
Subject Index

- Accelerated Cost Recovery System (ACRS), U.S., 5. *See also* Modified accelerated cost recovery system
- Accounting: with cooperative income tax policies, 70; for income security systems, 129–33; for resident corporations, 46–47
- Adjusted gross income (AGI), 281
- Aid to Families with Dependent Children (AFDC), U.S., 110
- Alternative minimum tax (AMT), 41
- American Council for Capital Formation, 303
- Arbitrage: assumption in ETR computation, 196; closed economy household, 196, 198, 209–10; determination of interest rates in international, 197; effective tax rate with changed base case assumptions, 209–10; open economy, 196–98. *See also* Tax arbitrage
- Asset depreciation range (ADR), 213
- Benefit taxation, 14–15, 75–76; harmonization of, 324; pressures for, 92–94; in U.S., 115–16
- Benefit unit, 116–19
- Border tax adjustments (BTAs), 299, 301–3
- Business transfer tax (BTT): border tax adjustments (BTAs) under, 299, 301–3; under GATT rules, 301; problems of, 301–2; proposed Canadian federal, 307, 309; proposed U.S., 303–4, 306
- Canada Pension Plan (CPP), 97, 109–10; financing of, 264; progressivity of, 167. *See also* Elderly, the; Pension income, ^{Canada} Canada-U.S. Tax Convention (1980), 44, 47–48
- Canadian Survey of Consumer Finance (SCF), 155
- Capital. *See* Cost of capital
- Capital-asset pricing model (CAPM), 199, 219–23
- Capital gains tax: Canadian, Japanese, and U.S., 227–28; Canadian and U.S., 37, 40; reform in treatment of, 174
- Capital market, Canada and U.S., 217
- Capital mobility: effect of free, 28; effect on tax policy design, 77–89; in open economy, 59; with residence-based taxation, 78–81; with source-based capital taxation, 83–84; “time consistency” problem in, 84; between U.S. and Canada, 39
- Capital risk: in base case calculation of ETRs, 198–200; with changed base case assumptions, 208–9; hurdle rate tied to, 219
- Capital taxation: under residence principle, 78–81; under source principle, 81–84
- Carter Commission (1966), Canada, 61–62, 64, 304, 359–60
- Cash transfers, Canada, 102, 104–5. *See also* Canada Pension Plan; Quebec Pension Plan; Social assistance, Canada

- Children: Canadian tax and transfer for dependent, 107–8; child care policy, Canada, 105; credit system in Canada for, 124; exemptions for dependent, 113–14; “kiddie tax,” U.S., 118
- Clawbacks, 110, 118–19, 135–38
- Consumer price index (CPI), 124
- Consumption tax, 170–72
- Corporate income tax (CIT): changes in Canadian, 10, 169–71, 178; changes in U.S., 10, 168; comparison of Canadian, Japanese, and U.S., 227; on cross-border income flows, 44–48; differences in provincial and state, 42–44; direct taxes on, 50; and free-trade agreement, 373; policy in open economy for, 59–61; reform of Canadian, 174–76; “rhythm method,” 53–54; as source- or residence-based tax, 54–55; in U.K., 10; withholding role of, 31, 54, 60, 72. *See also* Large Corporations Tax, Canada
- Corporate income tax systems (CITs), 39–42
- Corporations: determining income of resident, 46–47; possible tax transmission effects on, 238–40; resident status of, 45
- Cost of capital, 218–19; comparison of Canadian, Japanese, and U.S., 229–35; derivation of before-tax, 223–27; for multinational firms, 201; user, 190, 193–201; weighted-average, 218–19. *See also* Expected rate of return on investment; Hurdle rate of return on investment
- Customs union tax harmonization, 316
- Davies, St-Hilaire, Whalley (DSW) simulation of lifetime tax burdens and income, 179–82
- Deduction systems: differences in income tax, 37–38; needed for foreign tax liabilities, 72–73
- Demigrants, 101–2, 264
- Demographic transition model, 256–50; base-line and alternative simulation results, 265–73; calibrating, 260–65; preference parameters, 262–63
- Depreciation: acceleration in allowances for, 3; straight-line, 213
- Disability insurance benefits: Canada, 104, 109; U.S., 111, 114–15
- Earned-income tax credit (EITC), U.S., 97, 114, 123, 126, 130; indexation of, 124; proposed expansion of, 296; as subsidy, 144–45; as tax-based transfer, 140, 143
- Earnings-price (E-P) ratio, 221–23
