eJournal of Tax Research

9ROXPH 1XPEHU 'HFHPE

H-RXUQDO RI DUW HDFK 5HVH

('ITOR) THE EDITORS

$VVRFLDWH 3URIHVVRU 6FKRRO RI 7D[DWLRQ DQG %XVL
RI 1HZ 6RXWK :DOHV

$VVRFLDWH 3URIHVVRU 6FKRRO RI 6WUDWHJLF 0DQDJHPHQW DQG %XVLQHVV (WKLFV

3URKLELWHG XVH RI WKLV DUWLFOH LV VXEMHFW WR WHUPV DQG FRQGLWLRQV RI XVH

(G L W R U L D O $ Q Q R X Q F H P H Q W

:H QRWH ZLWK SURIRXQG VDGQHVV WKH XQH[SHFWHG GHDWK RI 3URIHVVRU 7LOH\ EHFDPH WKH ILUVW SHUVRQ DSSRLQWHG DQ KRQRXUDU\ 4XHHQ¶V &RXQVHO LQ 1HZ 6RXWK :DOHV DOVR DSSRLQWHG DQ KRQRXUDU\ 3URIHVVRU 7LOH\ ZDV DQ HQWKXVLDVWLF VXSSRUWHU RI WKH (GLWRULDO %RDUG RI WKH *Journal of Tax Research* LQ +LV SDVVLQJ UHSUHVHQWV D JUHDW ORVV WR WKH *eJournal of Tax Research* DQG WKH 6FKRRO RI 7D[DWLRQ DW 8QLYHUVLW\ RI 1HZ 6RXWK :DOHV 2Q EHKDOI RI WKH *eJournal of Tax Research* SODQV WR SXEOLVK D VSHFLDO LVVXH LQ KRQRXU RI 3URIHVVRU 7LOH\¶V PDQ\ FRQWULEXWLRQV WR WKH ILHOG RI WD[UHVHDUFK DQG WR WKH 3URIHVVRU 0DUJDUHW 0F.HUFKDU 3K' LQ SDUWLFXODU 3URIHVVRU 7LOH\ ZDV D PHQWRU DQG IULHQG WR PDQ\ RI XV DQG ZH ZLVK WR H[WHQG RXU GHHSHVW V\PSDWK\ WR KLV IDPLO\ DQG WR KLV)HEUXDU\

%ULQK 1DUDP
1RODQ 6KDQGLWHRV
6FKRRO RI 7D[DWLRQ DQG %XVLQHVV /DZ $WD[
7KH 8QLYHUVLW\ RI 1HZ 6RXWK :DOHV

7KH GHYHORSLQJ LQWHUQDW
SUDFWLFH IRU WKH H[FKDQJ
LQIRUPDWLRQ RU FKDQJ

0LFKDHO 'LUNLV DQG %UHWW %RQGILHOG

Abstract

,Q DQ LQFUHDVLQJO\ JOREDOLVHG HFRQRP\ LW EHFRPHV PRUH OLNHO\ WKD
FRXQWU\ RI WKH UHOHYDQW WD[DJHQF\ DQG WKH LPSDFWHG UHYHQXHV P
UDWLRQDO FRQVLGHUDWLRQ RI WKLV LPSRUWDQW LVVXH LQ $XVWUDOLD LW
DQG LQWHUQDWLRQDO LQVWUXPHQWV WKDW XQGHUSLQ WKH SUDFWLFH RI
SODFH LQ DQ LQWHUQDWLRQDOLVHG FRPPHUFLDO HQYLURQPHQW

7KH DUHDV RI IRFXV LQFOXGH WKH VSHFLDO REOLJDWLRQV EHWZHHQ $XVWUDOLD¶V G
WD[PLQLPLVDWLRQ WKDW KDV DQ LQWHUQDWLRQDO GLPHQVLRQ WKH JUR
WUDQVSDUHQF\ DQG H[FKDQJH RI LQIRUPDWLRQ 2(&' GHYHORSPHQWV LQ LQIRUPDWLRQ H[FKDQJH LQFOX
DJUHHPHQWV LQIRUPDWLRQ H[FKDQJH DJUHHPHQWV DQG SURYLVLRQV RI
$ RI Income Tax Assessment Act 1936 ITAA 1936

,1752'8&7,21 $1' &217(;7

,Q DQ LQFUHDVLQJO\ JOREDOLVHG HFRQRP\ LW EHFR
LQYHVWLJDWLRQ DUH QRW QHFHVVDULO\ LQ WKH FR
LPSDFWHG UHYHQXHV PD\ EH WKRVH RI VHYHUDO MXU
FRQVLGHUDWLRQ RI WKLV LPSRUWDQW LVVXH LQ $X
LQWHUQDWLRQDO RUJDQLVDWLRQDO FRQWH[W DQG L
SUDFWLFH RI WKH &RPPLVVLRQHU RI 7D[DWLRQ¶V LQ
LQWHUQDWLRQDOLVHG FRPPHUFLDO HQYLURQPHQW

7KLV SDSHU H[SORUHV WKLV LVVXH LQ WKH FRQWH[W
JORLEVDHG FP` W` VRH RHO@FP`F H ,I` HUV DQ,HUÀHOS‘D

2SHUDWLRQ :LFNHQE\ WKDW ZDV OHG E\ WKH $XVWUD
WKDW LV D FRPSRQHQW RI 3URMHFW :LFNHQE\ 2S

UHOHYDQW WUHDWLHV DQG WKH H[WHQW WR ZK
OLPLW WKH RSHUDWLRQ RI VXFK DUWLFOHV ZLOO
$XVWUDOLDQ ODZ

7KHUH DUH WKUHH IXQGDPHQWDO SULQFLSOHV ZKLF
VHFUHF\ QHFHVVLW\ RZQHUVKLS GLVFORVXUH WR WKH XQGHUPLQ
IXQGDPHQWDO SULQFLSOHV E\ JRYHUQPHQWV SUDFW
,Q PDQ\ MXULVGLFWLRQV UHYHQXH DXWKRULWLHV DF
GRPHVWLF MXULVGLFWLRQ DQG RU WKHLU KDYLQJ D QD
RI LQIRUPDWLRQ EHLQJ H[HPSWHG DQG RU E\ ORFDO
ODZV

+RZ WKH WUHDW\ SRZHUV DUH XVHG LV WKH RWKHU S
WUHDWLHV WR REWDLQ LQIRUPDWLRQ KHOG RIIVKRUH
ZLOO KDYH D VWURQJ DUVHQDO RI LQIRUPDWLRQ JDW
LQFDSDEOH RU XQZLOOLQJ WR XVH WKHP ([DPSOH
LQIRUPDWLRQDO FRQWH[W FRXOG LQFOXGH

x WKH UHOXFWDQFH RI VRPH JRYHUQPHQWV WR SUR

$ FXUUHQW IHDWXUH RI WKLV LQWHUQDWLRQDO FRQ
SRZHU HVSHFLDOO\ LQ WKH EXUJHRQLQJ ILHOG RI W
$V ZLOO EH H[SORUHG LQ WKH IROORZLQJ VHFWLRQV
XQGHU WKH XPEUHOOD RI WKH 2(&' PXOWLODWHUD
DXWKRULWLHV DQG WKH LPSDFW RI 86 XQLODWHUDO D

7KH 2(&' LV WKH PRVW DFWLYH LQWHUQDWLRQDO RU
DQG WD[LQIRUPDWLRQ H[FKDQJH 7KH 2(&'¶V LQYRO
IURP WKH 2(&' &RPPLWWHH RQ)LVFDO $IIDLUV &)$ W
WKH YDULRXV IRUXPV VXE JURXSV WHFKQLFDO DG
LQLWLDWLYH LQ SDUWLFXODU ILYH ZRUNLQJ SDUWLH

7KH PDLQ 2(&' WD[DGPLQLVWUDWLYH IRUXP LV WKH)
ZKLFK ZDV FUHDWHG E\ WKH &)$ LQ -XQH DV
0DQDJHPHQW´ WR SURFXUH DVVLVWDQFH &)$ ZRUN RQ WKH [DGPL
)7$ VHHNV WR HQKDQFH FRQ EHWZHHQ UHYHQXH DXWHRGLH
ZLWK SDUWLFLSDWLRQ IURP FRXQWULHV LQFOXGLQ
2(&' FRXQWULHV DQG LGHV D IRUXP WKURXJK ZKLFK WD[DG
GLVFXVV DQG LQIOXHQFH UHOHYDQW JOREDO WUHQG
DGPLQLVWUDWLRQ DURXQG WKH ZRUOG´

7KH IROORZLQJ VHFWLRQ LOOXVWUDWHV WKH HYROX
UHVSRQVH WR LQWHUQDWLRQDO WD[DYRLGDQFH DQG
ZLOO EH XVHG DV LOOXVWUDWLYH RI LQLWLDWLYHV W
LQIRUPDWLRQ 7KH [HDVHQ VHDQG WKHEHWWD LQ [GHVHW D[
LQIRUPDWLRQ WKH GRPHVWLF FRQWH[W GLVFXVVHG HDU
PLQG ZKHQ UHIOHFWLQJ RQ WKH SRWHQWLDO HIIHFWL

7KH 2(&')RUXP RQ 7UDQVSDUHQF\ DQG ([FKDQJH RI ,Q

$XVWUDOLD LV D PHPEHU RI WKH 2(&'¶V D)RUXP +
VXEVLGLDU\ ERG\ RI WKH &)$ 7KH IRUXP ZDV HVWDEO
2(&' 0LQLVWHUV LQ 0D\ RI WKH $SULO 2(&'
FRPSHWLWLHarmful Tax Competition: An Emerging Global Issue7KH
UHSRUW ZDV SUHSDUHG IROORZLQJ D UHTXHVW E\ WK
WR FRXQWHU WKH GLVWRUWLRQDU\ LPSDFW RI KDUPIXO
ILQDQFLQJ GHFLVLRQV DQG WKH FRQVHTXHQFHV I

(GZLQ 5$ 6HOLJPDQ 'RXEOH 7D[DWLRQ DQG ,QWHUQ
DQG 8QLWHG .LQJGRP 5HSRUW RI WKH 5R\DO &RPPLVVLRQ F
)RU D GHWDLOHG GLVFXVVLRQ RI WKHVH IRUXPV VHH 0LFKDHO 'UNLV
FURVV ERUGHU DUUDQJHPHQWV ZLWK UHYHQXH DXWKRULWLHV
16: &RUSRUDWH ,QWHQVLYH 1RYHPEHU
7KH &)$ FKDLUPDQ¶V SODQ DQG PRGLILHG LWV PDQGDWH LQ -XQH
2(&')RUXP RQ 7D[$GPLQLVWUDWLRQ ZHEVLWH DQG RWKHU LQLWLDW
-DQXDU\
,ELG
2(&' Harmful Tax Competition:

