RESEARCH ARTICLE

THE CONCEPT OF CORPORATE TAX, TAX REFORM AND COMPARISON OF CORPORATE TAX RATES IN SOME COUNTRIES.

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**Abstract**

This paper presents information and research on the corporate tax to help better understand and evaluate arguments presented in the tax reform debate. This report first reviews the structure of the corporate income tax. Data on which companies pay the corporate tax and the international comparison of corporate tax rate are also being discussed on this paper. And the comparison of the three countries Iraq, USA and Malaysia will be discussed and Next, the economic effects of the corporate tax are reviewed, including a discussion of the purpose of the corporate tax, and how to evaluate alternative corporate tax systems. The paper views broad reform options and concludes with some recommendation for better tax system.

**Introduction:**

Many countries impose corporation tax or company tax on the income or capital of some types of legal entities. A similar tax may be imposed at state or lower levels. The taxes may also be referred to as income tax or capital tax. Entities treated as partnerships are generally not taxed at the entity level. The Ralph Review of Business Taxation represented a major event in corporate tax reform (Cooper et al., 2002, p. 20; Gilders et al., 2004, p. 16). Most countries tax all corporations doing business in the country on income from that country. Many countries tax all income of corporations organized in the country. The tax generally is imposed on net taxable income. Net taxable income for corporate tax is generally financial statement income with modifications, and may be defined in great detail within the system. The rate of tax varies by jurisdiction. The tax may have an alternative base, such as assets, payroll, or income computed in an alternative manner.

Some systems provide a mechanism whereby groups of related corporations may obtain benefit from losses, credits, or other items of all members within the group. Mechanisms include combined or consolidated returns as well as group relief (direct benefit from items of another member). Comparing tax systems is important for economic agents since taxes affect their decisions. When locating or doing business, companies assess tax consequences of their actions. Most surveys approach the question by comparing statutory corporate tax rates. Nevertheless, given the complexity and the diversity of elements composing the tax base, this approach has been deemed to be unsatisfactory. The political process in their favor, engage in tax-planning and organize their activities to achieve optimal tax savings (Siegfried, 1972, pp. 32–36). Statutory rates do not perfectly reflect the tax burden of companies and economists had to come up with measures of effective corporate taxation. Effective corporate tax rates are important for different reasons. First, comparing statutory and effective tax rates gives an idea of tax incentives given by authorities. These incentives can be either a lower tax base or a lack of enforcement. Second, the comparison of effective tax rates across countries gives indications whether there are substantially different tax treatments of companies with the same characteristics but located in different countries.

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These figures can indicate whether or not a large dispersion in statutory tax rates may hide little differences in effective taxation. Indeed, countries with high statutory rates can lower the base and/or decrease tax enforcement. The analysis of effective corporate taxation should shed light on how corporate tax competition functions (Nicodème, 2011). Most systems also tax company shareholders on distribution of earnings as dividends. A few systems provide for partial integration of entity and member taxation. This is often accomplished by "imputation systems" or franking credits. In the past, mechanisms have existed for advance payment of member tax by corporations, with such payment offsetting entity level tax.

Why Do We Have Corporate Taxation?

It is useful to discuss the rationales for having a corporate income tax in the first place. Under some assumptions in particular capital mobility – 'classic' economic models show that the optimal tax rate on capital for a small open economy is zero. Therefore, questioning the usefulness of corporate taxation is a worthy exercise. Several authors have looked into this question and the underlying pros and cons for the existence of corporate taxation (Nicodème 2009).

Benefit Principle:

A first reason for having a corporate income tax is linked to the benefit principle. Akin to individuals, companies consume public goods – in particular infrastructures – and benefit from public interventions such as education of workers or a judiciary system based on the rule-of-law. Therefore, it would seem normal that companies pay taxes as a compensation for those services. Some authors also argue that limited liability enjoyed by companies is an advantage that calls for a compensating tax. Those standpoints, even though attractive, are sometimes challenged because of the weak and rather indirect link between the use of those services and the determination of the corporate tax base, because companies are owned in fine by individuals who are also taxed, therefore introducing a risk of double-taxation, and because there are probably more direct ways of internalizing the cost of the provision of those public goods, notably via user fees. And the benefit principle approach to general business taxation offers resolution of the contentious issues, much as user fees for highways and business license fees for regulatory services are used today (Oakland and Testa 2000).