- Economic integration: between Canada and U.S., 75; effect of cross-border flow on, 26; effect on harmonization, 53, 316; factors in trend toward, 25–26; implications for tax policy choices, 49. *See also* Free-trade agreement; Mobility, cross-border
- Economic Recovery Tax Act (1981), U.S., 5, 202, 205, 238, 280. *See also* Modified Accelerated Cost Recovery System
- Effective tax rate (ETR): assumptions in computation of, 196–99, 208–14; changes in Canadian, 202–4; changes in U.S., 205–6; comparison of base case estimates for, 202–8; comparison of Canada and U.S., 191–93, 206–8; computation of, 195–96; defined, 190; estimates with changed base case assumptions, 208–14; risk and loss offsetting in calculation of, 198–200, 210–12; in subnational tax systems, 327–29, 344–57t
- Elderly, the: Canadian tax credit system, 108–9; U.S. tax and transfer provisions for, 114–15. *See also* Guaranteed Income Supplement, Canada; Old Age Security, Canada
- Equilibrium behavior, 77, 85–89
- ETR. *See* Effective tax rate
- European Community (EC): credit-method VAT in, 296; problem of fiscal sovereignty, 318; tax harmonization in, 316, 329
- Expected rate of return on investment, 219–21. *See also* Capital-asset pricing model; Earnings-price ratio; Hurdle rate of return on investment
- Family Allowance (FA), Canada, 97, 107–8, 110; clawback threshold for, 118–19, 124, 132, 135; demigrants of, 102; tax-credit threshold for, 121–22; variation in payments under, 126
- FAPI (foreign accrual property income) rule, Canada, 47
- Federal-State Tax Collection Act (1972), U.S., 43
- FIFO (first in, first out) accounting, 202, 204–6
- Fiscal policy: parameters (demographic tran-

- sition model), 263–65; relation to changes in population structure, 256. *See also* Tax policy
- Fiscal systems: differences in, 2, 32–48; economic integration effect on, 52–53; relative importance of forms of expenditure in, 156–58
- Food banks, Canada, 105
- Food stamp program, U.S., 97, 110–12, 117, 128
- Foreign direct investment (FDI), 373
- Foreign-source income taxation, 200–201
- Foreign tax credit, 46, 54–55, 88–89
- Free-trade agreement (FTA), 316; effect on domestic tax structures, 89–91; likelihood of tax harmonization with, 372–73; mobility barriers under, 99
- General Agreement on Tariffs and Trade (GATT), 301
- Goods and Services Tax (GST) credits, Canada, 107, 117, 130, 282, 305, 308; administration of, 315–16; effect of, 134; plan for, 171; public resistance to, 175; replace manufacturers' sales tax, 3, 177–78; tax rate of, 5, 34
- Guaranteed income benefits, 142–44
- Guaranteed Income Supplement (GIS), Canada, 108, 110, 131, 142–44; clawback or phaseout under, 128, 144; financing of, 264
- Haig-Simons definition of comprehensive income, 37–38, 368
- Health care system: Canada, 2, 105; U.S., 111
- Horizontal equity/inequity, 116, 132–33
- Housing, 105; asset-market model of investment and consumption of, 286–88; calibrating housing investment function, 288–90; effect of tax policy on owner-occupied, 276–82; markets, 282–86; simulations of response to tax policy changes, 290–92; user cost of rental, 282
- Hurdle rate of return on investment, 193–94, 198, 218–19. *See also* Cost of capital
- Immigration laws: barriers in, 15, 30; costs and incentives in, 92–93, 99
- Income: differing definitions of, 37; repatriated, 47, 81, 87–88; taxation of foreign source, 46–47
- Income distribution: comparison of tax reform effects on, 170–78; effect of transfers and taxes on, 154–59; as tax policy objective, 48; transfer payments and direct personal taxes, 154–59
- Income inequality: before-tax, 152–54, 183–84; changes in tax effect on (prereform), 164–70; Johnson and Browning approaches, 162–64; Pechman's estimates of tax impact on (1970s), 159–61; underlying U.S. pretax, 183–84; Whalley's estimates of Canadian (1972), 161–62
- Income security policy, 97–101; benefit unit, 116–17; for children in low-income households, 145; future structure and harmonization, 146–47; horizontal-equity goal for, 116, 132–33; programs to implement, 139–42
