Current Tax Reading

Co-Editors: Tim Edgar and Glenn Feltham*

Christopher H. Hanna, *Comparative Income Tax Deferral: The United States and Japan* (The Hague: Kluwer Law International, 2000), 224 pages, ISBN 90-411-9771-0

This book provides a comprehensive review of the problem of tax deferral from both a theoretical and a practical perspective. The author, who is a professor at the School of Law of Southern Methodist University, has written extensively on the subject of tax deferral. In this important new contribution to the literature, Hanna builds on his earlier work in the context of the US income tax system[1] by comparing the US and Japanese responses to tax deferral in various contexts. The comparison is an instructive one for tax policy makers in other countries. The anti-deferral legislation adopted in most jurisdictions is broadly similar to that in Japan. The US tax system stands apart as reflecting a more aggressive approach to issues of tax deferral. Hanna takes the position that the US model offers valuable lessons for Japanese tax policy makers in improving the effectiveness of anti-deferral measures. In our view, these lessons also extend to other countries for which the US experience has particular relevance.

Hanna uses the model of tax deferral articulated some 50 years ago by Cary Brown[2] as the key to a thorough understanding of the problem of tax deferral. Hanna illustrates in detail how the model has been interpreted and developed in recent US academic literature on the subject. He emphasizes, in particular, the "partnership analogy" suggested by Brown as the basis for an understanding of the significance of deferral for both the revenue and the expense side of the computation of taxable income. According to this analogy, the government effectively becomes the partner of a taxpayer when tax payable is deferred by either accelerating expense recognition or deferring revenue recognition from one taxation year to another. The government "invests" the deferred tax in the asset or business of a taxpayer and receives a return on the investment equal to tax payable on the return generated by the asset or the business. The amount of the initial capital invested by the government is repaid when the amount of the deferred tax is paid in a subsequent tax period. Simple numerical examples clearly illustrate

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the features of this analogy. (Hanna uses such examples throughout the book to guide the reader through the various layers of his analysis.)

After a brief introduction (chapter one), Hanna describes the Cary Brown model (chapter two) and then presents a review of various interpretations of the model in US academic literature (chapter three). Hanna attributes much of the focus of US tax policy makers on tax deferral to the influence of Stanley Surrey in his role as assistant secretary to the Treasury for tax policy in the 1960s. Surrey dedicated considerable time and energy to an explanation and elaboration of the Brown model and its significance for an understanding of issues common to a broad range of factual contexts. Hanna also singles out for particular praise the groundbreaking work of Daniel Halperin, who extended deferral analysis using the insights of the Brown model.[3]

Hanna (in chapter four) explores and extends the significance of the partnership analogy in four important contexts: (1) the immediate deduction of capital expenses; (2) the treatment of deferred proceeds under instalment sales; (3) the benefit associated with deferred employment compensation; and (4) the problem of deferral presented by the failure to tax currently the unrealized appreciation in value of assets. In each of these areas, Hanna articulates and applies five separate analytical steps that he describes as the basic building blocks of the partnership analogy. The first three of these steps constitute what he refers to as "the Cary Brown model" of tax deferral. Elimination of the second and third steps constitutes what he refers to as "the Super Cary Brown model." Hanna argues that any analysis of deferral should focus on either the absence of steps four and five under the Cary Brown model or the absence of steps two and three under the Super Cary Brown model. This explicit analytical structure is an important addition to the existing academic literature on tax deferral. It suggests a unique way of thinking about deferral and is further evidence of the value of Brown's basic model for a succession of theorists, including Surrey, Halperin, and now Hanna.

Hanna next compares various deferral scenarios under US and Japanese income tax law (chapter five).[4] For each scenario, Hanna first describes the relevant US and Japanese law and then analyzes the tax deferral principle in terms of the Cary Brown model. The US response to the deferral principle is briefly noted. The deferral issues raised in these various factual contexts can be analyzed in terms of the Cary Brown model or the refined Super Cary Brown model described in chapter four.

Hanna goes on to describe in detail five different types of legislative response used by US tax policy makers in eliminating tax deferral (chapter six) and briefly assesses the positive and negative features of these responses (chapter seven). Although Hanna's assessment is explicitly framed in terms of lessons for Japanese tax policy makers, it is sufficiently broad to be of use to policy makers in other countries that have followed the US lead in a particular area or are considering doing so.

We recommend this book as required reading for all tax policy makers, tax practitioners, and tax academics concerned with the problem of tax deferral.

Indeed, it should become the basic reference text for any subsequent analysis of this important subject.

T.E.

Daniel Shaviro, *When Rules Change: An Economic and Political Analysis of Transition Relief and Retroactivity* (Chicago: University of Chicago Press, 2000), 253 pages, ISBN 0-226-75114-7

Transitional rules are among the more complex rules in tax systems. However, complexity is only a reflection of the technical design issues that follow from the more fundamental decision to adopt a particular transition policy in the move to a new set of substantive rules. The existing legal and economics literature articulates two general approaches to the analysis of appropriate transition policy. One approach emphasizes the reliance interest of taxpayers and posits that transitional relief should be provided as a matter of course when governments introduce changes to tax rules that affect decisions made under prior law. The second approach emphasizes the welfare-improving nature of changes in tax rules and posits that transitional relief should not be provided in an effort to alter taxpayer behaviour in a manner that reduces the effects of defective prior law. This book by a law professor at New York University illustrates the somewhat simplistic nature of these two general approaches. Shaviro's analysis suggests that the assessment of appropriate transition policy from a normative perspective is just as messy as the development of the necessary technical details of transitional rules.

