eJournal of Tax Research

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(GLWRULDO $QQRXQFHPHQW

%LQK 7UDQ 1RODQ 6KDUNH\

7KH GHYHORSLQJ LQWHUQDWLRQDO IU
H[FKDQJH RI WD[UHODWHG LQIRUPDW

0LFKDHO 'LUNLV DQG %UHWW %RQGIL

,QWHUSUHWLQJ WD[VWDWXWHV LPSR
WHVW

5RGQH\ )LVKHU

$WWLWXGHV WRZDUG PXQLFLSDOp@`Lý

UNSW

SUHIHUHQFHV IRU FDSLWDO JDLQV GHVSLWH WKHLU SRWHQWLDO
QRW UHSUHVHQW JRRG WD[SROLF\

$UJXDEO\ RQH RI WKH PRVW FRQWURYHUVLDO SROLF\ LVVX
WR WUHDW FDSLWDO 2JQDLQV DQG LQFRPH IRU SUHIHUHQWLDO SXUSRVHV RI WKH
FDSLWDO JDLQV WZR EURDGO\ RSSRVLQJ YLHZV KDY
WKDW LQ DFFRUGDQFH ZLWK FRPPRQ SUDFWLFH WKH
WKH LQWHUHVWV RI RYHUDOO WD[V\VWHP LQWHJULW
UDWH RI WD[RQ FDSLWDO JDLQV DUH XUUHQW DUJXPHQW LQ WKH
SUHIHUHQFHV UHIHU WR WKH LQFHQWLYH WR UHDOL]H
FRQWH[W GHVFULEHV WD[SD\HUV DWWHPSWLQJ WR D
FDSLWDOL]H RQ WKH GHFUHDVH GXH WR DQ LQFUHDVH RI WKH UDWH GLIIHUH
RUGLQDU\ LQFRPH $ QHJDWLYH FRQVHTXHQFH RI WK
VXFFHVVIXO LW FDXVHV UHYHQXH OHDNDJH ZKLFK L
RUGLQDU\ 7LKQFRPH WHUDWXUH GHPRQVWUDWHV WKDW W
WKH HVVHQWLDO UROH RI D &*7 UDWKHU LW LV LQW
WD[V\VWHPVZKHQ HUDSSOR UWFKQDWLFHV HLRLV DUWLRQ RI
HOLPLQDWHG

7KH RSSRVLQJ YLHZ LV WKDW FDSLWDO JDLQV VKRXO
WKH WD[UDWHV RQ PRUH EFXUQLQJ YLHZ LV WK
QRW EH WD7[HG DW WHDO OR SUHIHUHQWLEG &*7 SUDRYLGH
DQ LQFHQWLYH IRU HQWUHSUHQHXUVKLS DQG ULVN
LQYHVWPHQW DQG SURGXFWLYLWLQ DHQGHFRQRPLF
DUJXPHQWV IRU SUHIHUHQWLDO &*7 HQFRXUDJLQJ U
SRSXODU GHEDWH WKDQ LQ7KWKHLWFRDPXLFV LOLWHUDWH
JDLQV SUHIHUHQFHV DV LQFHQWLYHV IRU ULVN WDN
UHVXOW SURYLGHULQ1HW&7YHVWHRV QRZHOO

,Q WKH $XVWUDOLDQ FRQWH[W WKH UHFRPPHQGDW
FRQVLGHUHG UHOHYDQW WR WKLV UHVHDUFK JLYHQ
ZDV WR LQFUHDVHE\WKHGXEOLQJRWK&*7OHYHO RI &*7 GLV
SHU FH7QW ZDV SDRUIWWRKH RUQHYLHZ¶V EURDGHU UHFR

VDYLQJV LQFRPH GLVFRXQW RI SHU FHQW ZKLFK ZD
SDVVLYH LQFRPH 7KH LVVXH RI KRZ WR WD[FDSLWD
UHFRPPHQGDWLRQV RI WKH +DQRYHU GLKDZYHZKUHFVXOW
HIIHFWLYH &*7 U,QWKHQFLWDWHV 6WDWHV D PD[LPXP U
LQWURGXFHG E\ WKH %XVK DGPLQLVWUDWLRQ $OWKR
FHQW LV KLJKOHVDWLYHQWRLWDHUHGWKRQ RUGLQDU\
FHQW WKH H[SLU\ RI WKHVH SUHIHUHQWLDO &*7
3UHVLGHQWW@EDPD

