TABLE 2.—STATUTORY AND EFFECTIVE CORPORATE INCOME TAX RATES

	Earnings fully retained		Earnings fully distributed	
	Statutory rate	Effective rate [1]	Statutory rate	Effective rate [1]
Belgium	30	30	30	30
France	50	46	50	46
Germany, Federal Republic	56	53	32	30
Italy	36	32	15	13
Luxembourg	45	32	45	32
Netherlands	45	37	35	29
United Kingdom	54	39	24	18

[1] Computed on the basis of straight line depreciation on the assumption of a constant before tax rate of return of 20 percent over the life of the investment and a market rate of interest of 5 percent.

Source: Peggy Brewer Richman, "Depreciation and the Measurement of effective Profits Tax Rates in the European Common Market and the United Kingdom," National Tax Journal XVII (March 1964), p. 90.

Changes in the structure of domestic taxation, and in particular the "mix" between direct and indirect taxes, constitutes a fourth area in which governments have moved, or have been tempted to move, to improve their national trade positions GATT rules prohibiting export subsidies have been interpreted to preclude remission of direct taxes on exports but to permit remission of indirect taxes. Thus taxes on the corporate profits arising from export cannot be rebated, but manufacturers excise taxes or turnover taxes can. Similarly, countries are permitted to levy indirect taxes, but not direct taxes, on imports. Because of this asymmetry in border tax adjustment, it is possible under fixed exchange rates for a country to stimulate exports and to impede imports by shifting its tax structure from direct taxes to indirect taxes, provided that direct taxes affect prices.

The GATT rule is based on the classical economic assumption that indirect taxes are shifted entirely to the purchaser, while direct taxes are not shifted at all, being absorbed entirely (in the case of the corporate profits tax) by the firm. Recent work in the field of public finance suggests, however, that there may be much less difference in the price effects of, say, corporate profits taxes and manufacturers' excise taxes than was once thought to the be the case.[25] To the extent that indirect taxes are partially absorbed by the producer, or that profits taxes are partially shifted forward to the consumer, the GATT rules regarding border treatment of national taxes allow some "subsidy" to exports and a country can improve its trade position by switching from corporate profits taxes to excise or turnover taxes.

Some countries have made tax changes in this direction, and others have been urged to do so. Sweden reduced its income tax and imposed a general sales tax in 1960; in mid-1964 Italy reduced payroll taxes (which are not rebatable) and, to recoup the revenue, increased turnover taxes (which are rebatable). The German government in 1967 approved a change from a turnover to a value-added tax which will improve the export competitiveness of German products;[26] and Britain has been periodically urged to increase its indirect taxes and lower the direct corporate taxes, although a special committee set up to examine the matter rejected the proposed change.[27] Similar changes have been proposed for the United States.

Once again, many considerations have influenced these proposals; in some cases there may be powerful arguments for making the change regardless of the effects on the balance of payments. But it is interesting to note that these proposals have come alive only since the late 1950's, as international competition has stiffened, and that improvement in the trade balance is often mentioned

[25] M. KRZYZANIAK & R. MUSGRAVE, THE INCIDENCE OF THE CORPORATION INCOME TAX, chs. 6, 8 (1963); Stockfish, *On the Obsolescence*, PUBLIC FINANCE 125–148 (1959).

[26] Because rebates under the turnover tax, due to complications in calculating the exact burden of the tax on each commodity, are lower than the values of rebates—and import levies—that would be permissible under the GATT rules.

[27] REPORT OF THE COMMITTEE ON TURNOVER TAXATION, CMND. NO. 2300 (1964) In late 1964, however, Britain did increase tax rebates on exports by extending the definition of rebatable excises to include taxes on fuels and office supplies and equipment. The rebates were estimated at about 3 per cent of the value of affected exports.