,QWHUJRYHUQPHQWDO $JUHHPHQW

WR EHLQJ DXWKRULVHG XQGHU WKH International Tax Agreements Act 1953 (Cth) (International Agreements Act FRQVLGHUHG LQ WKH IROORZLQJ V)XUWKHU WKDW WKH '7$ LQIRUPDWLRQ H[FKDQJH DU PDNLQJ RI D UHTXHVW UDWKHU LW VHW RXW WKH U UHTXHVW 7KLV PD\ SURYLGH IHUWLOH JURXQG IRU OLWLJD &RPPLVVLRQHU¶V GHFLVLRQV WR UHTXHVW LQIRUPDW

4.1.3. Section 23 of the International Tax Agreements Act 1953 (Cth)

7R JLYH VXSSRUW WR WKH QHZ International Agreements Act ZDV HQDFWHG DQG LQ H[SUHVVO\ DXWKRULVHV WK LQIRUPDWLRQ UHTXHVWV H[FKDQJHG XQGHU ERWK '7$V DQG 7,($V 7KH LQIRUPD LQIRUPDWLRQ UHODWLQJ WR SURYLVLRQV RI DQ\ WD[DQ\ WD[DWLRQ ODZ SURYLVLRQ WKDW DOORZV WKH &R

- DFFHVV ODQG SUHPLVHV GRFXPHQWV RU LQIRUPDW
- UHTXLUH RU GLUHFW D SHUVRQ WR SURYLGH LQIR
- UHTXLUH RU GLUHFW D SHUVRQ WR DSSHDU EHIRU JLYH HYLGHQFH RU SURGXFH GRFXPHQWV

7KH WHUP WD[DWLRQ ODZ Income Tax Assessment Act 1997 ITAA 1997 WR EH DQ\ DFW GHPLQLVWHUHG E\ WKH &R

DOVR EHHQ WDNHQ WR WKH Taxation Administration Act WR HQVXUH WKDW VXFK GI
QRW D EUHDFK 7KHVH DPHQGPHQWV DSSO\ WR GLVFORVXUHV RI
IURP 6HSWHPEHU SURYLGHG WKH UHOHYDQW L
WKH UHTXHVW ZDV PDGH KDV HQWHUHG LQWR IRUFH

&RQYHQWLRQ RQ 0XWXDO $GPLQLVWUDWLYH $VVLVWDQFH I

$ PDMRU GHYHORSPHQW RXWVLGH RI WKH 0RGHO &RQ
ZKHQ WKH 2(&' DQG WKH &RXQFLO RI (XURSH MRLQWO
$GPLQLVWUDWLYH $VVLVWDQFH 7KH &RQYHQWLRQ 7DL[DWLRQ DQG WKH H[H

FRQVLGHUHG ³WD[KDYHQV´ QRZ UHIHUUHG DV ³O
EH D VLJQLILFDQW HFRQRPLF LPSRUWHDQFH 7L$V
%HUPXGD ZDV WKH IRXUWK OHDGLQJ LQYHVWRU LQWR
UHFHQW VHHFK WKH $72 &RPPLVVLRQHU RQ WHGDWKD
OHDYLQJ $XVWUDOLD WR GRZQHFDVWLQJ EXVLQHFWLRQ
WKH ILUVW 7,($V FDPH LQWR IRUFH LQ

$V DW 'HFHPEHU RQO\ WZR RXW RI WKH 7,($
IRUFH DQG WKRVH ZHUH EHWZHHQ 1HXWUDOLQGV
$V DW $SULO RQO\ RQH VLJQHG 7,($ ZDV &HUWJXDR FRP
VLJQHG 'HFHPE7,($V KDYH QRW EHHQ JLYHQ GRP
OHJLVODWLRQ DQG LW LV XQFOHDU ZKHWKHU WKH F
-RLQW 6WDQGLQJ &RPPLWWHH RQ 7UHDWLHV KDYLQJ
DJDLQ RQ -XQH WKDW ELQGLQJ WUHDW\ DFWLRQ

/HJLVODWLRQ LV UHTXLUHG WR LPSOHPHQW WKH FKDQJHV
RI WKH DLWQLRQPH[FKDQJH RI D 7,($ WKH\ DUH DQ LQV
QHJRWLDWLRQ%$SURFHVV UHFRYHU WKH DOORFDW
FHUWDLQ LQFRPH GHULYHG E\ UHWLUHHV JRYHUQPHQ
PHFKDQLVPWRRYHUSVIHU SULFLQJWDOSXDWHJRWLDV
W\SHV RI DJUHHPHQWV DORQJVLGH WKH 7,($V LQ PRU
WR 'HFHPEHU EXW YHU\ IHZ $%$V ZHUH QHJRWLDV
6HSWHPEHU7KLV FKDQJHUDFK KDV QRW EHHQ H[SODLQ
WR WKH $XVWUDOLDQ JRYHUQPHQW EHLQJ OHVV LQFO
LQ PRUH VWULQJHQW HFRQRPLF FLUFXPVWDQFHV SRV

8QGHU WKH 7,($V D SULPDU\ REOLJDWLRQ H[LVWV EH
SDUWQHU WR H[FKDQJH LQIRUPDWLRQ XSRQ UHTXHVW
YROXQWDU\ H[FKDQJH RI LQIRUPDWLRQ EHWZHHQ WKH
PXVW EH

- x UHOHYDQW WR WKH GHWHUPLQDWLRQ[DVVHVVPH
- x UHOHYDQW WR WKH UHFRYHU\ DQG HQIRUFHPHQW

- x UHOHYDQW WR LQYHVWLJDWLRQ RU SURVHFXWLRQ
- x WUHDWHG FRQILGHQWLDOO\ E\ DOO SDUWLHV

&RXQWULHV FDQQRW HQJDJH LQ ILVKLQJ H[SHGLWLRQ WR EH UHOHYDQW WR WKH WD[DIIDLch

7KH VLJQLILFDQW GRPHVWLF UHVSRQVH WR DFFHVV
LQWHUQDWLRQDOLVHG FRPPHUFLDO DQG FRUSRUDWH
:LFNEH\QKDV EHHQ GHHPHG D VXFFHVV E\ JRYHUQPHQW
IHGHUDO EXGJHW VXJJHVWV LW ZLOO KDYH D SHU
WHQVLRQV RI FRRUGLQDWLRQ DQG FRRSHUDWLRQ EHV
DV ZHOO DV LQFUHDVHG DYHQXHV RI OHJDO FKDOOH
OLWLJDWLRQ 7KHUH KDYH EHHQ PRUH UHFHQW OHJ
DFFHVVLQJ LQWHUQDWLRQDO WD[LQIRUPDWLRQ VRP
SDSHUV 3HRXOLDV OLWLJDWLRQ DQG +XDKDQJH %LRQQR%
HYLGHQFH WKDW $XVWUDOLD LQWHQGV WR FKDQJH LW

7KH LQWHUQDWLRQDOLVHG HQYLURQPHQW WR IDFLOLWDWH

$V GLVFXVVHG LQ SDQHO VHVVLRQV DW WKH 6\GQH\
WR GHYHORS WR IDFLOLWDWH WKH H[FKDQJH RI WD
LQIRUPDWLRQ WUDQVSDUHQF\ PRUH JHQHUDOO\ 7KL
SDUWLFXODUO\ LQ WKH &DULEEHDQ 7UDQVSDUHQF\ DQG ([FKDQ
3XUSRVHV 7KH WKUHH VSHFLILF RXWFRPHV RI WKLV
SDSHU DUH WKH UHWKLQNHG 2(&' VWDQGDUG &RQYHQWLRQ DQG
&RQYHQWLRQ RQ 0XWXDO $GPLQLVWUDWLYH $VVLVWDQFH LQ 7D[0DWWHUV
WKHUH DUH LQLWLDWLYHV RXWVLGH WKH 2(&' SURFHV
VXFK ,7$6, &RQG)$7&$

$XVWUDOLD¶V HYROYLQJ LQWHUQDWLRQDOLVHG LQIRUPDWL

%\ MRLQLQJ WKH &RPPRQZHDOWK DQG 0XWXDO $GPLQLVWUD
0DWWHUV HIIHFWLYHO\ GRXEOHV WKH PRGHO 7,($V DQG
WKH GRPHVWLF OHJLVODWLRQ DQG SURFHGXUHV WR
LQ '7$V HQWHUHG LQWR VLQFH WKRVH $XVWUDOLDQ
LQWHUQDWLRQDOLVHG LWV H[FKDQJH RI LQIRUPDWLRQ
HYROXWLRQ RI $XVWUDOLD¶V H[FKDQJH RI LQIRUPDW
OHDS)LUVWO\ WKLV LQWHUQDWLRQDOLVHG LQIRUPDWLRQ
WKURXJK HIIHFWLYH DQG HIILFLHQW 7,($V DQG '7$V
\HDUV DQG WKH HQWHULQJ RI QHZ 7,($V WKLV LQ
OLNHO\ VORZO\ LQ WKH FDVH RI '7$¶V 6HFRQGO\ LQ
WR WKHVH LQLWLDWLYHV H[7KHWLQJHPNDWRXHQWKDQGHVW
DUHQD RI LQWHUQDWLRQDO LQIRUPDWLRQ VKDULQJ
VXGGHQ FKDQJH RI SUDFWLFH

7KH $72 DSSHDUV WR KDYH GHYRWHG FRQVLGHUDEO
PDLQWHQDQFH RI WKHVH UHODWLRQVKLSV LQ DOO LW
ERWK '7$ DQG 7,($ 7KHUH LV DQ RYHUODS EHWZHHQ
DQG WKH SDUWLHV WKDW DU&RQWUDFWXDOO\RQLJQX
$GPLQLVWUDWLYH $VVLVWDQFH LQ 7D[0DWWHUV ZLW

-RKQ 0F/DUHQ ³7KH 2(&'¶V ³KDUPIXO WD[FRPSHWLWLRQ´ SURMHF
$XVWUDOLDQ 7D[)RUXP DUJXHV WKDW D QXPEHU RI WKH SURM
2(&' 0RGHO 7D[&RQYHQWLRQV DQG WKH 2(&' UHSRUW RQ 7UD
(QWHUSULVHV KDYH EHHQ DGRSWHG WR DGGUHVV WKHQWHUPHG WR
$XVWUDOLDQ GRPHVWLF ODZ

,Q W H U S U H W L Q J W D [V W D W X W D U H V X O W V E D V H G W H V W

5 R G Q H \ ) L V K H U

Abstract
7KH JHQHUDO DQWL DYRLGDQFH SURYLVLRQV LQ 3DUW ,9$ LQFOXGH VSHFLILF SURYLV
VFKHPHV ZKLFK DUH E\ ZD\ RI RU LQ WKH QDWXUH RI GLYLGHQG VWULSSLQJ
VWULSSLQJ VFKHPH -XGLFLDO LQWHUSUHWDWLRQ RI WKH DSSOLFDWLRQ RI
LQ@SOLDQ HDYHPHQW LQ WKH RSHUDWLRQ H