$VVHVVPHQW GHSHQGH D QXPEHU ZKLFK &7DHUHQWHQWEHF WR
UXOHV $XVWUDOLD WDNHV D GLIIHUHQW DSSURDFK
RWKHU MXULVGLFWLRQV LQ WKDW &*7 HYHQWV DUH
$XVWUDOLD LW LV QHW FDSLWDO JDLQV WKDW DUH
DJJUHJDWHG ZLWK WKH WD[SD\HU¶V RWKHU DVVHVV
RIIVHW DJDLQVW FDSLWDO JDLQV QRW DJDLQVW RUG
XWLOLVHL WKHOLRFDSHV LQ D SDUWLFXODU LQFRPH \H
IXWXUH LQFRPH \HDUV ,I WKH WD[SD\HU TXDOLILHV I
DSSOLHG WR WKHLU QHW FDSLWDO JDLQ

,Q WKH 8QLWHG 6WDWHV &*7 DSSOLHVWZKLHQD DFFDSWV
$ FDSLWDO WUDQVDFWLRQ RFFXUV ZKHQ D JDLQ RU O
FDSLWDO DVVHW $ FDSLWDO DVVHW LV DQ\ SURSHUV
WKH ,QWHUQDO &RGHQ &RGHVHDQGWKHRUDOOR
WHUPQG WKHVH WZR GLVWLQFW FDWHJRULHV FDQQR
FXUUHQW 8QLWHG 6WDWHV WUHDWPHQW RI FDSLWDO
VFKHGXOH VHSDUDWH IURP WKDW IRU RUGLQDU\ LQ
86 RI FDSLWDO ORVVHV WRUEHRUDWHWD[SD\HU¶V
LQFRPH ZLWK DQ\ UHPDLQGHU WR EH RIIVHW DJDLQV
IXWXUH \HDU ZKHQ WKHUH DUH LQWXLWHUQRFDSLWD
8QLWHG 6WDWHV KDV SURYLGHG D SUHIHUHQWLDO UD
WKH &*7 KDV EHHQ LQ H[LVWHQFH LQ WKDW FRXQWU\
JDLQV WD[LQ WKH 8QLWHGQG6WDWHVWKHWRS PDUJLQDO
RUGLQDU\ LQFRPH LV SHU FHQW 7KXV WKH 8QLWH
RI &*7 UDWH LRQFRPPLJKHDUQHUV UHODWLYH WR RUGL
$XVWUDOLD DQG &DQDGD

)URP WKH WLPH WKDW &&*7QZDGVD LHDVSURGXFHGLQV KDY
WD[HG RQ D SDUWLZDLWLKQWKXVURQHDVLVQFOXVLRQ LQ
YDULRXV WLPHV &XUUHQWO\ WKH LQFOXVLRQ UDWH
RI WD[SD\HU¶ FDSLWQOWDQGEVHOLHFRPH,QHGDQGD
FDQ RQO\ EH RIIVHW DJDLQVW FDSLWDO JDLQV DQG
WKUHH SUHFHGLQJ \HDUV RU FDUULHG IRUZDUG 7KLV
LQ LWV RSHUDWLRQ WRRQ$XVRMUWKHDP¶V&*7GLZLWKQF
$XVWUDOLD GRHV QRW DOORZ IRU WKH FDUU\ EDFN RI

&DSLWDO *DLQV 7D[3UHIHUHQFHV LQ WKH 7KUHH -XULVGLF

$XVWUDOLD &DQDGD DQG WKH 8QLWHG 6WDWHV DOO
E\ LQGLVWLQGXDOV 7KHVH WKUHH MXULVGLFWLRQV
EHFDXVH WKHLU WD[V\VWHPV FDQ EH VHHQ DV VR
H[SHULHQFHG DW OHDVW RQH &*7 UDWH FKDQJH $ QR
WKH 1RUWK $PHULFDQ MXULVGLFWLRQV LV WKH H[SH
JDLQV WD[UHJLPHV 7KH $XVWUDOLDQ &*7 UHJLPH ZD

$ VXPPDU\ RI UHVSRQVHV WR TXHVWLRQ ZRQ ZLQ E7DEOH HQWHUYLHZ 5HVSRQVHV WR TXHVWLRQ WZR E\ GH

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$FDGHP				
7D[SUD				
*RYHUQ DGYLVRU\				
7RWDO				

4.1.1 Responses to Question One and Two from the Australian Interviews

Question one: What do you consider to be the main benefits and disadvantages of CGT preferences?

