

Table of Contents

1	Dual Income Tax: Supporting Arguments and Design – An Overview	1
1.1	In Support of Dual Income Tax	1
1.1.1	Objectives and Constraints for Reforming Business Taxes	1
1.1.2	Reform Options: Comprehensive or Dual Income Tax?	4
1.1.3	On the Criticisms of Dual Income Tax	9
1.2	Principles of Dual Income Tax	11
1.2.1	Basic Definitions, Types of Income and Tax Rates	12
1.2.2	Taxing Corporations and Partnerships	19
1.2.3	Neutrality Aspects and Room to Maneuver	24
1.3	Quantitative Analysis.....	27
1.3.1	The Cost of Capital and Effective Average Tax Burdens	29
1.3.2	Effects on Tax Revenues and on Macro-Economic Variables	37
2	Taxing Corporations and Their Shareholders	43
2.1	Taxing Corporations	43
2.2	Taxing Shareholders	45
2.2.1	Preferential Tax Treatment for Return on Equity Capital and Regular Taxation.....	45
2.2.2	Putting Capital Gains and Dividends on an Equal Footing.....	47
2.2.3	Assessing the Standard Rate of Return	48
2.2.4	Return on Equity Capital – Should It Apply to the Corporation or the Shareholders?.....	50
2.2.5	Establishing and Extrapolating the Initial Value of Shares and Determining the Return Allowance	56
2.2.6	Treating Losses on Disposing of Shares in Corporations (Capital Losses)	61
2.3	Contracts Between Corporations and Shareholders	63
2.3.1	Assessing the Adequacy of Performance and Consideration	63
2.3.2	Debt Finance	66
2.3.3	Structures to Increase the Return Base.....	67
3	Taxing Transparent Entities.....	73
3.1	Transparent Taxation Rather than Assimilation to Corporations.....	73
3.1.1	The Conventional Differentiation Between Transparent Entities and Corporations.....	73

3.1.2	The Demand for Neutral Business Taxation Regarding Legal Form.....	74
3.1.3	The Reform Process in Scandinavia	76
3.1.4	Evaluation and Conclusions.....	77
3.2	Special Tax Treatment of Standard Return on Equity	84
3.2.1	Restriction to Businesses Preparing a Balance Sheet	84
3.2.2	Standardised or Actual Return?	84
3.2.3	Including the Partners' Business Assets	85
3.2.4	Mezzanine Financing.....	86
3.3	Taxing Business Profits	87
3.3.1	The Basic Concept of Profit Splitting.....	87
3.3.2	Comparison of Tax Burdens of Corporations and Transparent Entities	89
3.3.3	Determination of the Return Component.....	91
3.4	Deduction of Liabilities (and Debt Interest)	96
3.4.1	The 'Gross Method' vs. the 'Net Method'	96
3.4.2	Gross Method.....	97
3.4.3	Net Method	101
3.4.4	Leeway for Creative Accounting	102
3.5	Interest Rates	106
3.6	Taxing Extraordinary Transactions	107
3.7	The Tax Rates.....	108
4	Individual Aspects of Dual Income Tax.....	111
4.1	Taxing Changes of Legal Form	111
4.1.1	Introductory Remarks	111
4.1.2	Carrying over Standard Return on Equity Capital and Return Allowance.....	112
4.1.3	Removing More Obstacles to Conversion	118
4.2	Rent and Lease.....	119
4.3	Re-Organising 'Other Income' (§ 22 ITA).....	120
4.4	Levying Tax on Capital Income	123
4.4.1	Benefits of Uniform Taxation of Capital Income	123
4.4.2	Final Withholding Tax with Assessment Option	123
4.4.3	Determining and Levying Tax.....	125
4.5	Dealing with Losses.....	127
4.5.1	Background Conditions	127
4.5.2	Setting Off Losses when Calculating Income	129
4.5.3	Setting Off Losses Horizontally.....	130
4.5.4	Setting Off Losses Vertically.....	131
4.5.5	Setting Off Losses Between Periods (Deducting Losses).....	134
4.6	Dealing with Trade Tax, Assuming It Is Retained.....	135
	List of Figures.....	139
	List of Tables	141

List of Abbreviations..... 143

References 145