lawsuit, thus facilitating exchange of information and sharing of opinions. Yet, a Multilateral Treaty in this field, although wished for since almost two decades, still needs a proper tailoring to the current panorama with the right legal measures and this is why an International Conference was announced for 2015. Therefore, what is a Multilateral Tax Treaty and can it face this challenge? How should it be drafted and which provisions should it contain? Are there alternatives to it? With this thesis, I will try to provide an answer to these questions above and explaining how a possible failure could lead to an utterly grim scenario. Moreover, based on both current knowledge and personal prompts, I will try to hypothesise which provisions should this contain, by taking into account past successes and failures of similar treaties and legal principles of International law.

INSTITUTE FOR FISCAL STUDIES

E. Arbatli et J. Escolano, *Fiscal Transparency, Fiscal Performance and Credit Ratings*, juin 2015, 33 pages.

Fiscal transparency can provide policymakers with incentives to adopt better policies by enhancing the public debate on the design and sustainability of fiscal policy and establishing accountability for their implementation. Fiscal transparency can also reduce uncertainty about fiscal policy and fiscal outturns by providing more information on the underlying fiscal position and

Les avantages de la transparence fiscale.

fiscal risks. Both effects suggest that countries should benefit from adopting transparency enhancing policies through better market assessments of their sovereign risk. In this paper, we investigate whether fiscal transparency has an effect on market perceptions of sovereign risk, as measured by sovereign credit ratings, and if so, through which channels. We find that fiscal transparency has a positive and significant effect on ratings – one standard deviation increase in fiscal transparency increases credit ratings by 0.7 and 1 notches (or steps in the credit rating scale) in advanced and developing economies, respectively – but its effect works through different channels in advanced and developing economies. In advanced economies, fiscal transparency is associated with better fiscal outcomes, leading indirectly to higher credit ratings. In developing economies, the direct uncertainty-reducing effect of fiscal transparency seems to be more important. Indeed, the effect of fiscal transparency on fiscal performance is found to increase with the level of institutional development.

Équipe de rédaction

Coordination, édition et révision :
Tommy Gagné-Dubé et Marwah Rizqy.

Recherche et sélection des articles :
Marie-Danielle Alarie, Nicolas Déziel-Belleville, Catherine Tremblay-Bouchard, Camil Chaput, Anne Lantagne et Ikram

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