Question two: Given the benefits of deferral that apply to capital gains and the ability of the taxpayer to effectively choose when and if they will realise a capital gain, are preferential rates for capital gains considered appropriate?

5HVSRQGHQW $ ZDV RUIHWZKHUHLEHZWWKDWIRUKHV RI VDYL
LQFHQWLYHV WKDQ D &*7 UDWH SUHIHUHQFH 7KLV UH
UDWH UHGXFWLRQV LQ WKH 8QLWHG 6WDWHV EHLQJ
UHYHQXH JDLQV +RZHYHU WKH UHVSRQGHQW EHOLH
ODUJH UHYHQXH JDLQ DV D UHVXOW RI D &*7 UDWH F

other piece is to the extent that some gains come from corporate profits and some of those corporate profits have previously been taxed at the enterprise level, that would produce a second level of tax which might lead to over-taxation of corporate enterprises relative to other businesses.

5HVSRQGHQW & RQ TXHVWLRQ RQH

7KH UHVSRQVH RI 5HVSRQGHQW & LV FRQVLVWHQW ZLWK WKH FRQFHSW GHVFULEHG WD[SD\HUV FKRRVLQJ WR DSSUHFLDWH LQ YDOXH VR WKDW WKH &*7 LQ WKH DOWHUQDWLYH 7UHDVXU\ 3URSRVDO GRHV QRW DSSO\ 7KH UHVSRQVH DOVR UHIHUV WR WKH LGHD WKDW WKH &*7 LV D WD[RQ UHDOLVHG JDLQV DVVHW DQG UHSODFLQJ LW ZLWK D WD[RQ DFFUXDO ZRXOG EH UHVSRQVLYH WR

4.1.3 Responses to Question One and Two from the Canadian Interviews

> *…preferential [CGT is]…intended to deal with the integration of taxation…at a corporate level together with the taxation of the shareholders…it doesn't seem appropriate that the full amount of the gain should be taxed when the shareholder disposes of the shares because the same income has effectively been taxed twice…. I think the primary disadvantage…is there's an incentive for taxpayers to…characterise one type of income as a capital gain rather than as the income it should be characterised [as].*

5HVSRQGHQW) RQ TXHVWLRQ RQH

5HVSRQGHQW + UHIHUUHGFKDUDFWHUQLVWLFVRIWKHQLQHWHHQWKFHQWXU\WD[V\VWHPVWR

4.1.4 Responses to Question Three

Question three: Is the case for retaining capital gains preferences due mostly to economic efficiency considerations, political considerations or a combination of both?

I don't think you can separate the two…

5HVSRQGHQW '

Political considerations…but when I say political considerations, I don't mean that there's a sentiment in the country. I just mean the political clout of wealthy taxpayers.

5HVSRQGHQW .

I think it's a combination…a lot of politicians have been searching…for the magic bullet…something we can do to cut taxes and not (lose) a lot of money…so they readily listen to these arguments that you can't really raise revenues with capital gains or you don't lose much when you cut them because of these realisation responses.