Tax Exporting:

It is important to mention one more consequence of the tax exporting in this paper (Braid 2005). A second argument is based on questioning the assumption of perfect mobility of capital. Mobility is a much more complex topic in the real world than models suggest. Because of sunk costs or relocation costs, capital may sometimes be relatively immobile., in addition, a non-negligible share of companies are owned by foreign shareholders, tax authorities have an incentive to tax these companies and 'export' the tax burden on those shareholders develops such a model with convex costs of relocating capital (increasing with speed of relocation). He shows that the optimal capital tax rate at equilibrium is proportional to the share of foreign shareholding and inversely proportional to the degree of capital mobility. In an empirical study covering 34 European countries between 1996 and 2000, (Huizinga and Nicodème 2006) show a strong positive relationship between the share of foreign shareholding in a country and the average corporate tax burden. Their estimate indicates that increasing the share of foreign ownership by one percentage point increases the average tax rate on companies by .43 percentage points on average. Imperfect capital mobility coupled with non-negligible foreign ownership would therefore explain the existence of corporate taxation.

Erosion of Personal Income Taxes:

A third argument is that corporate taxation is useful to avoid the attrition of personal income taxation. Indeed, in the absence of corporate income tax, it would be interesting for individuals to incorporate and therefore avoid taxes on their income. Corporate taxation is hence considered to be a backstop for personal income taxation.

Political Constraints:

Finally, political constraints may play an important role. Corporations are often perceived by public opinion as entities making large profit and owned by wealthy investors, which generally qualifies them in the eyes of public opinion to bear an important share of the tax burden. In fact, corporate taxes represent only 3.4% of GDP for the EU-27 in 2006 and 8.5% of total tax collected (Nicodème 2009). The corporate tax base is also smaller than the personal income tax base or the VAT base.
Corporate Tax Rates: -
While corporate tax rates have begun to stabilize, and indirect tax continues to rise, a ‘new normal’ has been created in the tax landscape. It is one of increased scrutiny and uncertainty, placing global companies under a microscope and raising the pressure to adhere to added regulation and compliance requirements. The issue of tax transparency and morality has contributed to the shift in the global tax landscape. The question of companies paying their ‘fair share’ is now one of the most prominent areas being scrutinized by governments, the general public, investors and media. Companies are being challenged to disclose their total tax contributions publicly to cope with this increasing demand.

Also the global tax landscape is changing dramatically and will continue to do so for the foreseeable future. Although corporate tax rates in many countries have stabilized after a decade of decline, there are multiple issues currently at play that deeply influence the world of corporate tax. As rates have leveled off, tax authorities in the vast majority of developed countries are facing pressure to increase revenues from their tax base with fewer resources. This has led to tax authorities pursuing more tax audits and investigations leading to larger adjustments, with more potential for penalties and interest.

The effective tax rate is taxes paid divided by profits. The effective tax rate captures some of the tax benefits and subsidies, reducing the tax paid per dollar of profit. This measure can make a country with a high statutory rate but narrow base more comparable to a country with a low tax rate and broad base. It is probably more suited to assessing the true relative burdens on investment than the statutory tax rate. However, these types of tax rates may not capture timing effects (such as accelerated depreciation) very well and generally depend on accounting measures of profit that may vary across countries (Gravelle 2014).

Corporate Tax Rates in Some Countries: -

IRAQ
The corporate tax rate is 15 percent. Starting from 2003, Iraq starts applying 15 percent CIT on all industries. In 2010 they introduced Oil & Gas law and started applying 35 percent CIT in Oil & Gas companies and industries related to Oil & Gas

MALAYSIA: -
The corporate tax rate is 25 percent. Resident companies with a paid up capital of MYR 2.5 million and below (as defined) at the beginning of the basis period for a Year of Assessment (YA) are subject to a corporate income tax rate of 20 percent on the first MYR 500,000 of chargeable income. For chargeable income in excess of MYR 500,000, the corporate income tax rate is 25 percent. Leasing income (from moveable property) derived by a permanent establishment in Malaysia is taxed against a rate of 25 percent whereas a non-resident corporation with no Malaysian permanent establishment is taxed against a rate of 10 percent. A special 5 percent rate applies to corporations involved in qualified insurance businesses. Income generated by a life fund of an insurance company is taxed against a rate of 8 percent. A non-resident corporation with shipping or air transport income may also benefit from a special tax regime. 70 percent of statutory income of resident corporations derived from the transportation of passengers or cargo on Malaysian ships is exempt. Companies engaged in petroleum operations are subject to a rate of 38 percent.

