

## Who Really Pays Corporate Income Tax? New Policy School Reports

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CALGARY- Who really pays corporate income tax? Most Canadians understand that corporate income taxes just get passed down – but to whom? And who pays the most when corporate taxes go up? This is an important, if not somewhat contentious, policy issue.

Today, two new reports from The School of Public Policy with authors Kenneth J. McKenzie and Ergete Ferede were released that definitively demonstrates who actually pays corporate income tax. The report not only looks at existing research on the question, viewing it through a Canadian policy lens, but also provides new results from a companion technical paper to discuss the implications of increases in corporate taxes for wages in Canadian provinces.

According to co-author McKenzie, “The results suggest that, provincial corporate taxes adversely affect the capital/labour ratio, which lowers the productivity of labour which, in turn, lowers wages. For every **\$1** in extra tax revenue generated by an increase in the provincial CIT rate, the associated long-run decrease in aggregate wages ranges from **\$1.52 for Alberta to \$3.85 for Prince Edward Island**. Estimates applied to the recent 2 percentage point increase in the CIT rate in Alberta, labour earnings for an average two-earner household will decline by the equivalent of approximately **\$830 per year**, which amounts to a **\$1.12 billion** reduction in aggregate labour earnings for the province. By way of comparison, other research has estimated the impact of the recently imposed carbon tax in Alberta – the subject of considerable scrutiny – to be approximately **\$525** per household.”

While it is clear that people, not corporate entities, ultimately bear the burden of corporate taxes, a key question is which people? The answer to this question has implications for the distribution of the tax across different income groups, owners of different factors of production, etc. This has particular implications for the equity, or fairness, of the tax system. Any tax imposed on a business or corporation will ultimately be passed on to individuals — to consumers through higher prices, to employees through lower wages or to the owners of capital (shareholders) through lower profits.

The report can be found online at [www.policyschool.ca/publications/](http://www.policyschool.ca/publications/)

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