Chapter 6
POLICY RELEVANCE OF ALTERNATIVE TAX BURDEN MEASURES

Introduction

This final chapter compares alternative measures of corporate tax burdens and offers some guidance on their suitability for policy analysis. The two policy questions addressed are the tax burden on the stock of capital held in the corporate sector, important to assessing equity in the tax system and in particular the sharing of the tax burden; and an assessment of the tax burden on newly acquired capital, relevant to assessing investment incentives, questions regarding efficient resource allocation and related policy goals. In making this assessment, the chapter compares:

- nominal (statutory) corporate income tax rates, including surtaxes and profit/business taxes imposed by sub-central levels of government, denoted \( \text{STAT} \);
- corporate income tax-to-GDP ratios, denoted \( \text{ATR(GDP)} \);
- corporate implicit average tax rates, denoted \( \text{ATR(implicit)} \);
- average (historic) corporate tax rates derived using firm-specific data, denoted \( \text{ATR(firm)} \);
- project-analysis average corporate tax rates, denoted \( \text{ATR(proj)} \); and
- corporate marginal effective tax rates, denoted \( \text{METR} \).

For illustrative purposes, Section 6.2 presents values for each of the above measures, with coverage limited to ten OECD countries that are Member states of the European Union. The figures exhibit considerable variation, both across EU countries and across the various measures calculated for each country. As explained below, unlike the nominal tax rates which are fixed by statute, and the tax-to-GDP ratios which are also derived ex-post from fixed numbers, the values for the other measures will depend critically on the assumptions made and, of course, on the taxes included. This highlights the importance of thoroughly checking tax rate figures against these considerations when comparing values across countries or sectors, particularly when using tax rate comparisons for policy purposes.

In making the assessment of corporate income tax burdens on firms operating in a given country, a key distinction is between the tax burden on existing capital assets, as compared to the burden on prospective investment. The measured tax burden on existing capital may be a highly misleading indicator of the tax burden on prospective investment, and vice versa (Section 6.3). Of potential measures, in general the best indicators of the corporate income tax burden on existing capital are average tax rates, derived using firm-level or aggregate data. Such figures require certain adjustments and should be interpreted taking into consideration that they are “first incidence” measures that do not account for possible shifting of corporate tax liabilities (Section 6.4). Section 6.5 considers the usefulness of forward-looking tax rates, with a focus on the commonly-used marginal effective tax rate framework for tax policy analysis purposes. Section 6.6 briefly concludes.

Some illustrative results

Chart 6.1 shows nominal corporate income tax rates and three backward-looking corporate tax burden measures. The nominal tax rates, the corporate tax-to-GDP ratios, and the corporate implicit average tax rates are for 1995, while firm-level (historic) average tax rate figures are an average for the period 1990-1996. Given the reliance of backward-looking tax rates on actual (measured) tax liabilities, such
measures become available with a lag, in contrast to forward-looking tax rates based on current information on tax and financial parameters. Also, the implicit tax rate for Germany includes in the numerator not only corporate income tax, but also an estimate of personal tax and business tax on self-employment income.1 (The underlying figures for Charts 6.1 and 6.2 are reported in Annex 6.A.)

Among the ten EU economies shown in Chart 6.1, Germany posted the highest nominal rate of corporate income tax, including the business tax (over 56 per cent), followed by Belgium and Ireland. At the same time, Germany is shown to have the lowest corporate tax-to-GDP ratio, at just over 1 per cent. This result is explained largely by the importance of the unincorporated business sector in Germany, in contrast to the other jurisdictions where the incorporated sector dominates. Thus while corporate tax on corporate profit is much lower than what the statutory tax rate would suggest for Germany, its position at the bottom of a corporate tax-to-GDP ranking is driven by the relatively lower contribution of corporate profit to German GDP. For the other countries as well, the corporate-tax-to-GDP ratio is not representative of the actual tax burden on income from capital at the corporate level, for the reasons set out in Section 3.4.