UNITED STATES: -
The corporate income tax rate is approximately 40 percent. The marginal federal corporate income tax rate on the highest income bracket of corporations (currently above US$18,333,333) is 35 percent. State and local governments may also impose income taxes ranging from 0 percent to 12 percent, the top marginal rates averaging approximately 7.5 percent. A corporation may deduct its state and local income tax expense when computing its federal taxable income, generally resulting in a net effective rate of approximately 40 percent. The effective rate may vary significantly depending on the locality in which a corporation conducts business. The United States also has a parallel alternative minimum tax (AMT) system, which is generally characterized by a lower tax rate (20 percent) but a broader tax base.

International Comparison of Tax Rate: -
Comparisons between corporate tax rates in the United States and those found elsewhere in the world are made frequently. The focus among non-economists tends to be on comparing statutory rates. Economists, however, generally prefer to compare effective tax rates when making international comparisons. The reason for this is that
every country has a different tax system, and the statutory tax rate is just one component of each system. For example, some countries may have higher or lower rates, allow for faster capital recovery (i.e., depreciation), or offer corporate tax credits not offered by other countries. Effective tax rates attempt to account for all the system differences and are more indicative of the tax burden in each country.

When making comparisons between U.S. and worldwide tax rates it is also important to indicate whether tax rates are simple (UN weighted) averages or whether they are adjusted (weighted) to account for the size of the economies being compared. If the U.S. tax rate is compared to world tax rates that do not account for the size of other economies, then a small economy, such as Iceland, can have the same effect on the average international rate as a large economy, such as Germany or Japan. It is therefore more appropriate to compare the U.S. tax rate to a weighted average of international tax rates. Typically, each country’s tax rate is weighted by its gross domestic product (GDP) when computing the average.

Tax Rate Comparisons: United States Compared with OECD and large economies

Table 1: reports the three measures of effective tax rates, with marginal rates restricted to equipment and structures separately, for the United States and the OECD excluding the United States. The statutory rate is reported with and without the production activities deduction.

| Tax Rate Measure and Year           | United States | OECD Excluding United States, GDP Weighted Average | OECD Excluding United States, Unweighted Average |
|------------------------------------|---------------|--------------------------------------------------|--------------------------------------------------|
| Statutory (2010)                   | 39.2          | 29.6                                             | 25.5                                             |
| Statutory (2010) with Production Activities Deduction | 36.3          | 29.6                                             | 25.5                                             |
| Effective (2008)                   | 27.1          | 27.7                                             | 23.3                                             |
| Marginal Effective Equipment (2010)| 23.6          | 21.2                                             | 17.3                                             |
| Marginal Effective Equipment (2005)| 23.0          | 21.1                                             | 18.7                                             |
| Marginal Effective Buildings (2005)| 29.0          | 26.4                                             | 23.4                                             |

Source: Statutory tax rates and gross domestic product (GDP), Organisation for Economic Co-operation and Development (OECD), http://www.oecd.org/dataoecd/26/56/33717459.xls and http://stats.oecd.org/Index.aspx?

