Policy Forum: Mountains and Molehills—Effects of the Small Business Deduction

Ted Mallett*

PRÉCIS

Le débat se poursuit concernant la raison d’être et l’efficacité de la politique gouvernementale à l’égard du traitement fiscal des petites entreprises au Canada, où les taux d’imposition réels plus bas existent depuis 1949. Ceux qui sont contre un taux préférentiel pour les petites entreprises invoquent leur inquiétude que celui-ci permette la mise à l’abri de revenus personnels élevés, freine la croissance des entreprises, et explique le retard général de la croissance de la productivité au pays. Dans ces arguments, toutefois, on peut reconnaître une tendance à prêsumer que les problèmes touchant la politique fiscale en marge concernent toutes les petites entreprises. Le traitement préférentiel n’est pas l’approche idéale pour soutenir l’esprit d’entreprise, mais les distorsions induites causées par les taux d’imposition plus bas des petites entreprises sont relativement mineures dans le contexte de l’objectif plus vaste de compenser les obstacles financiers et les coûts élevés de conformité à la réglementation auxquels elles font face.

ABSTRACT

Active debate continues on the rationale and effectiveness of government policy on the corporate tax treatment of small businesses in Canada, where lower effective rates have been in place since 1949. Those arguing against a preferential rate for small businesses cite concerns about the sheltering of high personal incomes, business growth disincentives, and general lags in national productivity growth. These arguments, however, tend to assume that problems with tax policy at the margins can be generalized to all small businesses. Although preferential treatment is not a perfect approach to supporting entrepreneurship, any induced distortions caused by lower small business tax rates are relatively minor when placed in the context of the broader goals of offsetting financing barriers and compensating for high regulatory compliance costs.

KEYWORDS: SMALL BUSINESS ■ CORPORATE TAXES ■ INCOME DISTRIBUTION ■ GROWTH ■ FINANCING ■ COMPLIANCE

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INTRODUCTION

Differential taxation of small businesses relative to large ones has long been a part of Canadian corporate tax policy. And, for most of its existence, the distinction has attracted both strong support and opposition. At the risk of oversimplifying, those supporting the lower rate on small firms generally include those with skin in the game—either running businesses day to day and committing their personal savings to equity positions, or advising others on how to best structure their affairs. On the other side are those perhaps looking at tax policy more dispassionately—seeking to find the best combination of measures to ensure as much equity, efficiency, simplicity, and revenue as is reasonably possible within the broad system of taxation.

The arguments on both sides of the debate have their strengths and weaknesses. Proponents of the status quo want to see a policy world that helps encourage economy-building principles of entrepreneurship, self-sufficiency, business stability, and growth. The downside, though, is that their position may be, or be seen as, self-serving—not just reducing their own tax exposure, but transferring it to somewhere else in the economy. Opponents of preferential small business treatment of corporate income certainly have meritorious aims of improving simplicity and equal-handedness in the tax system and higher productivity in the economy at large. To make these arguments, however, they have to rely on some pretty simplified characterizations of the real world and excessive emphasis on marginal or boundary issues rather than on more broadly based averages.

Essentially, the issue comes down to how policy makers should deal with very real but complex differentials in the base operating environments. The choice is either to attempt to offset the relatively higher costs of running a small business by providing access to lower tax rates, or to hold firm that these background costs are a part of the fabric of the economy that does not require tax-based corrections. This article looks at both sides of the argument but lines up in the end with the former—that the small business deduction (sBD), while an imperfect mechanism, is an appropriate policy response to the need for small and nascent business capital formation and compensation for some disproportionately onerous costs of operations.

Before getting into the heart of these arguments, it is useful to cover some of the history of small business corporate taxation. Readers should note that although
the provinces also apply small business rates, for simplicity the discussion is restricted to the federal system.

**A LITTLE HISTORICAL BACKGROUND**

The origins of the small business tax rate lie in 1949 with the introduction of a two-rate system based purely on income levels for all corporations. The aim was to serve a basic principle, namely, “to assist small corporations in accumulating funds to finance business expansion.” To limit opportunities for larger corporations to lever some advantage out of the new tiered structure, rules were set in place to prevent associated companies from applying the small business rate multiple times to taxable incomes. However, the rules proved to be complex and difficult to enforce, and frequent amendments were necessary.