The historic (backward-looking) average corporate tax rates derived using manufacturing firm-specific data serve to illustrate the effect of special allowances, deductions, and tax credits, as well as tax planning, in lowering the effective rate of corporate tax below that indicated by the statutory tax rate. This measure also illustrates that the importance of these considerations varies considerably across countries. In particular, the spread between the nominal and profit-based tax rates differs markedly, ranging from just half of one percentage point in Sweden, to 24 percentage points in Ireland, and 19 and 18 points in Belgium and Germany respectively. In the case of the UK and France, a 4 point spread is found while in the Netherlands the gap is just over 3 points. The unweighted average spread between the nominal and profit-based tax rates in the EU countries is 9.6 points.

It is also striking that both in the case of Italy and the UK, the implicit tax rate is shown to be higher than the statutory rate. This result highlights the potential for inconsistencies between the numerator and
denominator amounts of the sort explained in Section 4.4 that render such measures of questionable relevance, a point to which we return below.

Chart 6.2 shows nominal corporate tax rates for the ten countries in 1998, and compares these with two forward-looking measures, project-analysis average corporate tax rates and corporate marginal effective tax rates respectively, also computed for 1998.

For most countries, with the exception of France and Spain, the marginal effective tax rates are shown to be well below statutory rates, reflecting the existence of special tax rules providing preferential tax relief. Similarly, for new investment assessed on a (discrete) project basis, the average tax rates are below statutory rates, with German and French firms subject to the highest average corporate tax rates (over 45 per cent).

For certain countries, the project-based tax rates are well below the statutory rates, reflecting the existence of special tax rules providing preferential tax relief. The exception is France, where the project-based rate is above the statutory corporate income tax rate. The reason is that the project-based tax rate calculation factors in a local business tax in France with a different base than that used for corporate income tax purposes. Indeed, the spread in possible tax rates in both charts indicates the scope for interest groups and policy-makers to select those tax burden measures that best reflect their assessment of the current tax system and how it should evolve.

This remainder of this chapter addresses two main policy questions in relation to the taxation of income from capital at the corporate level, and considers the relative strengths and weaknesses of the measures reviewed in the preceding section when addressing these issues. The two policy areas that we focus on are:

- the corporate tax burden on existing capital, relevant to equity concerns (Section 6.3); and
- the corporate tax burden on newly acquired capital, relevant to investment behaviour and efficiency concerns (Section 6.4).

Chart 6.2.  **Forward-looking Corporate Tax Rate Measures, 1998**

**Sources:** Statutory rates: OECD Tax Data Base; ATR (proj.); Price Waterhouse Coopers 1998; METR: Baker and McKenzie, Amsterdam 1999.
Assessing the tax burden on “old” versus “new” capital

The assessment of the corporate income tax burden on firms operating in a given country essentially involves an analysis of the taxation of income earned on assets held at the corporate level – including financial capital (cash, bonds, stocks), physical capital (buildings, machinery and equipment), land, inventory capital, and intangible capital (patents, trademarks). In making this assessment, a key distinction is between the income tax burden on existing capital assets, as compared to the burden on a prospective investment. This distinction between tax burdens on “old” versus “new” capital is critical for policy analysis purposes on account of two considerations. First, an assessment of the tax burden on existing or “old” capital is particularly relevant to tax policy questions concerning equity in the tax system, whereas an assessment of the tax burden on “new” capital is particularly relevant to analysing investment incentives and related policy goals. Second, the measured income tax burden on the existing capital stock will often differ significantly from that on newly acquired capital.