The overall statutory rates in the OECD are slightly lower for 2013, with the rate in the OECD excluding the United States falling a little over a half to one percentage point. The U.S. rate is estimated at 39.1%, whereas the OECD weighted average is 28.4% and the weighted average is 25.1%. The weighted rate was influenced by rate reductions in Japan and the United Kingdom. The marginal tax rates do not reflect the effect of the production activities deduction that likely applies to most multinational corporations and would decrease these tax rates by 2-3 percentage points as of 2010. (The deduction was 3% in 2005-2006 and 6% for 2007-2009.) Thus while the difference between the statutory rate and the simple average—a difference of 13.7 percentage points—is frequently reported, a difference of about half that much—or 6.6 percentage points—occurs when the adjusted statutory rate of 36.2% is compared with the weighted average of 29.6%. The effective tax rate (which would automatically capture the production activities deduction and other provisions) is about the same. The marginal effective rate rates are also about the same when adjusted. Thus the tax rate most relevant for the purpose of incentives to invest is similar for the United States and the rest of the OECD with respect to equipment and structures investment. The marginal tax rates do not reflect the temporary bonus depreciation in effect for 2008-2010 in the United States, which allowed 50% of the cost of equipment to be deducted. A provision allowing 100% of the cost to be deducted is in place for 2011. Because these are temporary provisions, it seems appropriate to exclude them. Whether these measures are captured in the effective tax rate depends on the treatment of deferred taxes, but measures from different years appear similar (Gravelle, 2011).
Corporate tax – 10 highest and lowest:

| Rank | Current rate | Country               | Rank | Current rate | Country         |
|------|--------------|-----------------------|------|--------------|-----------------|
| 1    | 55%          | United Arab Emirates  | 5    | 34.5%        | St. Maarten     |
| 2    | 40%          | United States         | 6    | 34%          | Brazil          |
| 3    | 35.64%       | Japan                 | 7    | 33.99%       | Belgium         |
| 4    | 35%          | Angola                | 8    | 33.33%       | France          |
|      |              | Argentina             | 9    | 33%          | Namibia         |
| 10   | 32%          | Mozambique            |      |              |                 |

Source: KPMG International 2014
Lowest: -

| Rank | Current rate | Country      |
|------|--------------|--------------|
| 1    | 9%           | Montenegro   |
| 2    | 10%          | Bosnia and Herzegovina |
| 3    | 12%          | Bulgaria     |
| 4    | 12.5%        | Gibraltar    |
| 5    | 14%          | Macedonia    |
| 6    | 15%          | Paraguay     |
| 7    | 16%          | Qatar        |
| 8    | 16.5%        | Macau        |
| 9    | 17%          | Oman         |
| 10   | 17.92%       | Cyprus       |

Source: KPMG International 2014

**Indirect tax:**

While the United States does not impose a national VAT, most states and some local governments impose transaction-based taxes commonly referred to as sales and use taxes. Forty-five states and the District of Columbia impose a state-level tax on the sale or use of goods and some services. Local governments in 34 states are authorized to impose local sales taxes. There are about 7,600 jurisdictions across the country that has chosen to impose a local sales tax. The state and local tax sales tax rate in the United States may range from 4 percent to 11 percent. As an example, the combined state and local sales tax rate in Seattle, Washington is 9.5 percent and that is made of a 6.5 percent state sales tax, a 1.2 percent county sales tax, and a 1.8 percent special purpose district tax. Which goods and services are subject to tax, and the applicable tax rates, vary according to the jurisdiction. All states and some localities with sales and use tax regimes possess broad powers to determine whether goods and services are fully taxable, taxable at a special rate, or are fully exempt.
Benefit of A Lower Tax Rate: -
A lower company tax rate is likely to increase the scale of investment by reducing the relevant EMTR and thereby the project’s hurdle rate. The quantity of investment in the economy should increase to the extent that EMTRs are reduced, thereby resulting in an increased level of capital in the economy. Greater quantities of capital will enhance the marginal productivity of labor, resulting in an increase in incomes, productivity and economic growth. A lower company tax rate can also reduce the extent to which departures from a uniform tax base distort business investment choices. For example, the current company tax system provides deductions for interest payments but not for equity financed investments. A cut to the company tax rate reduces the value of interest deductions and so reduces the impact of the different treatment of debt and equity.

As a rule of thumb, the efficiency cost of a tax increases with the square of the tax rate. For every one percentage point increase in rates, the additional efficiency cost increases at an accelerating rate. This is particularly important considering that estimates of the marginal welfare loss from different taxes suggest that company tax at its current rate is a relatively inefficient vehicle to use as an incremental source of tax revenue.