- D VFKHPH E\ ZD\ RI RU LQ WKH QDWXUH RI GL VXEVWDQWLDOO\ WKH VDPH HIIHFW DV D VFKHP GLYLGHQG VWULSSLQJ
- WKH &RPPLVVLRQHU IRUPV WKH RSLQLRQ WKDW W GLVWULEXWLRQ RI SURILWV RI WKH FRPSDQ\
- LI WKH FRPSDQ\ KDG SDLG D GLYLGHQG RXW RI VFKHPH ZDV HQWHUHG LQWR WKH DPRXQW PLJK LQFOXGHG LQ DVVHVVDEOH LQFRPH DQG
- WKH VFKHPH ZDV HQWHUHG LQWR DIWHU 0D\

,Q FLUFXPVWDQFHV ZKHUH WKH DOH VRXUL WKH VKRG SW WKUHH FRQVHTXHQFHV EURDGO\ EHLQJ

- WKH VFKHPH LV D VFKHPH WR ZKLFK WKH 3DUW ,9
- WKH WD[SD\HU LV WDNHQ WR KDYH UHFHLYHG D W FRQGLWLRQ IRU WKH JHQHUDO 3DUW ,9$ SURYLVL
- WKH DPRXQW RI WKH WD[EHQHILW LV WKH QRWLR EHHQ LQFOXGHG LQ DVVHVVDEOH LQFRPH

,W LV VLJQLILFDQW WKDW XQOLNH WKH JHQHUDO 3 OHJLVODWLYH WKUHVKROG GHSHQGHQF\ RQ HLWKHU WD[SD\HU RU WKH VFKHPH 2Q PHHWLQJ WKH WKUHV DXWRPDWLFDOO\ DSSO\ ZLWK WKH VFKHPH EHLQJ RQ WD[SD\HU EHLQJ GHHPHG WR REWDLQ D WD[EHQHILW

7KH FRQVHTXHQFH RI PDNLQJ D GLYLGHQG VWULSSLQ DSSOLHV ZDV WKDW WKH &RPPLVVLRQHU FRXOG WK FRPSHQVDWLQJ DGMXVWPHQWV WR DVVHVVPHQWV RI

,Q H[SODLQLQJ WKH QHHG IRU D VHSDUDWH SURYLVL DFFRPSDQ\LQJ WKH %LOO H[SODLQHG WKDW ZKOH ZLWKLQ WKH JHQHUDO SURYLVLRQV RI 3DUW ,9$ LW ZLWKRXW WKH VFKHPH WKH UHOHYDQW GLYLGHQG PL LQFOXGHG LQ DVVHVVDEOH LQFRPH LQ ZKLFK FDVH W ZKLFK FRXOG DWWUDFW WKH RSHUDWLRQ RI WKH JHQ GLIILFXOW\ V (SURYLGHG WR D VHSDUDWH ZLWKLQ WKH GLYL VFKHPHV DQG YDULDWLRQ RQ WKHVH VFKHPHV WKH FRPSDQ\ SURILWV LQ D WD[IUHH PDQQHU LQ VXEVWL

7KH ([SODQDWRU\ 0HPRUDQGXP (0 DFFRPSDQ\LQJ W (ZDV LQWHQGHG WR DSSO\ WR VFKHPHV ZKLFK HIIHFWLYHO\ SODFHG FRPSDQ\ SURIL WD[IUHH LQFRPH LW ZDV QRW FOHDU IURP WKH OHJLV

LQWHQGHG WR EH DQ H[FOXVLYH FRGH LQ UHODWLR
ZRXOG EH H[SHFWHG WKDW DV D PDWWHU RI VWDWXV
SURYLVLRQ ZRXOG SUHYDLO RYHU WKH PRUH JHQHUDO

,W LV VXJJHVWHG WKDW E\ SODFLQJ WKH SURYLVLRQ
RXWVLGH RI WKH JHQHUDO 3DUW ,9$ WKUHVKROG SUR
V (ZDV LQWHQGHG WR EH GHVWUXFWLYH RI GHGXFWHU ZHUH
PDQLIHVW LQWHQWLRQ WKDW WKH WKUHVKROG FRQ
ZRXOG EH VHSDUDWH DQG GLVWLQFW IURP WKH WKU
,9$ UXOHV ,I WKLV LV WKH LQWHQWLRQ WKHQ LW GRHV QRW DSSHDU WKDW WK
IRU V (VKRXOG VWDQG DORQH DQG QRW EH UHDG
WR DWWUDFW WKH JHQHUDO 3DUW ,9$ RSHUDWLRQ

7KH FULWLFDO WKUHVKROG FRQGLWLRQ WR DWWUD
LGHQWLILFDWLRQ RI D VHSDUDWH µWKUHVKROG¶ RU
VFKHPH µKDYLQJ VXEVWDQWLDOO\ WKH HIIHFW RI D
GLYLGHQG VWULSSLQJ¶

,Q LGHQWLI\LQJ VFKHPHV µE\ ZD\ RI RU LQ WKH QDWX
(0 RXWOLQHG GLVDGYDQWDJHV RQ DUULSSLQJ VFKHPH DV LQ
ZKLFK SXUFKDVHG VKDUHV LQ D WDUJHW FRPSDQ\ Z
VWULSSLQJ HQWLW\ WKHQ SD\LQJ IRUPHU VKDUHKRO
DFFXPXODWHG SURILWV RI D QHZ VXEVLGLDU\ DQG
ZRXOG DSSHDU WKDW WKH XVH RI WKH ZLGHU WHUPL
JUDQW D ZLGHU SXUYLHZ WR DWWUDFW WKH RSHUDW
VFKHPHV ZKLFK DUH LQWHQGHG VWULSSLQJ RSH

7KH XVH LQ WKH OHJLVODWLYH SURYLVLRQ RI WK
VXEVWDQWLDOO\ WKH HIIHFW¶ RI D GLYLGHQG VWULS
SRWHQWLDOO\ YHU\ ZLGH DPELWV EH
SUHFOXGH WKH XVH RI YDULDWLRQV RQ D WKHPH WR
RU WKH JHQHUDO SURYLVLRQV LQ 3DUW ,9$ 7R LGHQ
HIIHFW¶ RI D GLYLGHQG VWULSSLQJ VFKHPH ZKDWVRHY
GLYLGHQG VWULSSLQJ VFKHPH DQG WKH LQWHQW RI
WKH HIIHFW « LV WR SODFH FRPSDQ\ SURILWDELOLW
IRUP LQ VXEVWLWXWLRQ IRU WD[DEOH GLYLGHQGV´

,Q UHODWLRQ WR VFKHPHV KDYLQJ VXEVWDQWLDOO\
WKH QDWXUH RI D GLYLGHQG VWULSSLQJ WKH (0 SUP
WKH WDUJHW FRPSDQ\ DUH QRW VWULSSHG E\ ZD\ RI
VXFK DV PDNLQJ LUUHYRFDEOH ORDQV WR DVVRFLDW
SXUFKDVHU RU QRPLQHH DVVHWV %\ RI FRQWULEXWLRQ
VDPH UHVXOW LV DFKLHYHG QDPHO\ WR SODFH FRPS
LQ DIWHU IRUP LQ VXEVWLWXWLRQ IRU WD[DEOH GLYL

7D[5XOLQJ ,7 VXJJHVWV D ZLGHU LQWHUSUHWDWL
GLYLGHQG VWULSSLQJ VFKHPH ZLWK D VFKHPH KDY
VWULSSLQJ VFKHPH DUH FRQVLGHUHG RQO\ WR D V
DVVRFLDWH RU XQGHUWDNHU SDUWLFLSDWHV VHFRQG OLPE RI WKH W
UHVXOW RU HIIHFW RI WKH VFKHPH UDWKHU WKDQ W
LV RI D FRPSDQ\ ZLWK VXEVWDQWLDO GLVWULEXWDEOH SURFHHGV Qp • SSH

QHFHVVDU\ SXUSRVH RI µHQDEOLQJDWWKDW[UHHQHHYDVQW
FRQQHFWLRQ ZLWK WKH VFKHPH¶ ´

7KLV ZRXOG DSSHDU WR EH DQ UHFRJQLWLRQ E\
LQGHSHQGHQWO\ DV D VHSDUDWH FRGH LQ WHUPV RI

IUDPLQJ(VWKH OHJLVODWXUH KDV DGRSWHG WKH
LW KDV SODFHG V (LQ 3DUW ,9$ IRU D UHDV
VXSSOHPHQW LQ D SDUWLFXODU GHSDUWPHQW
QRW DQ H[DPSOH RI D VWDWXWRU\ SURYLVLRQ
FRQVWUXFWLRQ LV PHUHO\ DQ DYDLODEOH FKRLFH

%HFDXVH V (VWDQGV DSDUW IURP EXW H[WHQGV
VXJJHVWLRQ LV WKDW WKH 9HSDUWPHQW WKH
EHQHILW DQG UHOHYDQW SXUSRVH LQ VV $ &
HOHPHQWV WR DWWULEXWH WKH SDUWQHUV
ZKHQ WKH VHSDUDWH WKUHVKROG GHWHUPLQH
WULJJHULQJ WKH RSHUDWLRQ RI WKH VHFWLRQ
ZKLFK WKH JHQHUDO 3DUW ,9$ RXWFRPHV DSSO
EHQHILW DQG FRPSHQVDWLQJ DPHQGPHQWV LQ

$FFRUGLQJO\ WKHUH LV QR VWDWXWRU\ UHTXLUHPH
EHQHILW WHVW RU WKH GRPLQDQW SXUSRVH WHVW

+RZHYHU LQ UHODWLRQ WR WKH ILUVW OLPE RI V
IURP WKH)HGHUDO &RXUW DW ILUVW LQVWDQFH WR
VXEVHTXHQWO\ WKH +LJK &RXUW ZDV WKDW LQ LGHQ
QDWXUH RI GLYLGHQG VWULSSLQJ¶ RQH RI WKH FRU
VWULSSLQJ VFKHPH ZRXOG EH LGHQWLI\LQJ D WD[DYR

,W LV FRQVLGHUHG WKDW EDVHG RQ MXGLFLDO UHDVL
SRVVLEO\ EHVW HOXFLGDWHG E\ +LOO - DW ILUVW LQ
GLYLGHQG VWULSSLQJ VFKHPH RU D VFKHPH µE\ ZD
VWULSSLQJ¶ LQ V (D PXVW FDUU\ ZLWK LW WKH
HOHPHQWV RI VXFK D VFKHPH PXVW EH D WD[DYRLGD
ZDV RQO\ E\ LPSRUWLQJ WKLV HOHPHQW RI DXWSRVH
WKH RSHUDWLRQ RI V (PD\ EH GLVWLQJXLVKHG
UHRUJDQLVDWLRQV¶

:KHWKHU WKH VDPH UHDVRQLQJ DSSOLHV LQ UHODWI
FRQWHQWLRXV LVVXH DV WKLV WKUHVKROG WHVW OR
WKH HIIHFW RU UHVXOW RI D VFKHPH