The differential tax burden on “old” versus “new” capital arises as the existing capital stock in the corporate sector consists of a mix of financial and non-financial assets of varying types, vintages and tax-attributes acquired in the past. Consider first the fact that corporate tax owing in the current period on income derived from that existing capital stock will depend on the particular mix of assets held. Thus so too will the amount of corporate tax payable per unit of income generated. Therefore, historic average tax rates measured as corporate tax liabilities as a percentage of economic profit will differ from the effective corporate tax rate on capital acquired at the margin (or a weighted average of such marginal tax rates) to the extent that the prospective investment (or a weighted average of prospective investments) consists of a different asset mix subject to varying tax treatment, including particular tax subsidies. Tax depreciation rates vary across capital asset classes, certain types of income may be drawn into the tax base at different inclusion rates, different rules will typically apply to income earned on domestic versus foreign-source income, and so on.

An assessment of the tax burden on the existing capital stock may provide a misleading indicator of the tax burden on newly acquired capital on account of other provisions that operate to link one tax period to the next. One of the most important factors in this respect is the tax treatment of losses. Most tax systems allow businesses to carry non-capital (business) losses forward to offset tax payable in future years, in recognition of the fact that the tax year (i.e., a 12-month assessment period) is an artificial construct. To illustrate, assume a firm has a business loss (negative taxable income) in one year, but records a profit in the following year. The firm pays no tax in the first year, but is taxable in the second. In principle, tax liabilities should be determined by allowing the loss incurred in the first year to be carried forward (with interest) to offset positive taxable income in the following year, to give a tax result similar to that which would have occurred had the tax period not been constrained to a single one-year period. In any given year, the existing stock of losses carried forward from prior years and available to offset current period taxable income will depend, among other factors, on the timing of that year over the economic (business) cycle. Loss carryforward pools would be relatively large following a downturn in the economy, for example. Therefore, the tax burden on existing capital measured in a year when relatively large loss carryforwards are claimed (i.e., in a year when corporate tax payments are relatively low), may provide an underestimate of the tax burden on newly acquired capital.

A similar consideration is that systems that provide investment tax credits often allow unused credits to be carried forward to offset tax in future years. Research and development tax credits, for example, are often earned by firms that have not yet developed and taken a product to market, and so have no current tax liabilities on profits against which to claim a credit. Tax credit carryforwards may be introduced to ensure a stimulative effect. Patterns of tax credit carryover claims, like loss claims, will depend on business cycle effects, which tend to expand and contract profits and tax base. Therefore, in the presence of carryforward provisions, a tax burden measure based on current period corporate tax payable may be a misleading indicator of the tax burden on newly acquired capital.

Another consideration is that corporate tax assessed on realised net capital gains, while relevant to the tax burden on existing corporate assets, may not be relevant to assessing the tax burden on investment at the margin. An adjustment to market interest (discount) rates or expectations over future earnings of exist-
ing capital, causing an adjustment in asset prices with capital gain or loss effects, will affect current period tax liabilities on dispositions of capital where such gains/losses are drawn into tax, as they are in many systems. While changes in asset prices may affect investment decisions, the potential impact of capital gains taxation on investment behavior may differ significantly from that captured by average corporate tax rates influenced by capital gains/losses on current dispositions of previously acquired capital.

The above noted factors arise even where tax policy is held constant over time. Differences in tax burdens on old versus new capital tend to be even more pronounced where tax policy changes over time, as it often does. Consider for example the implications of a reform where accelerated depreciation schedules are replaced with rates that more closely reflect economic depreciation, in which case the tax reducing effects of the old depreciation regime would tend to understate the tax burden on new investment. The tax burden measurement for income derived from depreciable capital purchased in prior years, written-off for tax purposes at rates that differ markedly from depreciation rates applied to capital purchased in the current period, would not be representative of the tax burden on new investment.

In short, the fact that the income tax liability of a corporation, or a group of corporations, in a given year is an amalgam of tax considerations relevant to income generated on existing capital stock – which may differ for a number of reasons from the tax considerations relevant to a prospective investment – means that corporate tax liabilities measured in a prior year (or even in the current year) relative to (adjusted) financial profit may be a highly misleading indicator of the tax burden on “new” capital, and vice-versa. These points are taken up and elaborated below in Sections 6.4 and 6.5, which address the choice among alternative tax burden measures for tax analysis purposes.