The benefits of a lower corporate tax rate will be dynamic rather than static. In the short run, a lower corporate tax rate should predominately benefit capital owners in the form of enhanced levels of profitability. Such higher rates of return may be reinvested within the business or distributed to shareholders. However, a reduction in the company income tax rate would also increase the after-tax return on investment, encouraging more investment and thereby enhancing the capital to labor ratio within the economy. This process of ‘capital deepening’ can increase the marginal product of labor, resulting not only in higher economic growth but also higher wages in the long term. In the long run some of the incidence of a lower company tax rate should also fall on capital owners earning location-specific profits, such as those within the resource industry (Henry 2009).

Corporate Tax reform and option for reform (Broader Base, Lower Rates): -
Tax reform is the process of changing the way taxes are collected or managed by the government. Tax reformers have different goals. Some seek to reduce the level of taxation of all people by the government. Some seek to make the tax system more progressive or less progressive. Others seek to simplify the tax system and make the system more understandable or more accountable. Numerous organizations have been set up to reform tax systems worldwide, often with the intent to reform income taxes or value added taxes into something considered more economically liberal Other reforms propose tax systems that attempt to deal with externalities.

Corporate tax reform discussions have generally focused on reducing the top corporate tax rate and offsetting the revenue loss by increasing the amount of income subject to tax (i.e., broadening the tax base). If revenue neutrality is a goal then a reduction in the corporate tax rate is limited by how much the tax base can be expanded. The rate can be reduced further (to zero) or the base made less broad if revenue loss is not a concern. Revenue loss may not be an option given the government’s current and future revenue needs. Some have suggested that cutting the corporate tax rate below its current top rate of 35% could increase revenue. A recent CRS report reviewed and critiqued the literature that purportedly supports this argument and found that the claims that behavioral responses could cause revenues to rise if rates were cut does not hold up on either a theoretical or an empirical basis (Keightley and Sherlock 2014).

The Case for a Lower Corporate Tax Rate (Optional for Tax Reform):-
A lower company tax rate will assist businesses in taking necessary steps towards becoming more productive by enabling greater investment in plant and equipment, encouraging innovation and adopting improved business models. These elements will improve business’ ability to adapt to changing economic and market conditions, both of which are essential for future economic growth.

A lower corporate tax rate can spur investment across the economy by reducing the pre-tax required rate of return. It is not only the statutory company tax rate that drives behavior. The effective average tax rate (EATR) and effective marginal tax rate (EMTR) also affect investment decisions in different ways (see Table 1)
Effective Average Tax Rate (EATR) Measures the proportion of an investment that is paid in tax EATRs affect location decisions: Where to locate investment; Where to locate profit

Effective marginal tax rate (EMTR) Measures the effect of tax on the return to an investment that just breaks even or covers all of its economic costs. EMTRs affect a business’s choice of how much to invest in a project.

Conclusion:
Corporation tax is an issue that is often said by many people since decades ago. In the surf revival and change the world economy, corporate tax is often associated with the issues of reformation. Therefore, improvements are required to overcome these often-cited issues. A good tax system should be structured to meet overall spending needs. Earmarking of revenues for particular purposes should be avoided. There is no reason for spending on particular items to be tied to receipts from particular taxes. And earmarking of revenues that does not impose a binding constraint on spending is empty rhetoric: ‘an exercise in deceiving voters that their tax payments [control] government spending in a way which they simply will not misleading taxpayers rather than expanding democracy’.

The paper described the corporate tax rate in general and also compares such rates among the countries including USA, Iraq, and Malaysia. Among the three countries the corporate tax rate is the highest in USA follow by Malaysia and Iraq. In USA the corporate tax rate is 40 percent, the same is 25 percent in Malaysia and 15 percent in Iraq. The paper also included the countries having highest and lowest corporate tax rate. Moreover, some discussion on tax reform also highlighted in the paper. More generally, not all taxes need to address all objectives. Not every tax needs to be ‘greened’ to tackle climate change as long as the system as a whole does so. And not all taxes need be progressive as long as the overall system is. In general, the right tools for achieving distributional objectives are direct personal taxes and benefits. Since the rates on these can be adjusted to achieve the desired degree of progressivity, other aspects of the tax system can be focused on achieving efficiency.

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