6HFRQG6FKHPHV KDYLQJ WKH HIIHFW RI D GLYLGHQG VWULS

7KHUH DUH WZR OLPEV RI WKH WKUHVKROG WHVW WR
DQG LI D VFKHPH LV QRW IRXQG WR EH D VFKHPH E\
VWULSSLQJ WKH SURYLVLRQ FDQ VWLOO EH DFWLYDW
RI D VFKHPH E\ ZD\ RI RU LQ WKH QDWXUH RI GLYLGH
WKH VWDWXWH WKH OHJLVODWXUH LQWHQGV WKDW WKH
WKDW WKH WHVW EH DQ RXWFRPH RU UHVXOWV EDVH
VXEVWDQWLDOO\ WKH VDPH UHVXOW DV ZRXOG EH DV
WKHQ LW PLJKW EH H[SHFWHG WKDW WKLV WKUHVKRO

VDPH LQDVXDE LL 7KH UHDVRQLQJ WRHVWDEOLVKHG GRHV
HOHPHQW RI SXUSRVH WR EH GLVFDUGHG ,Q SDU
VFKHPH ZKLFK SURGXFHV D VRQVHTXHQFH ZKLFK
VDPH DV D FRQVHTXHQFH RI V GLYLGHQG VWULS
SDUDJUDSK

,W LV VXJJHVWHG WKDW E\ LPSRUWLQJ WKH GRPLQD
OHJLVODWHG DV HIIHFWLYHO\ WKHUHXQGHU XQGHUVWDQG EH
VFRSH RI V (LQ D VLPLODU ZD\ WR WKH PDQQHU L
UHTXLUHPHQWV RSHUDWHG WR OLPLW WKH VFRSH R
DGGLWLRQDO WHVW DV DW KHUH WKHUHVKROG UHFRQVWH
OHJLVODWLYH SURYLVLRQ WKHUH LV WKHQ DQ D
RSHUDWLRQ RI V (WKXV DFWLQJ WR UDLVH V
XQOLNHO\ WKDW WKH SURYLVLRQ ZRXOG EH WULJ

7KH RSHUDWLRQ RI V (DGDLQ DURVH IRU MXGLFLD
FDVH Lawrence v FCT ZKLFK ZHQW RQ DSSHDO WR WKH)X
Lawrence v FCT :KLOH WKH FDVHV GHDOW ZLWK WUDQVDF
UHDVRQDEO\ EH FKDUDFWHULVHG DV QRW EHLQJ DQ
LQ WKH (0 WR LGHQWLI\ VFKHPHV WR ZKLFK 3DUW ,9
VRPH QRWHZRUWK\ FRPPHQWDU\ RQ WKH)XOO&RXUW¶V

:KLOH DJUHHLQJ ZLWK WKH MXGJPHQW RI WKH 9LFH
IHOW FRPSHOOHG WR PDNH VRPH REVHUYDWLRQV RQ
WKH Consolidated Press FDVHV ,Q SDUWLFXODU WKHLU +R
WKH FRPPHQWV LQ UHODWLRQ WR WKH WHVW WR EH
LQ DSSO\LQJ WKH VHFRQG OLPE RI WKH WKUHVKROG
UHODWLRQ WR WKH SULPDU\ MXGJH WKH FRXUW FRQV
+RQRXU KDG GHFLGHG WKH FDVH RQ WKH EDVLV RI
(E KDYLQJ PLVFDUULHG 7KH FRPPHQWV RI WKH
&RXUW ZHUH RELWHU DV WKH FDVH KDG EHHQ GHFLG
OLPE RI V (D DQG WKH RQO\ UHDVRQ WKDW WK
UHODWLRQ WR WKH VHFRQG OLPE ZDV EHFDXVH +LOO
QRW UHTXLUH WKH SUHVHQFH RI D WD[DYRLGDQFH SX

7KHLU +RQRXUV QRWHG WKDW

7KH ILUVW OLPE LV FRQFHUQHG ZLWK WKH FRQGXFW
RI GLYLGHQG VWULSSLQJ WKH VHFRQG OLPE LV F
VFKHPHV WKDW DUH QRW E\ ZD\ RI RU LQ WKH QDV
DUH VFKHPHV KDYLQJ VXEVWDQWLDOO\ WKH VDPH
VHFRQG OLPE PD\ QRW DV LQ WKLV FDVH IDOO ZLWK

KDQG D VFKHPH IDOOLQJ ZLWKLQ WKH ILUVW OLP
OLPE

$V QRWHG HDUOLHU WKHUH LV QR VWDWXWRU\ UHTX
EHQRLW GRPLQDQW WD[DYRLGDQFH VFKHPH SXUSRV
WKH FRXUWV KDYH H[SUHVVHG WKH YLHZ WKDW WKH
RI V (D GHVSLWH WKH WHVW EHLQJ D WHVW RI

,Q UHODWLRQ WR WKH VHFRQG OLPE RI V (
UHVSHFW WKDW WKH DSSURDFK WDNHQ E\ WKH)XO
LPSO\LQJ DSSHXUV WR WKH VHFRQG OLPE LV DSSO
LQWHUSUHWDWLRQ DUJXDEO\ DW RGGV ZLWK WKI

7KH HDUOLHU GLVFXVVLRQ KDV UHFRJQLVHG WKDW ZI
SXUSRVH WHVW LQ DSSO\LQJ WKH ILUVW OLPE RI V
VWDWXWRU\ LQWHUSUHWDWLRQ ZLWKLQ WKH FRQWH[W
VFKHPHV ZLWKLQ WKH ILUVW OLPE WKDW LV VFKHPH
VWULSSLQJ ¶ ,W LV VXJJHVWHG WKDW VXFK DQ LQWHU
WR LGHQWLI\ D VFKHPH WKH HVVHQWLDO FKDUDFWHU RI GLYLGHQG VWU
GLVWLO WKH HVVHQWLDO FRUH HOHPHQWV WKDW FRQ
DYRLGDQFH SXUSRVH LV DUJXDEO\ RQH RI WKHVH HVV

+RZHYHU LW LV VXJJHVWHG WKDW WKH DSSURDFK WDNHQ LQ
DSSURDFK WDNHQ E\ WKH FRXUWV LV DUJXDEO\ QRW
LQWHUSUHWDWLRQ DQG ZLWK WKH OHJLVODWLYH L
VWDWXWRU\ LQWHUSUHWDWLRQ ,Q SDUWLFXODU WKH
GLVWLQFW DQG VHSDUDWH DOWHUQDWLYH WHVWV W
WKH QDWXUH RI GLYLGHQG VWULSSLQJ VFKHPH RU D
VXFK D VFKHPH

7KH SULQFLSOH RQ WHUPLQDWLRQ LW LV VXJJHVW
DV UHODWLQJ WR D VFKHPH ZLWK FHUWDLQ FKDUDFW
LGHQWLILDEOH LQ D VFKHPH LQ WKH QDWXUH RI D GL
LW LV WKDW JHLW QRW UHODWHG WR WKH FKDUDFWHU RU
WR WKH RXWFRPH RU HIIHFW RI WKH VFKHPH EHLQJ
VXJJHVWHG WKLV PXFK LV PDGH FOHDU LQ WKH (0 Z
E\ ZD\ RU LQ WKH QDWXUH RI D GLYLGHQG VWULSSL
SURYLGLQJ WKDW D VFKHPH ZKLFK KDV WKLV HIIHFW
WKUHVKROG WHVWV LQ V (

:KLOH WKH (0 SURYLGHV H[DPSOHV RI VFKHPHV ZKLFK
PD\ VDWLVI\ WKH VHFRQG OLPE LW LV VXJJHVWHG
H[KDXVWLYH HQXPHUDWLRQ RI SRVVLEOH DOWHUQDW
SDUWLFXODU DSSURDFK ZDV WDNHQ DV WKH GUDIWH
SRVVLEOH VFKHPH WKDW PD\ EH GHVLJQHG WR SURG
WKH VDPH DV ZRXOG EH JHQHUDWHG E\ D GLYLGHQG V
FODVVLILHG DV D VFKHPH E\ ZD\ RI RU LQ WKH QDWX

Lawrence))& DW SDUD

WDNLQJ D EURDG DSSURDFK WR HQOLYHQ WKH VHFRQ
RU HIIHFW VXEVWDQWLDOO\ WKH VDPH DV ZRXOG EH
VFKHPH

)XUWKHU LW LV VXJJHVWHG WKDW E\ LQFRUSRUDWLQ
HOHPHQW LQ WKH VHFRQG OLPE WKDW LV E\ VWDW
µVFKHPHV E\ ZD\ RI RU LQ WKH QDWXUH RI GLYLGHQG
HIIHFW VXEVWDQWLDOO\ WKH VDPH DV D VFK HPH E\
VWULSSLQJ VFKHPH LW LV DUJXDEOH WKDW WKH FRX
RI WKH VHFRQG OLPE LQ D ZD\ QRW LQWHQGHG E\ W
VXJJHVWHG WKDW SULQFLSOHV RI VWDWXWRU\ LQWH
DOWHUQDWLYH LQGHSHQGHQW RSHUDWLRQ EDVHG R
ZKHWKHU RU QRW WKH VFKHPH ZDV D VFKHPH E\ ZD
VWULSSLQJ VFKHPH

%\ LPSO\LQJ WKH ILFWLRQ OLPLWDWLRQ VHFRQG OLP
ZRXOG RQO\ DSSO\ WR VFKHPHV E\ ZD\ RI RU LQ WKH
ZKLFK KDYH WKH HIIHFW VXEVWDQWLDOO\ RI D VFKHP
VWULSSLQJ 2Q WKLV EDVLV LW PD\ EH DUJXHG WKDW
WKH VHFRQG OLPE FDQ RQO\ DSSO\ WR D VFKHPH E\
VWULSSLQJ VFKHPH WKHQ WKH VFKHPH PXVW RI QHF
VFKHPH LV D VFK HPH E\ ZD\ RI RU LQ WKH QDWXUH
DUJXDEO\ QRWKLQJ LV DGGHG E\ WKH UHTXLUHPHQW
DV D GLYLGHQG VWULSSLQJ VFKHPH DV LW PXVW EH
ZD\ RI RU LQ WKH QDWXUH RI D GLYLGHQG VWULSSLQ
VXEVWDQWLDOO\ WKH VDPH DV D VFKHPH E\ ZD\ RI RU
VFKHPH

$ FRQVHTXHQFH RI LPSRUWLQJ WKH ILUVW OLPE DV D
WKDW WKH SXUSRVH WHVW DSSOLFDEOH WR WKH ILUV
VHFRQG OLPE $V QRWHG HDUOLHU LW LV VXJJHVWHG
ZRXOG HQYLVDJH WKDW WKH ILUVW DQG VHFRQG OLP
DQG DOWHUQDWLYH RSHUDWLRQ :KHQ € QWH Q”0 WK