Assessing the corporate tax burden, from an equity perspective

The design of corporate tax policy often involves a balancing of revenue, equity, efficiency and “competitiveness” and perhaps other considerations (e.g., simplicity), with different groups holding different views over what the appropriate balance is, how that balance should be achieved, and how the resulting corporate tax burden should be measured. Virtually all would agree that corporations should bear at least part of the tax burden. Corporate-level taxation is necessary to avoid tax deferral possibilities that would otherwise exist. And equity considerations recognise that corporate entities, not just individuals, benefit from public expenditures including infrastructure development and costs in administering legal and regulatory frameworks. Furthermore, corporate taxation permits source country taxation in the case of tax-exempt and non-resident investors who might otherwise avoid contributing their share towards public expenditure in support of business activities.

In measuring the corporate tax burden to address equity concerns that the corporate sector is currently paying its “fair share”, the approach generally taken is to determine corporate income tax liabilities as a percentage of (adjusted) corporate-level profit derived from the existing corporate capital stock. The particular asset mix that gives rise to current period tax liabilities is generally irrelevant, with a focus only on the total amount of corporate tax paid in relation to corporate profit – in the sense that a “buck is a buck” raised from the corporate sector. Given the lags with which corporate tax and profit data are compiled and made available, reference generally must be made to data measured in prior years (e.g., the most recent year in which the requisite data is available).

Turning to a consideration of possible tax measures, it is clear that the nominal corporate tax rate cannot be used in isolation to assess the tax burden on corporations. This stems from the basic fact that the tax liability of a corporate entity and of the corporate sector as a whole depends on a range of provisions impacting on the tax base, in addition to the nominal rate.

Aggregate tax-ratios are a common yardstick by which tax systems are assessed. Since they were published for the first time in 1973, the OECD Revenue Statistics have consistently reported aggregate tax revenues as a percentage of gross domestic product (GDP). Also shown are corporate taxes as a percentage of GDP, personal taxes as a percentage of GDP, and similar ratios for other broad tax aggregates. However, tax-to-GDP ratios may provide misleading indicators of tax burdens. As reviewed in Chapter 3, corporate tax-to-GDP ratios are problematic, as the ratio fluctuates with changes in the share of corporate profits in GDP, even with the share of corporate tax in corporate profit held constant (Section 3.4). More-
over, overall tax-to-GDP are misleading indicators of net tax burdens across countries, as they do not address tax expenditures and the fact that countries vary in their relative reliance on direct and tax expenditures (Section 3.2). Tax ratios are also under the influence of the tax treatment of social benefits (Section 3.3).

Backward-looking (historic) average tax rates derived using actual firm-level or aggregate data on actual taxes paid and (adjusted) financial profits earned, however, may be robust indicators of the income tax burden on corporations. Such measures incorporate the effects of both current and past tax provisions, including nominal rate(s), depreciation allowances, the treatment of reserves, the treatment of losses (i.e., carryover provisions for non-capital, capital and tax incentive losses, complex group relief provisions), tax credits and related carryover provisions, other tax laws and regulations, tax-planning, and tax adjustments/relief provided on a discretionary basis by tax administrators. Proper measurement of average tax rates requires that firms with negative business income (loss companies) be excluded and inflation adjustments be made, as noted in Chapter 5.

Profit-based measures using actual taxes paid in the numerator of course require access to such data, which typically is only available to Ministry of Finance or Revenue analysts. Taxes reported in financial statements may not give a true account of tax liabilities. The central reason for this is that taxes shown in financial statements reflect the amount of tax notionally owing on financial (book) profits, which may differ from taxable profits. One of the main reasons for this difference concerns the treatment of depreciation. Where capital is depreciated for tax purposes on an accelerated basis, depreciation claims for tax purposes will exceed depreciation charges for financial accounting purposes based on the estimated economic lives of assets. Also, taxpayers typically have discretion over the timing of their depreciation claims (as well as claims made from unclaimed loss carryforward pools and perhaps unclaimed investment tax credits.) To the extent that the offsets to tax taken into account in the calculation of taxes payable for financial reporting purposes differ from claims actually made for tax purposes, differences between financial accounting and actual tax payments will arise.