In the 1960s, the government formed the Royal Commission on Taxation (commonly referred to as “the Carter commission”). The commission’s key goal was vertical and horizontal tax equity, and it chose to lay out recommendations based on the purer principle that dollars of income should be treated the same no matter what the source. Economists would find much to support in the academic and theoretically based recommendations of the commission, but others—particularly those who would face significant increases in taxes as a result—would be alarmed at the potential upending of existing economic relationships. That period, however, was also one of rapid growth of direct government activity in the economy, with the debate over the commission’s recommendations turning into one on fiscal federalism in general.

The Carter commission favoured the abolition of the favourable small business rate. Even so, the commission recognized the need to support small private companies:

This does not mean that we believe the *Income Tax Act* should contain no special provision for new businesses. On the contrary, we believe that the easy entry of new businesses can play an important role in the Canadian economy, and that preferential tax treatment is one of the ways in which they can be encouraged.

Indeed, the commission’s focus was on directing help toward new firms. The recommendations included proposals to tax closely held companies as partnerships, bringing their treatment closer to that of unincorporated businesses. The commission also advocated accelerated capital cost allowances (CCAs), front-end loaded to the early stages of business growth. Nonetheless, critics felt that the commission still

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placed too much faith in the ability of government to solve small business financing problems directly though programs and agencies rather than indirectly through the tax system.

The government’s response to the Carter commission, set out in Finance Minister Edgar Benson’s white paper on tax reform,5 followed through with a proposal to eliminate the small business tax rate, but with the glaring absence of CCA assistance. The reaction from the small business community was swift and furious. Among the most vocal was the newly formed Council for Fair Taxation, a grassroots small business group led by John Bulloch.6

Perhaps Minister Benson was also contemplating programs to assist small business financing, but in Commons committee testimony, he expressed his belief that the cost of replacement measures to aid small business capital formation could be almost as much as the gains in corporate income tax revenue expected from the equalization of rates.7 Both Commons and Senate committees at the time, however, recommended retaining the small business rate, but on a conditional basis.

The resulting 1971 tax reform legislation was a compromise, but it completely changed the mechanism by which small business income was taxed. The explicitly set low corporate rate was abolished, but for Canadian-controlled private corporations (CCPCs), an offsetting credit would be offered to reduce the effective tax rate to 25 percent on the first $50,000 of active business income (15 percent net of the provincial credit).8 The deduction, however, would disappear once a corporation had accumulated $400,000 in pre-tax earnings. The legislation tried to define clear bounds for the types of business income that could qualify for the deduction by (1) requiring Canadian ownership of the business; (2) excluding investment-related business income; (3) capping the benefit over time; and (4) enacting measures to prevent associated companies from receiving the benefits in multiplicity.

Although definitions of qualifying income have been refined over the years to keep the SBD targeted to its intended group, the government’s policy on corporate tax rates has focused mainly on changes to the general rate. The difference in the taxation of small and large businesses is now less than it has ever been. The gap in federal tax rates has narrowed from more than 25 points in 1971 to only 4 points today (expected to grow to 6 points by 2019). Although the annual income thresholds in today’s dollars have varied considerably, they now sit on the high side of recent history, allowing a wider range of businesses to qualify (see figure 1).

5 E.J. Benson, Proposals for Tax Reform (Ottawa: Queen’s Printer, 1969).
6 The council was wound up after the passage of the 1971 tax reform legislation, but seeing a need for a more permanent voice for small business on the public policy stage, Bulloch formed the Canadian Federation of Independent Business (CFIB).
Arguments against the SBD generally fall into three broad categories:  

1. It helps the rich.
2. It creates a disincentive to growth.
3. It misallocates investment toward less productive activities.

These arguments happen to be true; but it is important to show them in their proper context. Generally, the distortions created tend to exist at the margins rather than in the whole sample of small enterprises. The real question should be whether

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these effects are significant enough to offset the broad-based benefits of encouraging entrepreneurship and small business development.

**Small Business and Wealth Distribution**

Discussions on vertical tax equity, which tend to focus on individual and family situations, become especially complicated when one broadens them to the corporate tax system. The SBD has been criticized for allowing wealthy business owners to defer taxes on their personal income and to split income among family members (though deferral and income-splitting techniques could still be used even without the SBD). If all owners of incorporated businesses tended to draw consistent and high levels of personal income, this would indeed be an issue to deal with; however, neither is true. Small business earnings are notoriously unstable, making income deferrals and splitting much less contentious. And, while there are high-income exceptions at the margin, the incorporated self-employed also tend to earn only modest amounts compared to employees.