$WWLWXGHV WRZDUG PXQLFL 6ZHGHQ 'R SHRSOH YRWH ZL

1LNODV -DNREVVRQ

Abstract

7KH IDFWRUV VKDSLQJ SHRSOH V SUHIHUHQFHV IRU PXQLFLSDO ODERU LQFR
WD[UDWH DFWXDOO\ IDFHG E\ WKH UHVSRQGHQWV GRHV QRW KDYH H[SOD
K\SRWKHVLV WKDW WKLV VPDOO RU QRQH[LVWHQW HIIHFW RI WKH DFWXDO
LQVWUXPHQWDO YDULDEOH HVWLPDWLRQV LQGLFDWH WKDW WKH DFWXDO P
UDWH $OVR SHRSOH ZLWK KLJKHU HGXFDWLRQ SHRSOH ZKR UHJXODUO\ U
SHRSOH ZKR VWDWH DWWHQWLRQ WR ZLWK WKHLU PXQLFLSDO VHUYLFHV DUH OHV
3HRSOH ZLWK ORZ LQFRPH SHRSOH ZKR FODLP WR KDYH D ORZ OHYHO RI N

6ZHGHQ KDV DPRQJ WKH KLJKHVW WD[HV LQ WKH ZRU
LQFRPH WD[FRQVWLWXWHV WKH ODUJHVW VRXUFH R
PDNLQJ LW YHU\ LPSRUWDQW IRU WKH ILQDQFLQJ RI
VLJQLILFDQFH IRU LQGLYLGXDOV VLQFH LW LV WKH O
7KDW WKLV WD[LV VHW DW WKH ORQ DW KH YHFO D
Q – ic7&a”€` 4Øehˆ

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)DFWRUV UHODWHG WR WD[SUHIHUHQFHV

7KH DLP RI WKLV VHFWLRQ LV WR DVVHVV ZKDW GH
PXQLFLSDO ODERU LQFRPH WD[DQG KRZ DWWLWXGH
)ROORZLQJ WKH GLVFXVVLRQ LQ 6HFWLRQ RUGHU
DWWLWXGHV WR WKH PXQLFLSDO WD[UDWH ZLWK ZL
DEROLVK GHFUHDVH D ORW WR IRU LQFUHDVH D
PRGHOV LQFOXGLQJ SURJUHVVLYH\ PRUH H[SODQD
YDULDEOHV LQFOXGHG LQ WKH ODWWHU VSHFLILFDW
VLQFH WKH\ DUH DWWLWXGH YDULDEOHV UDWKHU WKDQ
XV VSRW RGG HYHQWV ,Q DOO WKUHH PRGHOV ZH KR
7DEOH VKRZV WKH HVWLPDWHG FRHIILFLHQWV DQG
VSHFLILFDWLRQ

6SHFLILFDWLRQ IRFXVHV RQ SDLUHZLVH GLIIHUHQFHV FKRV
GLVFXVVLRQ DERYH 7KH PXQLFLSDO WD[UDWH LW
LQVLJQLILFDQW HIIHFW /RZ LQFRPH KDV D VW DWL
LQGLFDWLQJ D WHQGHQF\ IRU WKRVH ZLWK D[RZ DLQHV
7KH VDPH LV WUXH IRU KLJKHU LQFRPH 7KHUHIRUHV ZRXOG
WKH WD[UDWH LV QRW LQ OLQH ZLWK WKH VWDQGDUG
SRVVLEOH UHDVRQ IRU WKLV PD\ EH WKDW WKH PXQL
ORZLQFRPH HDUQHUV SUHIHU LQFUHDVHV LQ RWKHU V
VLPLODU WR WKH UHVXOWV LQ (GXQG DQG +DPS

+DYLQJ DW OHDVW VRPH KLJKHU HGXFDWLRQ DV FR
VWDWLVWLFDOO\ SRVLWLYH HIIHFW ZKLOH KDYLQJ
QRW VWDWLVWLFDOO\ VLJQLILFDQW HIIHFW SHUKDS
RYHUHVWLPDWH WKH WD[HV WKH\ SD\ *HQGHU EHLQ
QRW KDYH VWDWLVWLFDOO\ VLJQLILFDQW HIIHFWV ZKLFK
WKHRUHWLFDO DUJXPHQWV LQGLFDWLQJ WKDW IHPDO
VKRXOG EH PRUH VXSSRUWLYH RI WD[HV XVHG WR
7KH EDVH LQ WKH PXQLFLSDOLW\ ZKHUH WKH UHVSRQ
JUDQWV WR WKDW PXQLFLSDOLW\ DUH QRW VWDWLVW

6SHFLILFDWLRQ LQFOXGHV WZR QHZ YDULDEOHV H[
PXQLFLSDO WD[HV ZKHWKHU UHVSRQGHQWV DUH UHJ
DUH PXQLFLSDO HPSOR\HHV 5HJXODU QHZVSDSHU
PXQLFLSDO WD[HV SHUKDSV EHFDXVH WKH\ DUH EHW
DQG ZKDW WKH WD[SD\PHQWV DUH XVHG IRU DV S
0XQLFLSDO HPSOR\HHV DOVR WHQG WR VXSSRUW PXQ
VWDWLVWLFDOO\ VLJQLILFDQW

6SHFLILFDWLRQ DGGV ILYH VXEMHFWLYH YDULDEOH
SROLWLFDO ULJKW SHUFHLYLQJ JRRG PXQLFLSDO VH
FODLPLQJ WR KDYH D ORZ OHYHO RI NQRZOHGJH RU
WKHVH QHZ YDULDEOHV LQFOXGHG DOVR D OLQN WH
VSHFLILFDWLRQ WKDW RQO\ DVVHVVHV WKDW WKH RWKHU WZR

PXFK $Q H[SODQDWLRQ IRU ZK\ WD[EDVH DQG LQWH
VWDWLVWLFDOO\ VLJQLILFDQW HIIHFWV FRXOG EH W
LQIRUPDWLRQ ZKHQ LW SURPRWHV WKH PXQLFLS

:KLOH PRVW RI WKH SUHYLRXV FRHIILFLHQWV DQG W
PXFK WKH WKUHH GLIIHUHQW VSHFLILFDWLRQV WK
LQVLJQLILFDQW $QDORJRXV IRUPXODWLRQV EH
DERXW VRFLHW\ SHUFHSWLRQV DERXW SXEOLF VHUY
HIIHFW RI LQFRPH RQ VXSSRUW IRU PXQLFLSDO WD
LPSOLHV WKDW LW LV QRW WKH FRQFHSWXDOLVDWLRQ
LV LPSRUWDQW $V LQ WKH RWKHU VSHFLILFDWLRQV
FKLOGUHQ KDYH QR VWDWLVWLFDOO\ VLJQLILFDQW HI

$OVR LQ WKLV VSHFLILFDWLRQ WKH FRHIILFLHQW RI
7KXV WKH WD[UDWH WKDW SHRSOH DFWXDOO\ IDFH L
DQ HIIHFW RQ WKHLU OHYHO RI VXSSRUW IRU PXQLFL
GULYHV WKLV UHVXOW" $V QRWHG DERYH KLJK HGXF
DUH DVVRFLDWHG ZLWK WKH GLVJ LQ D ORZ WD[PXQLFLSDOLW\ (
High education DQG *Newspaper* WXUQV WKH FRHIILFLHQW RQ DFW
VLJQLILFDQW DW WKH SHUFHQW OHYHO $QRWKHU Y
ZKHWKHU SHRSOH EHOLHYH OLVWHQV WR RU ZDWFKHV ORFDO
DVVRFLDWHG ZLWK ZKHWKHU WKH[PXQLSDOLW\ QDYH

9DULDEOHV LQ LQFOXGH YDULDEOHV LQ IRU H
SUHIHUUHG WD[UDWH DQG PREL[W\ QKHUHDFDQ
SUHIHUUHG WD[¶V DQG PLJKW EH FRUUHODWHG
D 7LHERXW ELDV WKH SUHIHUUHG WD[UDWH DIIHFW
7KDW LV LI WKH FKRLFH RI ZKLFK PXQLFLSDOLW\ WR
WD[UDWH HOLPDWH WKH DFWXDO UHODWLRQ EH
UDWH

$V SURSRVHG E\ 5XELQILHOG HW DO LQVWUX
FRUUHFW WKH ELDV GXH WR WKH HQGRJHQHLW\ SUR
FRQGXFWLQJ WZR VWDJH SURFHGXUH ZKHUH WKH HQGRJHQRX
LQVWUXPHQWDO YDULDEOHV DQG WKH H[RJHQRXV YDU
VHFRQG VWDJH WKH UHJUHVVLRQ RI LQWHUHVW LV H
WKH HQGRJHQRXV YDULDEOH LV UHSODFHG ZLWK WKH
UHJUHVVLRQ

ZKLFK LQGLFDWHV WKDW WKH LQVWUXPHQWV DUH QR
DUH JRRG SUHGLFWRUV RI WKH DFWXDO WD[UDWH D
YDULDWLRQ WR EH XVHG DV LQVWUXPHQWV 7KH 6DU
YDOLG 7KLV LPSOLHV WKDW WKH LQVWUXPHQWV GR
GLUHFWO\ EXW RQO\ WKH PLVPDWFK DV ZH KDYH DVV

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+DXVPDQ WHVW 7KXV WKH UHVXOWV RI WKH HWHUHVWH
LQVWUXPHQWV

7KLV VXJJHVWV WKDW D 7LHERXW ELDV LV QRW D SUI
SUHYLRXV VWXGLHV KDYH EHHQ VHQVLWLYH WR WKH
-RKDQVVRQ 7KH UHVXOWV WKRXWG HW+DXVPDQ HWE
ZLWK VRPH FDXWLRQ (YHQ WKRXJK LW LV QRW SRVVL
ZKHQ WKH PXQLFLSDO WD[UDWH LV LQVWUXPHQWHG
ODUJHU DQG VWDWLVWLFDOO\ VLJQLILFDQW GLIIHUHQFH
RUGHUHG SURELW FRXQWHUSDUW VHH VHFRQG VWDJ
WKDW VRPH NLQG RI 7LHERXW VRUWLQJ PD\ EH JRLQ
PDWWHU IRU DWWLWXGH WHVWLQJ EHFDXVH WKH HQFRXUDJHG
SHRSOH OLYH LQ D QHZSDSHU í WZR IDFWRUV UHO
WKH WD[UDWH í WHQG WR OLYH LQ PXQLFLSDOLWLHV
H[SHFW LI WKHVH SHRSOH KDYH PRYHG WR PXQLFLS
+RZHYHU IRU RWKHU YDULDEOHV ZKLFK DUH LPSRU
DIILOLDWLRQ VDWLVIDFWLRQ ZLWK PXQLFLSDO VHUY
WKHVH JURXSV WR UHVLGH [PXQLFLSDOLWLHV RU ORZ