- Income security systems: assets tests under, 128; Canadian, 101–10, 158–59; comparison of Canadian and U.S., 102–3t; effective marginal tax rates in, 133–38; effectiveness of, 142–43; proposals for broader based, 128–29; scaling benefits under, 116–26; timing and accounting issues, 129–33; U.S., 110–16. *See also* Benefit taxation
- Income tax policy, in an open economy, 59–61. *See also* Nonresident taxation; Residence-based tax; Source-based tax
- Income tax systems: amount of revenue from, 33–34; Canadian and U.S., 34–42; country and state, 52; deductions under, 37–38; residence and source bases for, 27–28
- Income thresholds, 120–25
- Indexation, 124–25
- Individual Retirement Accounts (IRAs), U.S., 115
- Industrial policy, 48–50
- In-kind transfers: Canada, 102, 105; exclusion from personal tax base, 127; U.S., 102, 111–12
- Interest deductibility reform, 174
- Interest rates: determination of international, 197; as measure of cost of capital, 218–19
- Inventory costing, 41
- Investment strategy, firm: in closed economy,

- Investment strategy, firm (*continued*)
194–96; in open economy, 196–98; role of hurdle rate in, 193–94
- Investment tax credit (ITC), 3, 194–95, 202, 204–6
- Japan: capital gains tax, 227–28; corporate and personal income tax in, 27; cost of capital in, 229–35; subtraction-method VAT in, 296
- Large Corporations Tax, Canada, 178
- Life-cycle household behavior, 256–58
- LIFO (last in, first out) accounting, 41, 205
- Manufacturers' sales tax (MST), Canada, 171, 177, 295, 302; defects and proposed replacement of, 304–5; replacement of, 3. *See also* Goods and Services Tax credits
- Medicaid program, 110–12
- Medicare program, 111–12; proposal to tax benefits of, 138; Supplemental Medical Insurance under, 116
- Mexico, 316–17
- Mobility, cross-border: barriers to, 99; between Canada and U.S., 75; effect of immigration laws on, 15, 30, 99; of factors and income, 26; importance of, 373; and income tax conventions, 44–48; of individuals, 14–15, 56, 59–60, 92; and free-trade agreement, 373; in open economy, 59; purchasing as, 30, 317, 319, 373; tax policy in light of individual, 91–94, 99. *See also* Immigration laws
- Modified accelerated cost recovery system (MACRS), U.S., 213
- Multinational firms: effective tax rate determination of, 200; effective tax rate estimates with changed base case assumptions, 212–14; incentives for repatriating income, 87–88; model of effect of U.S. tax reform on, 243–45; with overlapping tax liabilities, 26; with source-based taxation, 83–84. *See also* Corporations; Cost of capital; Foreign-source income; Foreign tax credit
- MUSH sector (municipalities, universities, schools, and hospitals) exemptions, 314, 320
- Neumark Committee, 307, 318
- Nixon, Richard, 303
- Nonresident taxation, 45
- North American free-trade area, 316–18
- Old Age, Survivors, and Disability Hospitalization Insurance (OASDHI), U.S., 116, 130
- Old Age, Survivors, and Disability Insurance (OASDI), U.S., 115; income thresholds under, 124–25; tax rate for, 39
- Old Age Security (OAS), Canada, 97, 108, 110; clawback threshold for, 118–19, 124, 132, 135; demogrants of, 102, 264
- Payroll tax systems: differences in, 34, 37–38; for health insurance, Ontario province, 105
- Pension income, Canada, 108–9
- Pension plans, Canada. *See* Canada Pension Plan; Quebec Pension Plan
- Personal income tax (PIT): Canadian income security program, 102–3, 105–9; changes in Canadian, 169–71, 174–76, 178; clawback provisions in U.S., 135; income redistribution role of, 155–56; policy in open economy for, 62–67; probable pressure for harmonization of, 53; progressive nature of U.S., 162; reduction in U.S., 167–68; reform of U.S. (1986), 112–15; as source of revenue in Canada, 182; as source of revenue in U.S., 164–67; supplements to, 50; use of work-related subsidies under, 144; systems, 34–38, 227
- Phaseouts of income security or tax-based benefits, 117, 136–37
- Population structure, 256. *See also* Demographic transition model
- Poverty thresholds, 121–25
- Price-earnings (P-E) ratio, 222
- Production efficiency, 30
- Pronatal policy, Quebec, 108