Data on full-time, full-year workers from Statistics Canada’s 2010 Survey of Labour and Income Dynamics show that incorporated self-employed individuals who employed others earned an average of just under $60,000 and a median of only $37,000 annually, compared to $57,000 and $48,000, respectively, for employees (see table 1). It may appear that employers enjoyed a small earnings premium, but they generally worked an extra 650 hours for it through the year. High income (subjectively expressed as $100,000 or more in earnings) was more prevalent among employers at 17 percent, but not drastically higher than the figure for employees (9 percent). For the remaining incorporated self-employed who did not employ anyone else, the earnings picture was considerably more modest, with earnings levels roughly half that of employees.

Innovative research by Wolfson, Veall, and Brooks has spliced together personal and corporate income tax records from 2001 to 2011 to look at the use of CCPCs among the very high earners, and how traditional income statistics may be undercounting actual after-tax earnings in this group. This has a bearing on the income equality debate—there is no question that there is a connection between high incomes and corporate ownership—but it is still really only an issue at the margins. In their study, Wolfson et al. found that only the top 5 percent of CCPC owners had total earnings in what could reasonably be considered the high-income range in 2011. If one considers that these incomes may well oscillate wildly from year to year, the income equality implications from a lifetime earnings perspective may be much smaller.

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Certainly the debates these days on income and wealth inequality have sharpened people’s senses as to what might be the causes and effective solutions. However, they have also encouraged knee-jerk responses to the mere presence of high income within particular groups—as if it is an undesirable outcome needing to be stamped out. The wisdom of preventing the rewards of entrepreneurship from flowing to those responsible for creating them, though, is questionable. The minority of business owners who have built up high levels of corporate or personal earnings no doubt have also, on balance, brought a great deal more to their surrounding communities in terms of employment, incomes, and investment. So if there is a slightly greater frequency of high income in the self-employed community, this should rightly be seen as a sign of strength in small business tax policy, rather than a sign of weakness.

Some of the attention has focused on high-earning professionals and the potential they have in taking advantage of the SBD alongside other types of businesses. Tax law still requires these professional-led corporations to pass the test as active businesses, but the question of “worthiness” persists. Perhaps professionals who incorporate are not considered as entrepreneurial as the traditional image of an individual starting from scratch in a crowded competitive marketplace. The differences, though, may lie more in appearance than in reality. A high-earning business owner in an open market is a rare occurrence—in other words, it is a category with a high barrier to entry after incorporation. Professionals, on the other hand, face their high barriers to entry well before any decision to incorporate, namely, at the education and accreditation stages. In neither case is high income assured, so the question is really

<table>
<thead>
<tr>
<th></th>
<th>Employees</th>
<th>Incorporated with employees</th>
<th>Incorporated without employees</th>
<th>Unincorporated with employees</th>
<th>Unincorporated without employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number (‘000s)</td>
<td>8,258</td>
<td>402</td>
<td>303</td>
<td>181</td>
<td>692</td>
</tr>
<tr>
<td>Average annual working hours</td>
<td>1,997</td>
<td>2,656</td>
<td>2,429</td>
<td>2,537</td>
<td>2,330</td>
</tr>
<tr>
<td>Average annual employment earnings ($)</td>
<td>57,276</td>
<td>59,858</td>
<td>33,413</td>
<td>59,786</td>
<td>33,066</td>
</tr>
<tr>
<td>Median annual employment earnings ($)</td>
<td>48,000</td>
<td>37,000</td>
<td>23,000</td>
<td>32,000</td>
<td>18,000</td>
</tr>
<tr>
<td>Workers earning &gt; $100,000/yr. (%)</td>
<td>9</td>
<td>17</td>
<td>5</td>
<td>13</td>
<td>8</td>
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</table>

*Table 1 Earnings Profile of Employees and the Self-Employed in Canada, 2010*

about how earnings get distributed from a business rather than how they are taxed within the business. Differentiating tax treatment on the basis of the type or sector of business is not as clean in reality as it is in theory, so policy tools need to resemble scalpels rather than bulldozers.

