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Discussion after the Speeches of Glenn W. White and Robert D. Brown

Discussion

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Discussion After the Speeches of Glenn W. White and Robert D. Brown

QUESTION, Professor King: In terms of your experience in these inter-company transfers, have you seen this extra tax cost as a demotivator on inter-company transfers? Has it either demotivated the individuals or the company?

ANSWER, Mr. White: It has clearly impacted the willingness of U.S. firms to employ U.S. citizens as its patriots. Also, if one crosses the border and is "tax equalized," the equalized payment in the subsequent year is a taxable event in the country to which the individual moved.

The following year, when the tax equalization is computed, the amount from the prior year is added to the amount in the current year to pay the tax equalization from the prior year. This leads to a pyramiding effect. An individual with a \$500,000 salary, for instance, who travels to Germany which has a high income tax, can appear to have merely a \$100,000 income. This is quite demotivating. Thus, in our organization, we have very few ex-patriots.

COMMENT, Mr. Brown: I agree that Canada's excess cost of moving U.S. citizens to Canada is substantial in terms of gross revenue. Although fewer people are coming north and, with some advanced planning, this cost can be lessened, it cannot be overcome completely. In some cases, the cost severely restricts Canada's access to high-income individuals from abroad.

QUESTION, Mr. Harwood: If a Canadian citizen residing in the United States has a larger business income in Great Britain, for example, is this figure from trade or business in England taxable in Canada?

ANSWER, Mr. Brown: It would not be taxable in Canada if he is not a resident of Canada. Canada taxes on the basis of residency, not on the basis of citizenship.

QUESTION, Professor King: As you suggested, Mr. Brown, the Free Trade Agreement in Europe attempts to conform the tax system. With the Canada-U.S. Free Trade Agreement, it is more expensive for citizens to travel north than south. What effect will this have in the future?

ANSWER, Mr. Brown: Taxation is a domestic issue that is extraordinarily political. Both Canada and the United States have unstable tax systems because neither country is raising enough money from taxes to finance current government expenditures and, despite what Present Bush says, that cannot go on forever. At some point the dam is going to burst, partly on the revenue side, as well as on the expenditure side. As a result, Canada and the United States will probably change their tax sys-

tems to some degree over the next two or three years. The likely direction, Mr. King, is up, not down.

Harmonization between our two countries certainly will not occur within the next ten years. The issue is too political and concerns too many special interests in both countries. I think that we have had some success with the Canada-U.S. Tax Treaty, the most comprehensive tax treaty in the world, because it resolves a number of the important tax differences between our two countries. Furthermore, in the years ahead, I think we will improve that mechanism, rather than trying to fabricate a unified tax system.

COMMENT, Mr. White: I agree. Especially since attempting to construct a unified mechanism through Congress would be hopeless.

QUESTION, Professor King: On the withholding issue, since a tax credit is given after the fact, is this a demotivating factor in terms of people and their transfers?

ANSWER, Mr. White: I work with two different international companies and our withholding procedures are not problematic since we hire outside people to do our tax returns. If we did not, we would never get our returns calculated or, if we did, it would cost an enormous amount. These returns are quite expensive to complete.

QUESTION, Mr. Reifsnnyder: We need to simplify the U.S. tax system. Are taxes any easier calculate in Canada?

ANSWER, Mr. Brown: Well, there is a saying in Canada that we refuse to adopt any new tax mechanism until after the United States has first tried it and proven that it does not work. The same is true with tax simplification. We tried tax simplification with about as much success as the United States had.

Canadian returns are simpler because we do not have itemized deductions, but in terms of the total system, it is not much simpler.

QUESTION, Professor King: If a taxpayer gets caught between the two countries is there a procedure under the treaty called "competent authority?" How does it work and is it viable?

ANSWER, Mr. White: In fairness, the competent authority procedure works slowly between the United States and Canada, but it does manage to work. However, it can produce bizarre results.

When appellate conferees or competent authorities meet, there is no law. They simply must resolve the issue presented. Usually the taxpayer is not assessed both the U.S. and Canadian taxes. This is not true elsewhere. For instance, if an agreement is not reached between the competent authority of Germany and the United States, the result is based on the statute, not on equity.