



Policy Perspective

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Business Taxation: A Loose Cannon On A Dark Night

By William B. Conerly, PhD

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How much tax should business pay? In many discussions we sometimes lose sight of a critical fact: no business ever pays any tax. Never, ever, no matter how much we try, does our government tax business.

Only people pay taxes. Some corporate treasurer may write out a check payable to the government, but the burden of taxes is always borne by people. The people may be workers, consumers, or business owners, but they are people—like us.

Sometimes shareholders do get nicked by business taxes, but shareholders are people, too. In fact, many shareholders are ordinary people who don't think of themselves as business owners. A large portion of the stock of American companies is owned by corporate pension plans—legally trusts for the benefit of workers—and by employee savings plans, such as the popular 401(k) program. Other ordinary people own mutual funds, either directly or through Individual Retirement Accounts.

There are also individuals who own stock

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Exactly which people pay a business tax is hard to determine. We may be trying to hit some fat cat shareholder, only to find that the tax has been passed on to consumers. At other times, workers may bear the tax through lower wages, or through losing a job and having to accept lesser pay at other work. In fact, of the many subjects that economists study, the incidence of taxes is one of the most frustrating—we economists simply are never sure who will bear the burden of a business tax.

outright. These people are frequently retired and rely upon their investments for financial security. The median household income of shareholders is about \$52,000—not exactly fat cat. (Source: New York Stock Exchange, 1996)

Certainly there are wealthy individuals who own stock, but they rub shoulders -- figuratively at least -- with Middle America in their stock ownership.

Is There A Good Reason To Tax Business?

Is there a good reason to tax business? If the motive is to tax the rich, this is better accomplished through personal income taxes, inheritance taxes, or a direct tax on assets. The business tax is too imprecise to ensure that we are hitting the right target. In fact, a business tax may on occasion hit the poor the hardest—as if Robin Hood mistook a peasant for the Sheriff of Nottingham.

Business taxes may occasionally be supported as a more efficient way to collect a certain tax. For instance, administration of a tax on imported goods might be easier if the tax is paid by the importer rather than the ultimate consumer. Efficiency of administration is a reasonable concern.

charges trucks based on a formula that corresponds to the wear and tear on highways caused by trucks. That usage should be treated as an ordinary business expense, just the same as driver wages and fuel cost. These taxes—better called fees—help businesses balance costs against the value of the services they provide.

Such price-like taxes help to improve economic efficiency, if properly targeted and reasonable in amount.

In general though, business taxation is a loose cannon on a dark night—it may fire in any direction at all, and we may not even see that it has damaged the people we are trying to help.

The slogan, "Business should pay its fair share", misses the point: business is simply

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The import tax example, however, illustrates a major argument against business taxes—they often hide the tax from the taxpayer. Consumers may not know that they are paying a tax on imported goods; workers may not know that they are paying their employer's property tax bill; pensioners may not know that they have been paying a corporate income tax on top of their personal income taxes. To the extent that business taxation is hidden taxation, it violates basic democratic principles.

Some business taxes perform a valuable pricing function. Oregon's weight-mile tax, for instance,

people producing goods and services for other people. **Business has never paid a tax, and it never will.**

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