This problem with relying on taxes payable as reported in financial statements has led policy analysts outside government to search for other methods. One such method is the implicit tax rate approach relying on aggregate figures linking taxes actually paid in the year, as available in Revenue Statistics, to National Accounts reporting of operating surplus. However, implicit average tax rates are highly uncertain indicators of the tax burden on capital at the corporate level, for mainly three reasons. First, operating surplus, which appears in the denominator of corporate implicit ATRs, includes interest, rent and royalty income taxed in the hands of individual savers. As the numerator only includes corporate income tax, there is a mismatch between numerator and denominator amounts. This mismatch renders implicit ATRs unreliable estimators of corporate tax burdens and corporate investment incentives. Second, in countries that tax resident companies on their foreign source income, an additional mismatch between numerator and denominator amounts is introduced, as operating surplus includes only domestic profit—i.e., foreign income is excluded from the denominator, while net domestic tax on this amount is included in the numerator. Third, the inclusion in operating surplus of firms with negative business income causes an upward bias in corporate implicit ATRs. An accurate corporate ATR measure should exclude such firms, but this adjustment is not possible when relying on National Accounts data.

Forward-looking project-based average tax rates and marginal effective tax rates (METRs) provide limited information on the tax burden on capital employed in the corporate sector, for primarily two reasons. First, both measures assess tax liabilities on newly-acquired capital only. The resulting tax rate measures will probably misrepresent the tax burden on previously installed or "old" capital, for the reasons noted in Section 6.3. Second, ATRs derived from project analysis and METRs derived from equilibrium conditions reflect the tax burden tied to a set of assumptions (e.g., relating to rates of return, financing and distribution policy, loss carryover/utilisation rates, expected inflation and interest rates) that may not be representative of actual values determining past (or current) period profit levels, investment patterns and taxes paid. Also, the choice over the weights used to obtain an average of individual project ATRs or METRs (each derived for a different mix of assets and industry), representative of the tax burden on capital at corporate level for the economy as a whole, would necessarily be an arbitrary exer-
cise. Moreover, such measures typically overlook possible tax-planning techniques that in practice may lower the tax burden far below that implied simple financial structure assumptions. Despite the fact that such models can be run under alternative sets of assumptions on key variables, they provide a highly-stylised and therefore limited measure of the actual tax burden on firms, which can only be fully captured with reference to actual corporate taxes paid.

In summary, of these potential measures, in general the best indicators of the income tax burden on corporations are backward-looking profit-based ATRs, derived using firm-level or aggregate data on actual taxes paid. The measures are more reliable where profits are adjusted to correct for accounting practices which open up a gap between profits reported in book accounts and true economic profits, and where profits are further adjusted to ensure consistency between numerator and denominator amounts (primarily in relation to the treatment of losses and foreign source income) and to correct for inflation. Such figures should be interpreted taking into consideration the fact that they are “first incidence” measures that do not account for the possible shifting of corporate tax liabilities onto consumers (through higher prices) and workers (through lower wages).

Assessing the impact of corporate taxation on investment incentives

Policy-makers have long been aware of the possible impediments to investment created by capital income taxation. Indeed, a main policy objective of tax reforms undertaken in a number of OECD countries during the 1985-1989 period was a reduction in tax-induced distortions to the allocation of capital across assets, industries and sources of finance. The 1990s witnessed a partial reversal of this trend with a number of countries introducing special investment tax incentives and preferential tax regimes to attract a larger share of increasingly mobile investment capital.