%XW ZK\ LV WKH FDWHJRULFDO 7LHERXW EHKDYLRU JHE
DUH QRW DZDUH RI WKH GLIIHUHQW WD[UDWHV LQ
ZKHWKHU WKH\ FDUH DERXW WKHP DQG KRZ WKH\ SHUFHLYH
DERXW NH\ ILVFDO SROLF\ LVVXHV RU ZKHWKHU WKH
GHVLUH WR FKDQJH WKH PXQLFLSDO WD[UDWH PL
PLVSHUFHSWLRQV RI KRZ KLJK WKHLU PXQLFLSDO WD[
D VLPLODU SDWWHUQ KDV EHHQ IRXQG LQ RWKHU VWXGLHV
DERXW WD[HV DQG JRYHUQPHQW EXGJHWV DERXW
WR GHFUHDVH WKHLU WD[UDWH ZKLOH RQO\ SHU
VHUYLFHV SURYLGHG E\ WKH SXEOLF VHFWRU ILQDQF
WD[HV LQ WKH 6ZHGLVK JHQHUDO SRSXODWLRQ LV V
:DOODFH ZKR ILQG WKDW SHRSOH XQGHUHVWLP
HW •DQV I`€WYH"°€0LQFRPH WKDW LV WUDQVIHUUHG WR WKH RWKHU SXEOLF

$33(1',; 7$;(6 ,16:('(1

,Q WKH WD[WR *'3 UDWLR LQ 6ZHGHQ ZDV SH
ZRUOG 6ZHGLVK 7D[$JHQF\ 7KLV LV DOPRVW
WKH 2(&' DYHUDJH 1RWH WKDW PDQ\ WUDQVIHUV DUH
FRXQWULHV LI WKLV LV WDNHQ LQWR DFFRXQW WK
SDUWLFXODUO\ KLJKHU WKDQ PDQ\ RWKHU (XURSHDQ
SHUFHQW RI WRWDO WD[UHYHQXHV ZHUH WD[HV RQ
VHFXULW\ FRQWULEXWLRQV SHUFHQW WD[HV RQ J
RQ FDSLWDO 7KH PDLQ H[SHQVHV RI WKH SXEOLF V
HGXFDWLRQ DQG KHDOWK FDUH 6ZHGLVK 7D[$JHQF\

7KH HDUQHG LQFRPH WD[FRQVLVWLQ RRPH WD[7KLQ
HDUQHG LQFRPH WD[LV SURSRUWLRQDO DQG LQFO
PXQLFLSDOLWLHV DQG RQH OHYLHG E\ WKH FRXQWL
SHUFHQW LQ WKH DYHUDJH PXQLFLSDO WD[ZDV
WD[ZDV SHUFHQW ,W LV WKH FRPELQHG ORFDO
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WR WKH FHQWUDO JRYHUQPHQW DQG WKHQ GLVWULE
FROOHFWHG E\ WKH 6ZHGLVK 7D[$JHQF\ ,Q WKH
DERXW SHUFHQW WR DERXW SHUFHQW 7KH PXQL
RI UHYHQXH IRU WKH 6ZHGLVK SXEOLF VHFWRU 6ZHGL

SHUFHQW RI WKH LQFRPH HDUQHUV DERYH \HDUV
WD[LQ WKLV WD[FRQVLVWHG RI DQ DGGLWLRQDO
7KRVH HDUQLQJ PRUH WKDQ 6(.
DGGLWLRQDO SHUFHQW WD[RQ HDUQLQJV DERYH WK
)RU DQ LQGLYLGXDO OLYLQJ LQ DQ DYHUDJH WD[PXQ
WKXV SHUFHQW

2WKHU WKDQ WKH PXQLFLSDO HDUQHG LQFRPH WD[D
JRYHUQPHQW OHYHO 7D[GHGXFWLRQV SURJUHVVLYLW\
SRWHQWLDO YDULDWLRQV LQ WKH WD[V\VWHP DUH Q
GHFLGH RQ 7KXV WKH RQO\ YDULDWLRQ UHJDUGL
UHJDUGLQJ WKH SURSRUWLRQDO HDUQHG LQFRPH WD[

6WUHQJWKHQLQJ WKH YDOLG IRFXV JURXS DV D PHWKRG L

9LQFH 0DQJDQR DQG DUJDUHW 0F.HUFKDU

Abstract

&RQWHPSRUDU\ WD[UHVHDUFK DSSHDUV WR EH EURDGO\ GLYLGHG LQWR WZR VHSDUDWH UHVHDUFKHUV VHHN GHHSHU XQGHUVWDQGLQJV DQG WKHUHE\ PRUH FULWL SURYLGHV D GHWDLOHG GLVFXVVLRQ DQG GHPRQVWUDWLRQ RI KRZ DQDO UHVHDUFKHUV FDQ EH XOO\ DSSOLHG WR TXDOLWDWLYH GDWD FROOHFWHG E\ GHPRQVWUDWLRQ KHUHLQ LV EDVHG RQ GDWD FROOHFWHG E\ WZR IRFXV J WKH YDOXH RI OLQN SRUWHWKH SXUSRVHV RI WD[DWLRQ WEDT@WLY

EURDGHU SRSXODWLRQV 5HOLDELOLW\ UHIHUV WR W
FRQILUP UHMHFW LWV ILQGLQJV DQG LV UHJDUGHG
+RZHYHU H[WHUQDO YDOLGLW\ GRHV QRW LQGLFDWH
TXDOLWDWLYH UHVHDUFKHUV LQ WKDW WKH\ DUH
SRSXODWLRQV 1HYHUWKHOHVV TXDOLWDWLYH UH
DFFXUDF\ DQG DSSURSULDWHQHVV RI WKH
YDOLGLW\ DQG UHOLDELOLW\ FDQ VWLOO EH UHOHYD
WKH TXDOLW\ RI WKH UHVHDUFK LV GHVLUHG

7KH NH\ WR VWUHQJWKHQLQJ WKH YDOLGLW\ UDQG
LQ TXDOLWDWLYH UHVHDUFK OLHV LQ WKH WHFKQLTX
&RGLQJ LV D JHQHULF SURFHVV E\ ZKLFK GDWD LV RU
WKHPHV FRQFHSWV RU VLPLODU HOHPHQWV WKDW
IRUPV RU FDWHJRULHV IRU WKH7KHPDWLF DQDO
GHWHUPLQHG LQ DGYDQFH RU PD\ HPHUJH IURP WKH
RI TXDOLWDWLYH GDWD GRHV KDYH LWV EHQHILWV
IUDJPHQWHG DQG ORVH LWV GHSWK RI PHDQLQJ)XU
FRGHV WKDW LQDSSURSULDWH RU LQDGHTXDWH WR
XQGHUPLQH WKH TXDOLW\ RI DQDO\VLV

7KHUH DUH SURSRQHQWV RI D PRUH V±PSOHP DFWRU E
D[LDO FRGLQJ DQG±ZKHUHDV VRPH UHVHDUFKHUV
UHILQHG DQG WKLV SURFHVV KDV EHHQ XVHG SUR
FRGLQJ LV WKH ILUVW SDVV RU UHDG WKURXJK RI
GLUHFWHG DW LGHQWLI\LQJ VLPLODULWLHV DQG LGHL
PHDQV WR D VWUDLJKWIRUZDUG SURFHVV

'XULQJ D[LDO FRGLQJ WKH UHVHDUFKHU IRFXVHV PRU
FRGHV RQ WKH GHWDLO LQ WKH GDWD FRQVLGHULQ
FRQFHSWV DQG ZKHWKHU RU QRW VRPH RI WKH FRG
IXUWKHU UHILQHG WR'XULQJ D[LDO FRGLQJ WK
GDWD WKH UHVHDUFKHU ORRNV VSHFLILFDOO\ IRU
FRQWUDVWV WR WKH JHQHUDO WKHPHV7KLV VWHS
LQYROYHV DOPRVW ZRUNLQJ WKH FRGHV GRZQ
FRQVLGHUHG FRPSOHWH ZKHQ WKH UHVHDUFKHU LV
WKDW LW DGHTXDWHO\ VXSSRUWV DQG ILOOV RXW WK

:KLOVW WKH WKUHH VWDJH FRGLQJ SURFHVV LV V\V
YDOLGLW\ WR VRPH H[WHQW EHFDXVH UHVHDUFKHUV

6HH 0F.HUUDKDU LV UHFRJQLVHG WKDW QRW DOO TXDOLWDWLYH
DQG LQGHHG VRPH UHVHDUFKHUV UHMHFW YDOLGLW\ DQG UHOLDELOLW\ DV
6HH HJ 0DUWLQ &RQQHOO\ & 3HQQLQJWRQ *UDQW) *UHHQ 0 *UHHQ
TXDOLWDWLYH UHVHDUFKHUV LQ WKDW WKH\ DUH
1HXPDQQ ([]DQW
6HH IRU H[DPSOH %UDGOH\ &DUROLQH *UDQW 'DYLG *UHHQ
DQG 0F.HUUDKDU
1HXPDQQ
6HH IRU H[DPSOH 0DUWLQ &RQQHOO\ DW
$ 6WUDX-VV &RUELQ

LW LV XQFOHDU ZKHWKHU WKUHH SDVVHV WKURXJK
PHDQLQJ DQG UREXVW LQWHUSUHWDWLRQV WR EH PD
TXDOLWDWLYH UHVHDUFKHUV ZKR ZDQW WKHLU FR
TXDOLWDWLYH DQG TXD0

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9DOXDWRU	9(	9DOXHU	9
5HVHDUFKHU	5	3URSULHWDU\&RUSRUDWH	3&
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$ GHWDLOHG DFFRXQW RI WKH GLVFXVVLRQV WKH UHVXOWV
QRZ IROORZV LQ WDEOH GLVSOD\ IRUP ZLWKRXW PHQH IRF
IROORZHG E\ WKH SDJH QXPEHU LQ WKH IXOO WUDQV
7KH DQDO\VLV RI ERWK IRFXV JURXS FRPPHQWV LV FR
7KLV DOORZV DJUHHPHQW DQG GLVDJUHHPHQW RQ W
FRPSDUHG 7KH OHIW KDQG FROXPQ DOORZV WKH UHI
GLVDJUHHPHQW RFFXUUHG ZLWK WKH DEDFHUGLVSODVH
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		9(7KHUH¶V RQH VF±KRRO ZRI\ [illegible] PDNH *67 1RZ LW¶V IL[HG :H KDYH QR VWDPS GXW\ QR O	
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		9(, FDQ WHOO \RX QRZ WKDW WKH YDC DFWXDOO\ KDYH WR DWWHQG D VWDWLVWLFV FRXUVH $QG ; WKHP DQJK WWURXWKLQN LW UXQV IRU D F DUULYLQJ QRW WKH DFWXDO YDOXDWLRQ WKHLU QXPEHUV ZKHQ WKH\ XSGDWH DQG ZKDW SURFHVV W XVHG WKH WHUP ³QRUPDOL]DWLRQ´ RI WKH YDOXDWLRQ UHVX	
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7KH VDPH GDWD DQDO\VLV WHFKQLTXH ZDV XQGHUW
VXPPDU\ RI ZHLJKWHG DYHUDJH VFRUHV IRU HDFK ZL
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WKH EURDGHU SRLQWV RI WUDLQLQJ DQG HGXFDWLR
LQIRUPDWLRQ RQ HDFK RI WKH PHWKRGV