5HVSRQGHQW $

7KH DQVZHUV WR TXHVWLRQ WKUHH UHYHDOHG DQ
FRQVHQVXV 6SHFLILFDOO\ QRQH RI WKH UHVSRQGHQ
SUHIHUHQFHV ZDV GXH PRVWO\ WR HFRQRPLF HIILFLH
KLJKHVW SURSRUWLRQ RI UHVSRQGHQWV ZKR VDLG W
SROLWLFDO FRQVLGHUDWLRQV ZKLOVW WKH ORZHVW
ZDV LQ WKH 8QLWHG 6WDWHV

6HYHUDO RI WKH &DQDGLDQ LQWHUYLHZV LQFOXGHG
SROLWLFDO FRQVLGHUDWLRQV LQ VHWWLQJ WKH RUL
7KLV ZDV HQGRUVHG E\ PDQ\ RI SROLF\PDNHUV DW WK
ZRXOG EH GLIILFXOWLHV LQ JRLQJ IURP D]HUR UDWH
FDSLWDO JDLQV LQ RUGLQDU\ LQFRPH ,Q WKLV VHQV
EHHQ VHHQ DV D QHFHVVDU\ SROLWLFDO FRPSURPLV
&*7 SUHIHUHQFH LQ WKH 8QLWHG 6WDWHV DW WKH
GHFLVLRQ E\ &DQDGD QRW WR WD[FDSLWDO JDLQV DV

$ GLVWULEXWLRQ RI WKH DQVZHUV WR TXHVWLRQ WKU

7DEOH HQWHUYLHZ 5HVSRQVHV WR 4XHVWLRQ 7KUHH

	3ROLV	%RV	(FRQRPL HIILFLHQ	8QDQVZH	7RWD
$XVWU					

$OWKRXJK LW LV QRW FOHDU IURP WKH SDSHU WR XQGHUWDNH
UHVXOWV LW ZDV QRWHG WKDW RI WKH WKUHH GHPRFUDWLF
SURSRUWLRQ RI UHVSRQGHQWV ZKR DQVZHUHG WKDW
SROLWLFDO FRQWULEXWLRQV ZHUH QRW UHJXODUO\ ZLWKKHOG
KLJKHVW SURSRUWLRQ ZKR DQVZHUHG WKDW WKH\ ZH
HFRQRPLF HIILFLHQF\ FRQVLGHUDWLRQV

4.1.5 Conclusions on Theme One –

…get rid of pre-CGT assets.

5HVSRQGHQW 8

…dealing with negative gearing…

5HVSRQGHQW 4

,Q UHVSRQVH WR TXHVWLRQ RQ QRWLFH ZDV LQ $XVWUDOLD UHGXFH WKH FRPSOH[LW\ RI WKH &*7 V\VWHP ,W ZDV PRUH LQSXW IURP WD[SUDFWLWLRQHUV VKRXOG EH WD[SROLF\ JHQHUDOO\ DQG WKDW WKLV ZRXOG DFKL &*7 SURYLVLRQV 7KH UHVSRQGHQW DSSHDUHG WR EH D WKRURXJK XQGHUVWDQGLQJ RI WKH HIIHFW RI SUR LQSXW ZDV QRW EHLQJ JLYHQ GXH FRQVLGHUDWLRQ 0 PRU • V R0W ZD &A WS GK DH 4 WPX@ WD

[CGT rates], make an exclusion and get rid of it entirely for owner occupied housing…. The foremost policy [factor] that I think should drive tax policy of any kind right now, at least in this country, is dealing with the deficit and I think raising taxes needs to be a part of that because it's just too hard to do it on the spending side.

5HVSRQGHQW $

5HVSRQGHQW $ DUJXHV WKDW DQ H[FOXVLRQ RI D
WD[DEOH LQFRPH LV D VXSHULRU IRUP RI &*7 LQ FRPS
WKLV UHIRUP ZHUH DGRSWHG WKH LQGLYLGXDO $PH
UHVHPEODQFH WR WKRVH FXUUHQWO\ RSHUDWLQJ LQ
UHVSRQGHQW LV RI WKH YLHZ WKDW &*7 RXJKW WR

…just tax it as ordinary income and… [get] rid of a lot of other tax preferences and…[go] back to the kind of reform we had in 1986. You can have lower tax rates on all income….With capital gains, you have to fill out this whole schedule and…if you got rid of a lot of tax preferences you might get rid of a whole bunch of schedules.

5HVSRQGHQW %

I don't think it's just the capital gains tax but [in] our general system, I would prefer to see lower corporate individual rates and higher tax rates on capital gains and dividends, that is, higher tax rates on corporate income at the shareholder level and you know, preferably I'd like to see some form of accrual taxation either through taxation of gains at death or the… accrual taxation of tradable shares, I'm not sure which is the best way to go about that but I think that's going to be very hard to get in a political sense… So moving toward more accrual taxation, equalising rates on gains and ordinary income and bringing in the corporate rate I think are the kind of three legged stool of better taxation of capital income.