Growth Disincentives

The 2013 tax expenditure report from the Department of Finance\(^\text{11}\) contains a very helpful analysis of the incidence, scale, and dynamics of the small business deduction. The department’s data cover the 2000, 2007, and 2011 tax years and have already been cleansed of associated companies. The charts on the numbers of SBD claimants by net income group immediately draw attention to two basic conditions regardless of the tax year in question (see figure 2). First is the steep dropoff in the number of businesses as they move up the income ladder. Second is the clustering of the number of businesses at or just under the income threshold for the deduction. In 2000 the maximum threshold was $200,000, rising to $500,000 by 2011 (see figure 1).

The observed clustering supports the notion that some small businesses “bonus out” or hold back their earnings to keep all their net income under the threshold. However, the most significant takeaway from this visual analysis is how small an effect it seems to be. If the impression is that the SBD is encouraging a large number of businesses to forgo growth, to the detriment of Canadian socioeconomic development, that view is not supported by the Finance data.

Instead, we see a massive reduction in the number of businesses as one proceeds through the income groups at the bottom of the distribution. Figure 2 shows that in 2011 there were 109,343 SBD claimants with income between $0 and $10,000. By the time one gets to the $100,000-$110,000 group, the number of claimants has been cut to only 14,183—a population loss of 87 percent. It is hard to fathom how a tax-rate threshold $400,000 farther up the income scale can be responsible for that rapid downshift in distribution. The steepness of the curve at income levels under $100,000 relative to incomes near $500,000 strongly suggests there are many other far more significant barriers to growth at play than mere tax rates—whether they are structural, economic, social, or policy-driven.

Continuing with the growth disincentive theme, there a couple of things we can do with these data that can deepen the analysis. If we focus on the bump at and around the SBD threshold shown in figure 2, claimants earning between $470,000 and $530,000 in 2011 number about 19,000—or about 3.5 percent of the total number of claimants. It is fair to presume that many of those businesses would have registered higher incomes had the deduction not been there. However, sending a simple trend line through the distribution to negate the effect and notionally push more businesses into the $500,000-$800,000 income range still leaves about 11,000 businesses that would have been within the bump range anyway. Therefore, we are

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\(^{11}\) Canada, Department of Finance, *Tax Expenditures and Evaluations 2013* (Ottawa: Department of Finance, 2014).
only dealing with roughly 8,000 businesses that can be said to have “held themselves back” in response to the mechanics of the tax system.

Estimating the financial and potential fiscal impacts is a little trickier because it involves making assumptions about the counterfactuals—specifically, what business owners would have reported on their corporate returns, any firm-level behavioural impacts, and what amount of tax would have been paid on the redistributed earnings.

It is important to point out that the Finance data cannot tell us anything about the dynamic effects of the issue. The static impression of tax data can inadvertently encourage people to presume that it is the same set of businesses that redistribute earnings every year to remain under the threshold. It may well be the case that businesses redistribute earnings for only a few years as they move into the higher income levels. The distinction is important because it affects what sort of “problem” we are dealing with, and what sorts of policy responses may be called for.

Each of these points certainly merits further study, but for now there does not seem to be strong empirical evidence to support the notion that the SBD is a meaningful disincentive to growth.

**The Productivity Puzzle**

That growth disincentives are even an issue is rooted in the observation that small businesses are less productive than large firms, and a belief by some that the greater
number of small businesses is holding back Canadians’ standards of living. Reports from Deloitte and economist Don Drummond explore those points qualitatively.12

There is no disputing the idea that large enterprises are more productive—that is, economies of scale allow large enterprises to generate more output per unit of labour and/or capital input than small enterprises. There is still concern, however, that some owners (in the “bump” noted above) are able to keep multiple companies under the threshold, despite the rules on associated companies. The argument is that overall productivity is harmed because each unit is operating at a small scale.13 Although conceivable, it is tough to prove this reliably or show that it has a large impact. The state of productivity data in Canada is too basic to allow us to compare the productive outputs and inputs of one mid-size company versus that of two or more equivalent split units—especially since managerial knowledge is likely common to both cases.