- Property rights: international, 364–65; similarities in Canadian and U.S., 1
- Provincial governments, Canada: income tax rates of, 38–39; internal tax harmonization, 42–43; responsibilities of, 32–34; separate tax systems of, 2, 4–5. *See also* Tax systems, subnational

- Quebec Pension Plan (QPP), 97, 109–10, 264. *See also* Elderly; Pension income
- Refundable child tax credits (RCTC), Canada, 107, 124, 130
- Refundable sales tax credit (RSTC), Canada, 107. *See also* Goods and Services Tax credits
- Registered Homeownership Saving Program (RHSP), Canada, 277
- Registered Retirement Savings Plans (RRSPs), Canada, 37, 66, 276
- Repatriated income, 47, 81, 87–88
- Residence-based tax, 45, 53–55; combined with source-based tax, 72; corporate income tax, 27–28, 54–55, 73; implications of capital mobility for, 77–81, 86. *See also* Nonresident taxation; Tax arbitrage
- Retail sales tax (RST): problems of, 299–300; proposed federal U.S., 296; state-level U.S., 5, 296, 306
- Revenue, public: amount of, 49; from direct and indirect taxes, 33–34, 50–51; as objective of tax policy, 48–49; sources of subnational tax, 325–26
- Rowell-Sirois Commission on Dominion-Provincial Relations (1940), 304
- Royal Commission on Taxation (1966). *See* Carter Commission
- Sales tax: broad-based, indirect, 51; Canadian, and price of goods, 90; in a North American free-trade area, 316–18; proposed Canadian federal, 306–7; recommendations for proposed U.S. federal, 318–20. *See also* Goods and Services Tax credits; Manufacturers' sales tax
- Simons, Henry, 359–60
- Social assistance (SA), Canada, 102, 104–5. *See also* Cash transfers
- Social policy, 2–3
- Social Policy Simulation Database (SPSD), Canada, 169, 176
- Social Security program, U.S., 111, 115. *See also* Medicare; Supplemental Security Income
- Source-based tax: capital mobility under, 81–84; corporate income tax, 27–28, 54–55, 72, 90; implications of free-trade agreement for, 90–91; pressure for uniformity in, 52–55; rules for, 45–46
- Spillover effect of taxation, international, 56–58, 237–45
- SPSD. *See* Social Policy Simulation Database
- State governments, U.S.: income tax rates of, 38; internal tax harmonization, 43–44; responsibilities of, 32–34; separate tax systems of, 2, 5. *See also* Federal-State Tax Collection Act; Tax systems, subnational
- Stock markets, 247–52
- Stock prices, Canadian, 245–52
- Subsidies, work-related, 144–45
- Supplemental Security Income (SSI), U.S., 112, 115. *See also* Medicaid program
- Supplementary Medical Insurance (SMI), U.S., 116
- Tariff elimination, 90
- Tax arbitrage: opportunity in open economy for, 63–64; as pressure for harmonization, 26; under residence principle, 78–79; with tax harmonization, 30
- Taxation, double: effect of conventions for, 84–87; tax codes designed to alleviate, 46; with tax harmonization, 30–31. *See also* Residence-based tax; Source-based tax
- Tax avoidance: circumstances for, 80–81; by cross-border purchasing, 317, 319, 373; as pressure for harmonization, 26; prevention of international, 47
- Tax bases: Canadian and U.S. personal income, 127–28; comparison of pre- and postreform, 173–74; for corporate income tax, 39–41. *See also* Residence-based tax; Source-based tax
- Tax competition: effect of, 75–76; with mobile form of income, 56–58; with tax harmonization, 31. *See also* Benefit taxation
- Tax-credit system: Canada, 38, 41–42, 85, 106–10; Canadian and U.S. tax-credit come, 41–42; for dependent children in U.S., 113–14; for elderly in U.S., 114; for foreign tax, 46, 88–89; incentives in Canadian dividend, 88–89; for withholding taxes in home country, 85; in a worldwide tax system, 72–73. *See also*

- Tax-credit system (*continued*)
 Deduction systems; Earned-income tax credit; Foreign tax credit; Goods and Services Tax credits; Investment tax credit; Phaseouts of income security or tax-based benefits; Refundable child tax credits; Refundable sales tax credit