5HVSRQGHQW &

[If] they wanted to reduce the rate, they could reduce the rate without losing any revenue…if we went back to that it wouldn't be the end of the world.

5HVSRQGHQW '

7KH UHVSRQVHV WR WKH TXHVWLRQ IURP WKH 8Q
SDUWLFXODUO\ EHWZHHQ WKRVH IURP UHVSRQGHQWV
YLHZV RQ WKH UHYHQXH HIIHFWV RI &*7 UDWH FKDQ
UHIRUP VLPLODU WR WKDW RI
WKDW \HDU WKH WRS PDUJLQDO WD[UDWH RQ RUGLQ
WR SHU FHQW DQG WKH WD[UDWH RQ
SHU FHQW 5HVSRQGHQW & DOVR VXJJHVWV WKH VDP
UHIHUULQJ WR

$QRWKHU RI WKH UHVSRQGHQWV VXJJHVWHG WKH WD[
WR WKLV DV D IRUP RI DFFUXDO WD[DWLRQ
DFFXUDWHO\ GHVFULEHV WKH JLQYHQWLHQWWKHZHIQ WKHR
GHDWK QR VDOH RU H[FKDQJH RI WKH DVVHW

FDSLWDO JDLQ RU 8QRLWHG &RPRQZHDOWK RI VXFK D
ZRXOG EH WR UHGXFH WKH LQFHQWLYH WR KROG DVV
UHPRYH WKXHS VEDHVSLSVHSZUKLFKUHQXFHUHQWO\ H[LVWV LQ
V\VWDHQG UHSODFH LW ZLWK WKHGHFDVKLWLQO WKHLQ$XVWW
V\VWHP LQ ZKLFK WKH FRVW EDVHWRKHWKH[SDV\VHUWVK
LQKHULWV LW

4.2.3 Responses to Question Four from the Canadian Interviews

On liquid investments, I'm quite happy with accrual taxation at full rates. Actually on all of it, I'd tax at full rates...I would never get elected

5HVSRQGHQW +

I think we ought to be eliminating the general preference for capital gains and… at the same time, eliminating the poor treatment of capital losses in the sense that only half of them are subject to tax and to the extent that we want to justify particular types of investment, we should have targeted rules but they do have to be appropriately targeted…

5HVSRQGHQW /

5HVSRQGHQW /¶V UHVSRQVH LV FRQVLVWHQW ZLWK D
WR HQFRXUDJHQLHQJLEVNZD\ RI D &*7 UDLWHHSLFHQHWQFH
RI WKH VSHFLILF REMHFWLRQV WR VXFK D SUHIHUHQF
LQYROYH ULVN DV ZHRQSUDRGXFWLHVV RWUKDWRDVHDQVHV
LQHODVWLF VXSSO\

I'd like full inclusions but…it seems that going back to the 75 per cent inclusion rate is politically feasible. We have… $500,000 capital gains exemption for small businesses… and farms…. I'd certainly get rid of that.

5HVSRQGHQW .

I think the capital gains tax system in Canada works fairly well….I think the deferrals we have now are more than sufficient and are appropriate. I don't see the need myself for more exemptions or preferences.

5HVSRQGHQW)

5HVSRQGHQW) GLG QRW VHHP WR KDYH DQ\ VWURQJ
UHODWLYH WR WKH RWKHU &DQDGLDQ LQWHUYLHZH
VXSSRUW DQ\ IXUWKHU UHGXFWLRQ RI WKH R&*7 UDWH
&*7 SUHIHUHQFHV 7KLV VXJJHVWV WKDW LI SROLF\PD