Measurements get much more challenging when one considers changes in productivity, rather than its relative level. Much has been made of Canada’s slow productivity growth relative to the United States; however, the lack of its direct correlation with wage growth has put Canada’s official estimates and measurement methods under the microscope.14 Even with the traditional measures, though, productivity growth rates relative to the United States do not seem to match up with the pattern of small business tax assistance. As mentioned above, Canada’s basic system of small business tax preference has been in place since 1949, but it was not until around 1980 that our productivity growth rates began to fall short.15 Furthermore, the subsequent slowdown in relative productivity growth is more closely in step with a narrowing of the difference between the small business and general corporate tax rates, not a widening. No one should expect to see a perfect relationship between tax policy and productivity trends, because of behavioural lags and other complicating factors, but the patterns certainly do not easily fit the narrative that the SBD is the cause of the productivity problem in Canada.

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13 Chen and Mintz, supra note 9, at 3.


Even the more theoretical productivity assertions leave some pretty large unanswered questions. The arguments that marginal effective tax rates create relative distortions between small and large firms in the cost of their capital investments are simplistic because they ignore the fact that units of capital are not easily divisible in scale compared to labour. This is a big deal—and the reason why small firms tend to be more labour-intensive. A business is capable of acquiring labour services in units of as little as an hour (or three if accounting for standard call-in pay rules). Capital inputs, on the other hand, are considerably lumpier. A delivery truck, an excavator, a building, or customer relationship management software cannot physically be used in units of less than 1, with each costing tens or hundreds of thousands of dollars. Moreover, the cost of 10 units of capital input will invariably be much less than 10 times the single-unit cost—an economy of scale that is not as apparent for labour inputs. It is quite true that a business can lease capital so as to make use of its services in small units. However, in traditional productivity analysis, the business or sector that owns capital is credited with the productivity effect. In other words, it is the financial services sector (large firms) that will show the productivity boost from the leasing of equipment by construction contractors (small firms).

The productivity argument also hinges on the argument that there are too many small businesses relative to large ones. Again, comparisons with the United States are often made here—highlighting the comparatively lower number of small and medium-sized business south of the border relative to the size of the economy (see table 2). However, this is not just true of the incorporated business sector, but of the unincorporated sector too, suggesting that the reasons are not simply related to differences in the taxation of corporations. Other more likely explanations for the differences in small business demographics probably relate to Canada’s considerably smaller economic scale, wider geoeconomic dispersion, and perhaps even the added seasonality imposed by our northern climate.

Trying to create a causal connection between small business taxation and relative productivity is not just difficult because of productivity questions, but direct tax policy comparisons with the United States are not straightforward either. US federal C-corporation tax rates are graduated by earnings level, as are rates in many US states, but they are much more finely stepped than rates in Canada. For those in the lowest $50,000 US federal bracket—which approximates the median income of SBD claimants in Canada—rates are not substantially different between the two countries. In addition, small US businesses can (and usually do) opt for S-corporation status, where all income is passed through to be taxed at the personal level, much like income from a partnership.

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TABLE 2  Self-Employment as a Proportion of Total Employment, by Corporate Status, Canada and the United States, 2009

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<thead>
<tr>
<th></th>
<th>Canada</th>
<th></th>
<th>United States</th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Number (thousands)</td>
<td>Percentage of total employment</td>
<td>Number (thousands)</td>
<td>Percentage of total employment</td>
</tr>
<tr>
<td>Total self-employment</td>
<td>2,671</td>
<td>16.0</td>
<td>15,297</td>
<td>10.9</td>
</tr>
<tr>
<td>Incorporated</td>
<td>1,098</td>
<td>6.6</td>
<td>5,466</td>
<td>3.9</td>
</tr>
<tr>
<td>Unincorporated</td>
<td>1,574</td>
<td>9.4</td>
<td>9,831</td>
<td>7.0</td>
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</tbody>
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In light of the differentials in the marginal effective tax rates on investment arising from the SBD, suggestions to push small business taxation policies toward investment-based incentives through the CCA provisions and refined treatments of capital gains are certainly worth considering, especially if this will encourage more growth businesses to list as public companies. Providing such incentives does not mean that the SBD would have to be eliminated for firms at the lower end of the income scale.

**THE CASE IN FAVOUR**

It is reasonable to state that business size alone should not justify differential tax-rate treatment of business income. There are natural market reasons why some firms are large and others are small. Growing businesses should be permitted to capture the benefits of scale without incurring a tax penalty. That sort of statement, however, requires that all other things remain equal. This is easy to suggest in a theoretical world, but in a practical sense, not all scale factors are purely market-driven. The two most significant scale riptides that small businesses face are compliance costs and availability of financing.