While nominal corporate income tax rates are often cited as important in those cases where tax actually impacts on investment decisions, they are typically considered along with other tax factors (e.g., special investment incentives) determining final tax liabilities on a prospective investment. Indeed, it is often said that the nominal corporate income tax rate itself typically does not influence the location of real (i.e., productive) capital, but rather steers the choice over debt-versus equity financing (financing structure) and income-shifting strategies including transfer pricing. In particular, for investments in manufacturing facilities and other business activities where non-tax factors dominate locational choices, financing structures and transfer prices are increasingly being used to leave as little profit (i.e., as much cost) as possible in high-tax jurisdictions to minimise the firm's global tax bill.

Backward-looking (historic) ATRs may be imprecise indicators of investment incentives. As noted, implicit corporate tax rates are highly imprecise measures due largely to the fact operating surplus is measured gross of interest expense (see Annex 6.B for a discussion of the implications vis-à-vis judging investment incentives). As regards profit-based ATRs, last year's tax as a percentage of last year's income may be a good measure of the corporate tax burden in that year, but needs to say little about the impact of the tax system on newly-installed capital. Moreover, the same reasons that make backward-looking profit-based ATRs useful indicators of the tax burden on both "old" and "new" capital, may render such measures misleading indicators of the impact of taxation on new investment. This is because investment decisions, based on the expected present value of future after-tax revenues and costs, are fundamentally forward-looking. Even where tax rules have remained stable for a number of years, current year claims from pools of un-depreciated capital costs, which incorporate the effects of depreciation provisions and investment patterns in earlier years, may not be representative of current and future depreciation claims on planned investment. Similar considerations apply with respect to investment tax credits and other provisions that carryover tax reductions from one year to the next.

Forward-looking project-based ATRs, which assess the after-tax benefits and costs of investment on prospective investment, in principle may be useful indicators of the drag that income taxes impose on investment. Recent work has emphasized the importance of ATR analysis in the context of foreign direct investment decisions, or more generally in analyzing investment behavior where investors must choose between two or more competing projects (due for example to financing or demand constraints limiting total capital commitments) and expect to earn economic rent (i.e., rates of return in excess of minimum

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required rates).\textsuperscript{10} Such measures, however, are typically derived under a simplified set of market and financing assumptions, and therefore omit various considerations that impact materially on actual tax liabilities – notably complex tax provisions, tax planning, discretion exerted by the tax administration that may not be accurate or representative, and therefore may not adequately capture the overall impact of taxation.

Similar problems arise with the use of METRs. For example, financing structures assumed in both domestic and cross-border variants of METR models typically ignore the use of financing vehicles (e.g., holding companies) in offshore jurisdictions and treaty structures that are critical to the determination of the costs of funds. The task of determining the relevant financing structures that would underlie prospective investments in each sector of the economy of a given country is an enormous task, and for this reason is not incorporated in the reported figures. However, a gross mischaracterization of this central feature of investment renders the resulting statistics of little real relevance. This problem is becoming more important over time as an increasing number of firms and a growing part of total investment, both direct and portfolio, are structured offshore – both in the context of investment by domestic entities and foreign investors.

Additionally, the relevance of other assumptions to industry estimates, typically held constant across countries and time, must be questioned. A discussion of the range of difficulties in modelling investment behaviour and addressing data measurement problems is found in Chapter 5 of this study.

In summary, forward-looking measures of the tax burden on corporations derived from project/economic models cannot be used in isolation to analyse the impact of taxation on investment. Recourse must be made to other sources of information, including survey-based information.

Chapter 5 reviewed the concept of marginal effective tax rates and discussed a number of problems associated with this particular tax measure as a reminder of the limits of METR analysis to offering useful tax policy guidance. Sections 5.5 and 5.6 present a rather long list of conceptual and data problems associated with the marginal effective tax rates framework. The present section rounds out the discussion by considering the usefulness of METR models for tax policy analysis purposes in cases where the underlying assumptions are believed to hold and where the required data is at hand. It turns out that even in this rather unlikely event, the ability of METR analysis to offer a useful guide to the setting of tax policy is limited, on at least three counts.