WKH IDFW WKDW LW LV MXVW RQH SDUW RI D ODUJHU
QRW EDVHG RQ WKLV RQH PHWKRG DORQH $V WKH
FRQWLQXHV WR GHYHORS LW LV KRSHG WKDW WKLV
FRQWLQXH WR LQQRYDWH LQ WKH GHVLJQ DQG FRQGX
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SUHIHUHQFHV IRU FDSLWDO JDLQV GHVSLWH WKHLU SUHIHUHQWLDO
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$UJXDEOH RI WKH PRVW FRQWURYHUVLDO SROLF\ LVVX
WR WUHDW FDSLWDO 2JQDLQV DI IRSUHIDI[LE SXUSRVHV RI WKH
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WKDW LQ DFFRUGDQFH ZLWK FRPPRQ SUDFWLFH WKH QDWLRQDO
WKH LQWHUHVWV RI RYHUDOO WD[V\VWHP LQWHJULW
UDWH RI WD[LQDFWRU RHGSQUHXU\XUHQW DUJXPHQW LQ WKH
SUHIHUHQFHV UHIHUV WR WKH LQFHQWLYH UROH FDSLWDO
FRQWH[W GHVFULEHV WD[SD\HUV DWWHPSWLQJ WR D
FDSLWDOWLRQ WRDUGHUDGYDQWDJH RI WKH UDWH GLIIHUH
RUGLQDU\ LQFRPH $ QHJDWLYH FRQVHTXHQFH RI WK
VXFFHVVIXO LW FDXVHV UHYHQXH OHDNDJH ZKLFK L
RUGLQDU\7LKQHFRPLWHUDWXUH GHPRQVWUDWHV WKDW W
WKH HVVHQWLDO UROH RI D &*7 UDWKHU LW LV LQW
WD[V\VWHPVZKHQHUDSSORUWXQLWLHVDUHLRLVDUWLRQ RI
HOLPLQDWHG

7KH RSSRVLQJ YLHZ LV WKDW FDSLWDO JDLQV VKRXO
WKH WD[UDWHV RQPRUDEFXUQWURYHUVLDO YLHZ LV WK
QRW EH WD7[KHG FDWHJRU SUHIHUHQWLEG &*7 SURYLG
DQ LQFHQWLYH IRU HQWUHSUHQHXUVKLS DQG ULVN
LQYHVWPHQW DQG SURGXFWLYLWLQ DHQGHFRQRPHU
DUJXPHQWV IRU SUHIHUHQWLDO &*7 HQFRXUDJLQJ U
SRSXODU GHEDWH WKDQ LQ7KWKHLWFRDPXLFV LVL WHU
JDLQV SUHIHUHQFHV DV LQFHQWLYHV IRU ULVN WDN
UHVXOW SURYLGHULQQHQ&W7LYHVWHRUV QRQZHOO

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

$VVHVVPHQW GHFLVLRQ D QXPEHU ZRKLFK &7DHUHQWHQWEHFW 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 DVVHVD
RIIVHW DJDLQVW FDSLWDO JDLQV QRW DJDLQVW RUG
XWLOLVHLWKHOLRFDSHV LQ D SDUWLFXODU LQFRPH \H
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DSSOLHG WR WKHLU QHW FDSLWDO JDLQ

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FXUUHQW 8QLWHG 6WDWHV WUHDWPHQW RI FDSLWDO
VFKHGXOH VHSDUDWH IURP WKDW IRU RUGLQDU\ LQ
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LQFRPH ZLWK DQ\ UHPDLQGHU WR EH RIIVHW DJDLQV
IXWXUH \HDU ZKHQ WKHUH DUH LQWXLWHUQRFDSH
8QLWHG 6WDWHV KDV SURYLGHG D SUHIHUHQWLDO UD
WKH &*7 KDV EHHQ LQ H[LVWHQFH LQ WKDW FRXQWU\
JDLQV WD[LQ WKH 8QLWHGQG6WDWHVWKHWRS PDSHUQHQW
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 SDUWLZDLWKQWKXVURQHDVLVQFOXVLRQ LQ
YDULRXV WLPHV &XUUHQWO\ WKH LQFOXVLRQ UDWH
RI WD[SD\HUV¶ FDSLWQOWDQDHVLHFRPHOX,GHGDQDG
FDQ RQO\ EH RIIVHW DJDLQVW FDSLWDO JDLQV DQG
WKUHH SUHFHGLQJ \HDUV RU FDUULHG IRUZDUG 7KLV
LQ LWV RSHUDWLRQ WRRQ$XVRMUWKHDP¶DL&*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\ LQGLVWLQGXDOHUV 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

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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?

…it is inappropriate to have a CGT discount or an exclusion or a lower rate of capital gains than you have for other forms of income because…investors can choose when to realise their assets…so you do potentially get some game playing going on…

5HVSRQGHQW 1 RQ TXHVWLRQ WZR

I don't think you need preferential rates.

5HVSRQGHQW 5 RQ TXHVWLRQ WZR

I think that deferral is a big advantage and that preferential treatments in fact exacerbate lock-in factors… I think the deferral aspects on the whole outweigh the case for any sort of concessional treatment. Tax on a realisation basis is in itself a concessional treatment.

5HVSRQGHQW 6 RQ TXHVWLRQ W

$QRWKHU UHVSRQGHQW IURP $XVWUDOLD UHIHUUHG
VRPH RI WKH OLWHUDWXUH EXQFKLQJ LV DQ RYHUV

5HVSRQGHQW $ ZDV RUIHWZKHUHLHLEHZWWKDWIRUKHV 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 &RQTXHVWLRQ RQH

7KH UHVSRQVH RI 5HVSRQGHQW & LV FRQVLVWHQW ZLWK WKH FRQFHSW GHVFULEHG WD[SD\HUV FKRRVLQJ WR DSSUHFLDWH LQ YDOXH VR WKDW WKH &*7RI LQ WKH DOWHUQDWLYH 7UHDVXU\ 5HJXODWLRQV DVVHW DQG UHSODFLQJ LW ZLWK DQRWKHU DVVHW WKDW ZLOO 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 income it should be characterised [as].

5HVSRQGHQW) RQ TXHVWLRQ RQH

5HVSRQGHQW + UHIHUUHG WR WKH LQFHQWLYHV WR

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 cultof 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 realise 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 QHHGHG WR SDFNDJH WHUPV 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 Q HFHVVDU\ 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

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$XVWU					

…get rid of pre-CGT assets.

5HVSRQGHQW 8

…dealing with negative gearing…

5HVSRQGHQW 4

,Q UHVSRQVH WR TXHVWLRQV RQ QRWLFH ZHHV 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&Å ÑWSLGJKDH 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 V
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 '

7KHVH 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 WKH 8QLWHG 6WDWH
WKDW \HDU WKH WRS PDUJLQDO WD[UDWH RQ RUGLQ
WR SHU FHQW DQG WKH WD[UDWH RQ FDSLWDO JDLQ
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 JLQYHQWRU\ WKHRU
GHDWK QR VDOH RU H[FKDQJH

FDSLWDO JDLQ RU 8QRLWHG &RPPRQZHDOWK RI VXFK D
ZRXOG EH WR UHGXFH WKH LQFHQWLYH WR KROG DVV
UHPRYH WKXHS VEDHVSLSVHSZKLFKUHFXFUHQWO\ H[LVWV LQ
V\VWDHPG UHSODFH LW ZLWK WKHGHFDSKLWDO WKHLQ$XVW
V\VWHP LQ ZKLFK WKH FRVW EDVHWRKHWKH[SDVVHUW
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 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 HQFRXUDJHQJLEVNZD\ RI D &*7 UDLWHHSLUFLQHQWQFH
RI WKH VSHFLILF REMHFWLRQV WR VXFK D SUHIHUHQF
LQYROYH ULVN DV ZHRQSUDRGXFWLHVRWKDWRDVHDQVHV
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 EHWZHHQ FRXQWU
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

YDXODWLRQ SUREOHPV DV VRPH RI WKH UHDVRQV WKH\
WKH UHVSRQGHQWV VWDWHG WKDW WKH\ GLVDJUHHG
IRU FHUWDLQ W\SHV RI DVVHWV VXFK DV LQWDQJLEOH DVVHWV
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 RI WKH REMHFWLYHV DUJXHG WKDW
LQFHQWLYHV ZHUH FRQWUDGLFWHG E\ WKH IDFW WKDW UHSOD
SUHIHUHQFH

$ TXDOLILFDWLRQ WR WKH GHFLVLRQ WR LQYHVW LQ DQ
VDPSOH MXGJXEO\ XQLQWHQGHG HIIHFWV RI WKH [PLQLPXP VW]KHUH Z
LQWHUYLHZV SRXQGV &RQVHTXHQWO\ 7H[SHUWV WR YHQQHQW
DGYLVRUV LQZH FRQGR LQWHUYLHZHG XFWRUV DQG WHQDQWV WR [SHUWV IU
DFDGHPLFV WKH FRPSRVLWLRQ RI WKH LQWHUYL
VLJQLILFDQW OLPLWDWLRQ JLYHQ WKDW WKH UHVHD
$FFRUGLQJ WR WKHQWLWLHVXTXHZKWDWLYH UHVHDU
VWDWLVWLFDO FRQFOXVLRQV VKRXOG QRW EH JHQHUD

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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

$PRXQW DQG 6RXUFH RI ,QFRPH

/LWHUDWXUH RQ WKH VRXUFH DQG LQFLGHQFH RI LQFRPH I
+RZHYHU LQ JHQHUDO UHVHDUFK FRQFXUV WKDW W
RSSRUWXQLW\ WR HQJDJH LQ WD[HYDVLRQ DQG DFW
:DUQHU\G DQG :DOHUXG :HLJHO +HVVLQ
:DOOVFKXW]N\ 2SSRUWXQLW\ LV PRUH SUHYDOH
DQG LQ SDUWLFXODU IURP SDUWQHUVKLS LQFRPH
WD[HG DW VRXUFH %\ ZD\ RI H[DPSOH :DOVFKXW]N\
WKH HPSOR\HG WKDW KDG JUHDWHU RSSRUWXQLW\ WR
LQFRPH GHFODUDWLRQV DUH PRUH OLNHO\ WR HYDGH
0DGHR 6FKHSDQVNL DQG 8HFKWHULWK VRXJKW WR
LPSRUWDQW LQ H[SODLQLQJ FRPSOLDQFH 5HVHDUFK
REVHUYDWLRQV IURP LQGLYLGXDO WD[UHWXUQ GDW
ILQGV WKDW WD[SD\HUV FRPH DKHDG RI D VLJQLILFDQW LQFUHDVH
LQFRPH &ORWIHOWHU DOVR ILQGV WKDW ZDJHV LQW
ZLWK KLJK OHYHOV RI FRPSOLDQFH &ORWIHOWHU VX
PD\ EH WKH UHVXOW RI D VLPSOH UHSRUWLQJ WR
ZLWK D SHUFHSWLRQ RI KLJK SUREDELOLW\ RI
+RZHYHU OLPLWHG
LQ WKLV EHKDYLRXU