**Tax and Regulatory Compliance Costs**

There is pretty conclusive evidence that regulatory compliance burdens are considerable in Canada. Although it is difficult to separate with precision the burdens associated with specific policies such as corporate income taxes, employee source deductions, employment insurance, workers’ compensation, etc., recent studies show that the impacts are non-linear and weighted strongly against the smallest players. Scaled to the size of business, compliance costs are roughly 3 to 10 times higher for micro businesses (employing fewer than 5 people) compared to large enterprises.

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18 Chen and Mintz, supra note 9, at 20.
The total business compliance costs for taxation have been estimated to range upward of $13 billion to $19 billion, almost three-quarters of which is borne by businesses of fewer than 20 employees. With compliance costs at these levels, the $3.2 billion in current federal SBD tax expenditures looks far less significant.

Although this result is not directly measured in the literature, it appears quite possible that many businesses at the low end of the income scale are paying more to comply with corporate income tax laws than they are paying in taxes—or, if not that, then certainly more than the marginal value of the SBD benefits they receive.

**Financing**

Concern about small firms’ ability to acquire financing has been the foundation for preferential small business tax treatment. Debt finance from banks is generally not available for new ventures and those without assets to lever. Venture capital is a viable option only for the high-end startups, while equity markets from public listings are an option only for businesses further along the growth curve. The vast majority of small and new ventures must rely on their own assets and to some extent those of family and acquaintances. Preservation or growth of business capital though retained earnings is really the only other source of financing—and that is generally a slow and inconsistent process.

Government agency lending, favoured by the Carter commission, can provide some assistance in specialized cases, but there are concerns about how reliance on such sources can disrupt the market-based debt markets. Direct government funding is not really a smart option either, because of the risk of political interference, asymmetric information about its availability, and the high administrative cost of applications.

**In Summary**

Despite its imperfections, broad background assistance through the tax system appears to be the best approach for assisting a highly dynamic and organically driven sector. It may be true that many of the growth and financing difficulties that small businesses face are a function of “newness” rather than “smallness.” However, tax preferences based on the age of ventures require judgments on appropriate time frames and the

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20 See Seens, supra note 19, table 3, at 10.
possibility of introducing undesirable consequences worse than the status quo—much like what was found with cumulative deduction accounts in the past.

The challenge for any tax system is to balance the need for simplicity and for fairness, both vertically and horizontally. The taxation of intermediate production through corporate taxes makes this difficult because of how it meshes with individual earnings at both ends of the income scale. Large enterprises have seen significant reductions in corporate tax rates, for good reason. The taxation of intermediate production is far from an optimal way to finance government services or encourage economic development. By encouraging businesses to generate income through lower tax rates, governments’ overall corporate tax take relative to gross domestic product has been preserved.

Given these tax trends at the general level, large enterprises do not have a strong claim that the SBD has put them at a competitive disadvantage or that there is serious crowding out of investment. It remains difficult to argue that economic growth would be helped by eliminating the tax preferences for the smallest players, even if all the savings were transferred back to all corporations in the form of a lower general tax rate. Indeed, the recent approach in the United Kingdom has been to reduce the general rate rather than increase the rate for small business.

There are certainly elements of the SBD that generate policy questions, such as the presence or placement of asset thresholds. It is also relevant to assess how much a differential between the general and effective small business corporate rates may optimize desired benefits versus undesired leakages. And, beyond the corporate tax system, there are other problematic tax systems that could well be addressed. Property taxation is at the top of the list because the portion paid beyond what businesses use in municipal or education services is effectively a capital tax. Other reforms could certainly include the payroll and sales tax bases to bring costs closer to beneficiaries.

We don’t have the benefit of observing parallel universes where different policy options can be tested. Instead, one has to do one’s best with an appropriate theoretical construct along with sufficient empirical evidence. With the latter in short supply in connecting the SBD with productivity and business growth dynamics, and the former unable to fully account for the psychology of the entrepreneur, caution is warranted. An entrepreneurial culture can only be built up over generations as people try to emulate the successful outcomes of their predecessors. If that culture is interrupted by a wholesale change in how future income is expected to be taxed, it cannot be restored simply by the movement of a few other policy toggles. No tax-based measure is perfect, but given the delicate psychology of entrepreneurship and the large risks of not getting the formula right, the SBD remains the best approach.