Q -@ H ÀP@0@p– W€ @ P@ WLQRW 0 &P WHQRQ\e À&pRÑ•%

2I WKH WKUHH FRXQWULHV UHIHUUHG WR LQ WKLV SI
WD[HG FDSLWDO JDLQV IRU LQGLYLGXDOV DW WKH VD
RI D FDSLWDO JDLQ HDUQHG WKURXJK WUDQVDFWLRQV HQWHUHG LQWR E\ QRQ&RPH KDV
WKH &DQDGLDQ &*7 UHJLPH KDV EHHQ LQ RSHUDWLRQ
WKUHH TXDUWHUV 7KH IDFW WKDW FDSLWDO JDLQV
&DQDGD PLJKW KDYH FRQWULEXWHG WR WKH SHUFH
LQWHUYLHZHHV WKDW WD[LQJ FDSLWDO JDLQV DW RU
DFKLHYH LQ SUDFWLFH 7KDW LV LW PLJKW EH WKDW

YDXDWLRQ SUREOHPV DV VRPH RI WKH UHDVRQV WKH\
WKH UHVSRQGHQWV VWDWHG WKDW WKH\ GLVDJUHHG
IRU FHUWDLQ W\SHV RI DVVHWV VXFK DV [illegible]
ZRXOG VNHZ LQYHVWPHQW WRZDUGV RWKHU W\SHV RI
UHDOLVDWLRQ EDVLV DQG LW ZRXOG EH GLIILFXOW
GLVWRUWLRQ WR LQYHVWPHQW LQFHQWLYHV ZRXOG E

6HYHUDO LQWHUYLHZHHV TXHVWLRQHG ZKHWKHU D &*
DFKLHYLQJ VRPH [illegible] DUJXHG WKDV
LQFHQWLYHV ZHUH FRE[illegible] UHSOD
SUHIHUHQFH

$ TXDOLILFDW[illegible] VDPSOH JXDEO\ XQLQWHQWLRQDOO\ [illegible]
LQWHUYLHZV [illegible] DGYLVRUV LQZHUFRQGXFW7H[SHUWRYHQQHQW
DFDGHPLFV WKH FRPSRVLWLRQ RI WKH LQWHUYL
VLJQLILFDQW OLPLWDWLRQ JLYHQ WKDW WKH UHVHD
$FFRUGLQJ WR WKH [illegible]
VWDWLVWLFDO FRQFOXVLRQV VKRXOG QRW EH JHQHUD

&21&/86,21

6XPPDU\ DQG 7D[3RLF\ ,PSOLFDWLRQV

,Q FDQYDVVLQJ WKH RSLQLRQV RI &*7 H[SHUWV LQ WK
RI WKH UHVHDUFK SURMHFW ZDV WR DVFHUWDLQ ZK
GLYHUJHQFH ZHUH RQ LVVXHV DVVRFLDWHG ZLWK &*
UHODWHG WR &*7 SUHIHUHQFHV $OWKRXJK WKHUH
UHVSRQVHV WKDW PD\ EH XQLTXH WR WKH FRXQWU\
FRQVHQVXV DFURVV WKH WKUHH MXULVGLFWLRQV 6R
WKH LQWHUYLHZ UHVSRQVHV DQG WKLV PD\ UHIOHFW
DVVRFLDWHG ZLWK WD[DWLRQ RI FDSLWDO JDLQV JHQ
VHYHUDO DUHDV LQ ZKLFK WKH LQWHUYLHZHH SRSXO
WKDW GHVSLWH WKH IDFW WKDW HDFK RI $XVWUDOLD
UDWH SUHIHUHQFH IRU WKH WD[DEOH FDSLWDO JDLQ
SURSRUWLRQ RI WKH &*7 H[SHUWV LQWHUYLHZHG ZHU
UDWH SUHIHUHQFHV DQG ZHUH XQFRQYLQFHG DV WR W

2QH [illegible] VXJJHVWHG WKH DEROLW
VFKHGXOH LQWR [illegible] E\ D V\VWHP RI DJJUH
JDLQV ZLWK WD[SD\HUV¶ RUGLQDU\ LQFRPH 7KH VDPH
H[FOXVLRQ ZRXOG EH D VXSHULRU PHWKRG RI SURYL
FKDQJH ZDV HQDFWHG LW ZRXOG EULQJ WKH $PHULF
LQGLYLGXDOV FORVHU WR WKRVH RSHUDWLQJ LQ $
FRQVLGHUHG [illegible]