(GXFDWLRQ

WLR0 IRU v D 7KHUH LV OLPLW

.OHYHQ .QXGVHQ .UHLQHU 3HGHUVHQ DQG 6D
&DOYLQ ILQG WKDW WKH LQGHSHQGHQW YDULD
DGPLQLVWUDWLYH HYDVLRQ LV WKH EHOLHI WKDW WKH LQGLYI
7\SLFDOO\ H[SHULPHQWV ILQG WKDW JUHDWHU FHU
FRUUHODWHG ZLWK WD[FRPSOLDQFH 6SLFHU DQG 7K
$OP DQG 0F.HH $OP 0F&OHOODQG DQG 6FKX

5HFHQW UHVHDUFK E\ *HPPHOO DQG 5DWWR XVH
LPSDFW RI D UDQGRP DXGLW SURFHVV RQ EHKDYLRXU
.LQJGRP WD[UHWXUQV RYHU D SHULRG W
QRW DXGLWHG *HPPHOO DQG 5DWWR¶V UHVHDUFK D
WD[SD\HUV LQGHSHQGHQWO\ ILQGLQJ WKDW FRPSOL
VXEVHTXHQW FRPSOLDQFH WKURXJKRXW WKH
LQFUHDVH WKHLU FRPSOLDQW EHKDYLRXU DIWHU DXG

$Q DOWHUQDWLYH PHWKRGRORJLFDO DSSURDFK ZDV
&KULVWLDQ ZKR LQYHVWLJDWH UHDO ZRUOG WI
%OXPHQWKDO DQG &KULVWLDQ ILQG WKDW ZKHQ VHQ
IRUWKFRPLQJ OHWWHU

,QFRPH8UHH		&RXQW	7RWDO
:DJHV VDODU\ DQG ERQ HPSOR\HU			
6HOI3SOR\PHQW RU RZQ ,QWHUHVW GLYLGHQGV			

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FRPSOLDQFH EHKDYLRXU DQG ZLVKLQJ WR KDYH SXE
H[SHFWHG D VLJQLILFDQW UHODWLRQVKLS EHWZHHQ
WKH WD[V\VWHP LV DOVR HYLGHQW 2I OHVV UHOHYD
IDFWRU OXFN DOVR DQG IDFWRU DZDUG

7DEOH

&RUUHODWLRQV

	)DFWR	)DFWR	)DFWR	)DFWR	)DFWR
)DFWR 3HDUVRQ &RU 6LJ WDLOHG 1					
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+ ³*HQGHU 0DOH 7KH SHUFHQWDJH RI WKH SRSXODWLRQ LQ [V \V WHPDWLFDOO
WR JHQGHU

+ ³$JH K\SRWKHVHV 7KH QXPEHU RI WD[SDLG LV V\VWHPDWL

+ ³)DFWRU K\SRWKHVHV 7KH QXPEHU RI WD[SDLG LV V\VWHPDV
FRPSOLDQFH DWWLWXGHV

+ ³)DFWRU K\SRWKHVHV 7KH QXPEHU RI WD[SDLG LV V\VWHP
DWWLWXGHV WR WKH WD[V\VWHP

+ ³)DFWRU K\SRWKHVHV 7KH QXPEHU RI WD[SDLG LV V\VWHP
ZKHWKHU SHRSOH 7KH FRQWULEXWLRQ RI WKH [SODLQHG LW RVEHWHHQ

ZKHWKHU SHRSOH FRQVLGHU WKHPVHOY

VWDWHPHQW &RQVLJQLILFDQWO\ IHZHU RI WKH SRSI
ZLWK WKLV VWDWHPHQW ZKLOH VLJQLILFDQWO\ PRU
VWURQJO\ GLVDJUHH ZLWK LW

,Q UHVSRQVH WR WKH VWDWHPHQW WKDW LW SHUFRPP
FHQW RI WKH SRSXODWLRQ VDPSOH DJUHH RU VWURQ
VDPSOH ZKHUH SHU FHQW DJUHH RU VWURQJO\
VLJQLILFDQWO\ OHVV WKDQ H[SHFWHG VWXGHQWV DJ
ZKLOH VLJQLILFDQWO\ PRUH WKDQ H[SHFWHG IURP RX

6WDWHPHQW IRXU VXJJHVWV WKDW LW GRHV QRW PD
VWURQJ UHVSRQVHV WR WKLV DPRQJ ERWK RXU JURX
UHVSRQGHQWV GLVDJUHHLQJ RU VWURQJO\ GLVDJUHH
RI WKH VWXGHQW JURXS GLVDJUHHLQJ RU VWURQJO\
UHVSRQGHQWV WKDQ H[SHFWHG IURP WKH VWXGHQW
VWDWHPHQW DQG VLJQLILFDQWO\ PRUH WKDQ H[SHFWHG
GLVDJUHHLQJ ZLWK WKLV VWDWHPHQW

6WDWHPHQW ILYH TXHVWLRQV YLHZV RQ XQGHUUHSRU
SHU FHQW RI RXU SRSXODWLRQ RU UHVSRQGHQWV DQG
GLVDJUHH RU VWURQJO\ GLVDJUHH ZLWK WKH VXJJH
XQGHUUHSRUWLQJ WD[DEOH LQFRPH 7KLV VWDWHPHQ
SRSXODWLRQ UHVSRQGHQWV VWURQJO\ GLVDJUHH D

Sp 9GLHDQ I RRQGHQWV VWURQJO 0 GLV BJUHH DQ`Pt

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PLQLPXP DQG SHU FHQW GLVFORVHG DV LWV PD[L
ILQG RQO\ WKRVH DJHG XQGHU DQG WKRVH LGHQ
HWKQLFLW\ KDYH SHU FHQW GHFODUHG DV WKH PL
UHIHUHQFH WR 7DEOH SHUFHQWDJH WKDW VD\V
GHFODUHG RYHU SHU FHQW RI WKHLU LQFRPH Z
UHVSRQGHQWV DW DQ\ WD[UDWH KDYH GHFODUHG OH
OHYHOV RI FRPSOLDQFH DUH PRUH DOLJQHG ZLWK Z
.QXGVHQ .UHLQHU 3HGHUVHQ DQG 6D]] :H DF
HQYLURQPHQW DW OHDVW WR VRPHVHHWHLQV VWUDWHJ
7KLV PD\ KDYH EHHQ PLWLJDWHG LQ RXU RQOLQH H[S
FKDULW\ UDWKHU WKDQ WKH LQSODWLRQDU\ GRQDWLRQ SW
WKH VWXGHQW VDPSOH

:H REVHUYH WKDW WKRVH ZKR UHFHLYH VWXGHQW DG
VDPSOH DIIRUGLQJ WKH HDVWXPSWLRQ WKDW VHHLQJ
RQOLQH H[SHULPHQW WKDQ WKRVH LQ WKH RQOLQH
LQFRPH 7KH VWXGHQW DOORZDQFH LQFRPH JURXS L
GHPRQVWUDWH WKLV EHKDYLRXU

:KLOH RXU DJH YDULDEOH DGKHUHV WR SUHYLRXV UH
LQFUHDVHV ZLWK DJH ZH GLG QRW ILQG DOLJQPHQW
WKH DXGLW SUREDELOLW\ YDULDEOH RU JHQGHU 7KH
WKDW VXJJHVWV DXGLWRUV SUD VLJQLILFDQW H[SODQDWR
H[SHULPHQWV ,W VLPLODUO\ FRQWUDVWV SUHYLRX
FRPSOLDQW WKDQ IHPDOHV :H ZLWQHVVHG D VWURQ
VWXGHQW VDPSOH EXW WKLV ZDV QRW HYLGHQW LQ
SRSXODWLRQ VDPSOH LV VLJQLILFDQWO\ PRUH FRPSO
VLJQLILFDQW UHVSRQVH WR DXGLW PD\ EH SDUWLDOO
WKDW LV PRVW UHVSRQGHQWV DUH FRPSOLDQW DQG
ZKR DUH QRW LDQW WR EHFRPH 7KHXV RUWKHFRPSOLQJ WHVS
WR DXGLW SUREDELOLW\ DPRQJ VWXGHQWV DV PLSOJHV
EHKDYLRXU DPRQJVW VWXGHQWV WKH H[SHULPHQWDO HQYLU

:H ILQG KLJKHU OHYHOV RI VLJQLILFDQW UHVXOWV D
WD[UDWH DXGLW SUREDELOLW\ DQG JHQGHU DOO S
VDPSOH EXW QRW LQ RXU SUDWRSXODWLRQ VDPSOH
VDPSOH

,Q VXPPDU\ WKH UHVSRQVHV WR FKDQJHV LQ YDULDE
VLPLODU WR UHVSRQVHV IURP WKH VWXGHQW VDPS
SUREDELOLW\ LV QRW VLJQLILFDQW LQ WKH SRSXOD
HYLGHQW 7KH SRSXODWLRQ VDPSOH UHVSRQVHV LQ
VLJQLILFDQWO\ GLIIHUHQW WR WKRVH IURP WKH VWX
UHVHDUFK WKDW KDV LQYHVWLJDWHG WKH DSSURSU

- OHVFU\VWDOOLVHG DWWLWXGHV ZLWK VRFLDO DQG OLIH
- DOHVVXIRDWHG VHQVH RI VHOI ZLWK D VWURQJHU LGHQWLILFDWLRQ ZLWK SHHUV
- WURQJHU FRJQLWLYH VNLOOV
- WURQJHU WHQGHQFLHV DQG FRPSO\ ZLWK DXWKRU
- OHVV FRQVHUYDWLVP &XQQLQJKDP $QGHUVRQ DQ

7KHVH IDFWRUV ZRXOG OHDG WR WKH FRQMHFWXUH RSLQLRQV RQ WKH WD[V\VWHP 7KLV VXSSRVLWLRQ TXHVWLRQQDLUH EXW QRW LQ WKH H[SHULPHQW

7KH XVH RI VWXGHQW VXEMHFWV LQ H[SHULPHQWDO VWXG\ GRHV QRW SURYLGH VXSSRUW IRU WKH XVH WD[SD\LQJ SRSXODWLRQ 6LPLODU EHKDYLRXUV DPR SRSXODWLRQ VDPSOH DUH QRW HVVHQWLDOO\ WKH VDPH UHODWLRQVKLS ZLWK FRPSOLDQFH OHDGV WR IXUWKH DSSURSULDWH VXEVWLWXWH IRU WD[SD\HUV DV VW \RXQJHU WKDQ WKH SRSXODWLRQ DV D ZKROH 7KXV VXJJHVW WKDW VWXGHQWV DUH DQ DSSURSULDWH SU FDXWLRQ PXVW EH H[HUFLVHG LQ WKH LQWHUSUHWDW XVLQJ VWXGHQW VXEMHFWV

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