- Tax harmonization: advantages and disadvantages of, 13, 28–31; cooperative and noncooperative, 27, 29, 52–55, 58; cross-border, 27, 44–48; defined, 28–29; degree of subnational, 325; with economic integration, 26–28, 31, 52–55, 316; in free-trade area or customs union, 316; intended, 326–27, 337–43t; internal Canadian and U.S., 27, 42–44; measurement of, 324; worldwide, 69, 71–73
- Tax incidence: annual and lifetime views of, 178–82; declining progressivity of U.S., 167–68; methods of assessing, 184–87. *See also* Davies, St-Hilaire, Whalley simulation; Income distribution; Income inequality
- Tax mix, pre- and postreform, 164–68, 174–75, 182–83
- Tax policy: in closed economy, 64–65; criteria for formulating, 25–27; effect of capital mobility on, 77–89; effect on equilibrium behavior, 77, 85–89, federal and provincial/state systems, 2; under free-trade agreement, 77–84, 91; independence or uniformity in, 25, 52–58; major changes in, 3–9; need for coordination of capital income, 76; objectives of, 48–52; of open economy, 59–67; for repatriated income, 47, 81, 87–88; between two open economies, 67–71. *See also* Deduction systems; Income tax policy, in an open economy; Mobility, cross-border; Provincial governments, Canada; Residence-based tax; Source-based tax; Spillover effect, international; State governments, U.S.; Tariff elimination; Tax-credit system
- Tax rates: corporate, 41–42, 64; federal and subnational, 38–39; marginal, 133–38; in noncooperative harmonization, 52–53; postreform federal, 172–73; statutory, 326–27, 337–43t; structure of, 38–39; withholding with double-taxation convention, 85–87
- Tax reform: in Canada, 8, 171, 174, 204, 368–72; Canadian and U.S., 171–72, 174; effect on stock prices and markets, 245–52; objectives of Canadian and U.S., 8–9; patterns of, 359; in U.S., 53–54, 112–15, 205–6. *See also* Carter Commission; Income thresholds; Sales tax
- Tax Reform Act (1986), U.S. (TRA86), 5–7, 113–14, 120–25, 171, 175–76, 202, 205–6, 238, 280–81, 369
- Tax relief, 109–10, 116, 119–20. *See also* Benefit unit
- Tax structures: Canadian federal and provincial, 4–5; comparison of and changes in, 4–13; effect of free-trade agreement on, 89–91; influences on, 330; reason to differentiate national, 26
- Tax system, international: anticipated problems of hypothetical, 29; criteria for, 364
- Tax systems: Canadian federal collection agreements, 42–43, 371; changes in OECD countries, 10; differences in Canadian and U.S., 34–42, 76; effective tax rate implications for, 190; harmonizing Canadian and U.S., 44–48; similarities of corporate and personal income, 28. *See also* Benefit taxation; Canada-U.S. Tax Convention; Payroll tax systems; Personal income tax; Tax structures
- Tax systems, subnational: comparison of structural characteristics, 325, 332t; harmonization and equalization in Canadian, 371; revenues from, 323; revenue sources and amounts, 325–26, 333–36t; statutory tax rates under, 326–27, 337–43t. *See also* Provincial governments, Canada; State governments, U.S.
- Tax treaty. *See* Canada-U.S. Tax Convention (1980)
- Tax union, 316
- TRA86. *See* Tax Reform Act (1986)
- Trade policy, 89–91. *See also* Foreign direct investment; Tariff elimination
- Transfer programs: complexity of, 139–42; proposal to simplify, 140–42. *See also* Cash transfers; Clawbacks; In-kind transfers; Phaseouts of income security or tax-based benefits
- Transfer systems: base for, 126–29; benefit

- unit in, 116–26; Canadian, 101–2, 104–5; in income redistribution, 154–55; taxation of payments under, 34, 37; timing and accounting issues for, 129–33; U.S., 110–12. *See also* Benefit unit
- Trusts, U.S., 114
- Ullman, Al, 303
- Unemployment insurance (UI): Canada, 104–5, 110, 135; U.S., 111, 115–16
- Value-added tax (VAT): credit-method, 296–98, 302; exemptions and zero-rating
 - under, 300–301; harmonization of, 373–74; in international trade, 298–99; proposed Canadian, 295, 306–8, 310–15; proposed U.S., 303–4, 306, 308–9, 315; subtraction-method business transfer tax, 296, 298, 301–2. *See also* Business transfer tax; Goods and Services Tax credits; Retail sales tax
- Welfare payments, Canada. *See* Social assistance
- Welfare payments, U.S., 110–11
- Worker's compensation, Canada, 104