First, METR analysis says nothing about the amount by which investment expenditures actually respond to tax incentives (or disincentives.) In order to gauge the investment response, an understanding of the underlying production technologies is required. In other words, the first-order conditions from which the METR equations are derived do not explain the elasticity or sensitivity of investment demand with respect to changes in the (user) cost of capital (a comparative static analysis involving specification of the production technology is required). A lower corporate income tax rate, or a higher capital cost allowance rate or investment tax credit rate will generate a reduced tax wedge. But the METR model is silent on the timing as well as the magnitude of the investment response, and thus the ultimate impact on the capital stock. This shortcoming is fundamental, as the impact of taxation on capital formation is the essential concept for assessing the influence of taxation on aggregate demand and economic growth.

Second, when used to assess incentives for R&D and human capital investment – areas in which theory would suggest the use of positive tax incentives (negative tax wedges) to address market failure (i.e., under-investment due to unpriced spillover effects) – the METR framework provides no guidance on how large the tax incentive should be. This point (related to the one above) stems from the fact that the METR framework offers no explanation of the underlying determinants of the corresponding capital stocks, let alone their optimal values. Without this framework, too often METR modelers are tempted to point to the METR statistic in a given country that signals the most generous tax support, and to hold this value out as the benchmark or target METR to which other countries should strive. Such reasoning is hollow, however, as the degree of tax support may be excessive relative to the unmeasured optimum.

Third, the partial equilibrium framework is unable to address the impact of tax policy changes on other factor demands (e.g., labour) and prices. Nor does it consider distributional or transitional effects. Nor does it consider the linkage between the setting of tax parameters and revenues, and thus the bud-
getary impact of tax policies. In short, many of the key issues that confront tax policymakers when assessing tax policy are simply left unaccounted for. This fact is potentially the most problematic, given the need to address a wide range of issues when recommending tax policy change.

This rather discouraging note begs the question: Why has METR analysis generated so much interest? One might argue that this interest grew out of the relative simplicity with which the framework could be used to incorporate the interaction of tax provisions thought to influence investment behaviour, and to capture this net influence in a single summary statistic. Tax rules and regulations are often a messy affair, particularly for non-tax experts, and the prospect of encapsulating their net effect into a single summary statistic is obviously attractive. However, in reality, neither the operation of tax systems, nor the determinants of investment behaviour (nor the interaction of the two) are so simple.

Indeed, after reviewing the strengths and weaknesses of marginal effective tax rate analysis, the Working Party on Tax Policy Analysis and Tax Statistics of the Committee on Fiscal Affairs at its 58th Meeting in May 1999 formulated a statement emphasising the need to exercise caution when using METR analysis for policy purposes. The statement acknowledges that METR analysis offers a convenient framework for summarising at a broad level the interaction of tax rules relating to capital investment, and for identifying the various channels through which tax policy might be expected to influence investment behaviour. However, many difficult conceptual and data problems are encountered in the use of METRs. See Annex 6.C for a reproduction of the statement.

Conclusion

Over the years, in response to growing demand by policy-makers, various measures to assess tax burdens have been developed. The present study has reviewed some of the most common measures used to measure tax burdens of taxpayers, focusing primarily on corporations. In addition, it has provided some illustrative numbers from various sources on tax rates and tax burdens in ten OECD Member countries. More specifically, over the past fifteen years economic analysis of the economic impacts of taxation has increasingly relied on calculated marginal effective tax rates (METRs). However, careful consideration of the range of conceptual and data problems reviewed in Chapter 5 suggests that METR statistics and comparisons across sectors in countries have to be used cautiously as indicators of the influence of taxation on investment or as a guide to the setting of tax policy.

The study concludes that all current measures reviewed have at least some important shortcomings. Results based on these and other tax burden measures should therefore be interpreted with their limitations in mind, and judged with due caution when used to address policy questions. Further work in this area will be undertaken by the Working Party on Tax Policy Analysis and Tax Statistics of the OECD Committee on Fiscal Affairs.