QUALITATIVE DIFFERENTIATION IN CORPORATE INCOME TAXATION

Research aim: sound analysis of corporate income taxation // qualitative differentiation in corporate income tax

Research question

Are the multiple forms of corporate tax differentiation justifiable in the light of an alleged higher (or lower) ability to pay shown by corporate income perceived by the companies affected by the diferential tax treatment?

The research intends to examine how the principle of tax differentiation in corporate taxation finds concrete realisation as well as investigating the suitability of such a differentiation from the qualitative and quantitative point of view.

This approach aims at testing whether the current rationales for a diferentially treated tax treatment are reasonable and, specifically, whether it is advisable to provide for specific tax regimes for SMEs, for progressive taxation of corporate income and for the existing multiple forms of difermented taxation on income based on the economic sector of the recipient subjects.

Methodology

Part I

- Comparative analysis of corporate income taxation from its historical origins to the current trends of modern tax systems
- Income’s diferentiation for physical persons: principles

Part II

- Income diferentiation: the case of small and medium enterprises
- Progressive taxation of corporate income
- Income diferentiation based on the economic sector of the recipient subject
- Income diferentiation and artificial intelligence’s inputs

Income’s qualitative diferentiation: principles

- It is necessary at all times to make a distinction between diferent kinds of income, since the same amount of income derived from diferent sources often carries varying degrees of ability-to-pay. We can therefore logically formulate the conclusion that the relative equality, or the uniformity which is demanded by justice, is not only compatible with, but in reality leads to, the principle of differentiation
- Seligman E.A., 1940

- Different clases of income may be treated differently for tax purposes
- The qualitative diferentiation, indeed, aims at accentuating the diference between incomes of an equal initial amount, taking into account diferent sources and origins
- The rationale lies in the idea that these incomes express diferent ability to pay and therefore must receive a diferent tax treatment. The principle of tax diferentiation rests on the equality of sacrifice theory.

- Temporary and permanent incomes, labor and property incomes, spontaneous and fixed incomes, industrious and lazy incomes

The case of small and medium enterprises

- "Vocal policies" could explain the positive externalities created by SMEs and enhance economic growth through R&D and innovation tax allowances (OECD, Taxation of small businesses, 1994)

- Double-sided aim: favor SMEs because of their positive externalities and address NMIs’ incomes with higher taxation

- No shared definiton of fields, devotees categories, the definition free, vary between countries, and the same company may be considered an industrial giant in one country, but it is often supplemented by other categories, such as the turnover selling or total net assets or financial independence of owners.

- Current accounting of tax advantages and last connection with ability-to-pay principle

Progressive taxation of corporate income

- Differentaion on different grounds:
  - The impersonal ability theory of business taxation: greater ability to pay
  - Fear of oligopoly: a graduated corporate income tax could be a powerful and successful tool to control oligopolistic monopolies (centralized and scattered taxation):
    - a criticism
    - Conditions under which companies operate are diferentiated
    - Clasifying enterprises according to relative risks and capacity of using capital
    - Diﬃculties in administration
  - Corporate social and business actions

Income qualitative diferentiation based on the economic sector of the recipient subject

- Special tax regimes addressing companies operating in specific economic fields; (energy sector; tourism, oil and gas production, banks and insurance companies)
- Regressive, developmental taxation given changing economic conditions, capital, wealth, poverty
- Methods, tax-cost increase, differentiation at the taxable base level, combination of ordinary corporate income tax and supplementary charges, tax exemption for developing economic fields:
  - How to distinguish the normal from the extraordinary share of profit to be diferentially taxed?
  - Differential (higher) taxation efectively hits a special ability to pay?

Conclusive remarks

- Currently, corporate tax diferentiations mostly resort to non-tax feelings such as, for example, favoring the development of small and medium-sized enterprises, avoid the framework and determination of high profits, discontinue the use of technologies of artifical intelligence to replace traditional labor, etc.

- Although some of these objectives can be considered socially appreciable, the diferimentation of tax burdens afecting corporate income must always be connected with the theory of income-discrimination.

- Moreover, in the event that alternative regimes of corporate income tax are to be introdiced in the tax system, such deviations from the standard model must also be justified in the light of the principles governing tax law (the ability to pay principle and the equality principle) and should be coherent with corporate tax theories.

- Corporate tax as an advance payment of the personal tax due by shareholders: the forms of corporate tax diferentiation could hardly be justified. According to this approach, indeed, the corporate "self" bears the burden, and a tax diferentiation based on subjective (corporate size) or objective (market and factors of production) characteristics of the taxpayer would be scarcely justifiable given the aim to reach the shareholders.

- Corporate tax as a tool to control management powers: greater ability to pay perhaps shown by income of larger companies, if demonstrable that it has been earned with low effort, is improper to be satisfactorily of owner and control, companies occupying a dominant position on the market.

- "Independent" corporate tax diferentiation could be considered legitimate if qualitative diferences between corporate incomes arise. No connection with income nature or source, but with temporary or perpetual character.

Dott.ssa Alessia Sbroiavacca
sbroiavacca.alessia@spes.uniud.it