The goal of the book is "to reframe the scholarly transition debate."[5] Shaviro attempts to realize this goal through a sophisticated economic understanding of transition issues, including the significance of public choice analysis as applied to the politics of the tax legislative process. We have no doubt that the book will achieve Shaviro's goal. His analysis is much richer than any previous contribution to the debate in the academic literature on transition policy. It is not as clear, however, that the book will influence the development of transition policy in practice. One obstacle that we foresee is the probable resistance of taxpayers and politicians to some of the norms proposed as guides to transition policy.

Shaviro develops his analytical framework and general transition norms in four separate chapters that follow a brief introductory chapter. Two of these four chapters focus on a deeper economic understanding of transition policy. From a purely economic perspective, the choice of an appropriate transition policy depends on the effect that various policy alternatives would have on taxpayer behaviour. Shaviro analyzes these effects in terms of an explicit utilitarian framework, with a focus on the significance of rational expectations theory. Critical to his analysis is a distinction between "transition risk effects" and "retroactive tax effects." In the tax law setting, the latter category is subdivided into "policy change retroactive taxes" and "accounting change retroactive taxes." The former covers those rule changes that alter the economic incidence of a tax. The latter covers those rule changes that alter only the formal timing for payment of a tax and its legal incidence. The economic analysis of transition policy is followed by a public choice analysis of the political dimension of tax law making and possible constitutional norms that attempt to respond to problems associated with this dimension. Shaviro proposes two general norms for transition policy. The first is that policy change retroactive taxes should not be accompanied by transitional relief. The second is that accounting change retroactive taxes should be accompanied by transitional relief. The impact of tax politics is seen as justifying the first norm. Given the random nature of accounting change retroactive taxes, the need to avoid inefficient taxpayer behaviour is seen as justifying the second norm.

In developing the general case for his two transition norms, Shaviro avoids dogmatic devotion to them and cautions that the appropriate policy in particular circumstances should be decided using his analytical framework. Application of that framework is illustrated in separate chapters that assess the appropriate transition policy for (1) changes in income tax rates; (2) changes in the tax base; (3) integration of corporate and shareholder taxes; (4) a shift from an income to a consumption tax base; and (5) social security reform. These chapters indicate quite clearly the need to distinguish between the two categories of retroactive taxes suggested by Shaviro, and the difficulty of making this distinction in many instances where policy and accounting changes are inextricably linked. The case studies of transition policy are followed by a brief chapter that evaluates alternative instruments for transitional relief in those instances in which such relief is considered appropriate.

T.E.

Alvin C. Warren Jr., "Income Tax Discrimination Against International Commerce" (2001), vol. 54, no. 2 *Tax Law Review* 131-69

The challenge presented by electronic commerce for the maintenance of the international tax status quo has recently received considerable attention from tax academics, tax practitioners, and tax policy makers. Arguably, the significance of this challenge has been overstated, at least in the context of the income tax. Effective responses intended to maintain source country jurisdiction to tax are readily available and do not necessarily require rejection of the basic parameters of the international tax status quo. The more fundamental question, which this article explores, is whether the status quo can be maintained in the face of two current trends: the decision in many tax jurisdictions to integrate corporate and shareholder taxes, and the extensive development of international trade law. As Warren provocatively suggests, these trends are far more significant than the growth of electronic commerce in relation to accepted international income tax principles. Indeed, we believe that this article provides the conceptual basis for consideration of a shift in the status quo that has the potential to be much more fundamental than anything suggested thus far in the literature on electronic commerce.

The first two parts of the article review in detail the constraints on taxing powers provided by international tax law and international trade law. Warren discusses the general parameters of these constraints and their separate development within two separate disciplines. The fundamental incoherence of the constraints provided by international tax law is contrasted with the more coherent framework provided by international trade law. In particular, Warren evaluates prohibited and permitted income tax discrimination against international commerce in terms of (1) domestic versus foreign producers, (2) domestic versus foreign production, and (3) domestic versus foreign products. As compared with international trade law, international tax law is seen as failing to address discrimination focused in the third area and is characterized as inconsistent with the development of principles in the second. The only coherent focus has been discrimination on the basis of the identity of producers.

The discussion of the current state of prohibited and permitted income tax discrimination is followed by an assessment of possible norms that might be suggested by considerations of efficiency, competitiveness, and equality. Warren argues that considerations of efficiency do not explain current income tax constraints on discrimination against international commerce and even "suggests that constraints should be the strongest where they have been the weakest."[6] Moreover, considerations of equity do not explain the current situation or provide a basis for certain extensions of non-discrimination principles accepted by the United States and the European Union. Considerations of competitiveness are considered consistent with current constraints, but are rejected because of assumptions about corporate tax incidence and tax distortions generally that are inconsistent with standard views in the economics literature. In the face of these weaknesses in the underlying case for accepted international income tax principles, Warren concludes that it is time to reconsider those principles in an attempt to articulate clear first principles that can provide a coherent legal order.

T.E.

Julie Roin, "Competition and Evasion: Another Perspective on International Tax Competition" (2001), vol. 89, no. 3 *The Georgetown Law Journal* 543-604

In this article, Julie Roin lends yet another thoughtful voice to the debate over international tax competition. She argues persuasively that attempts to harmonize national income tax systems are misguided because they are impractical and unprincipled. Moreover, they are harmful in that they lend credence to the notion that tax competition is harmful and therefore should be eradicated. Roin concludes that nation states should be permitted to decide independently the extent and distribution of the financial burdens of a welfare state. Rather than focus on the presumed and largely non-existent evils of tax competition, tax policy makers should direct their attention to the development of effective responses to international tax evasion.

The first two parts of the article critically examine the notion of corporate tax harmonization from a normative perspective. Roin concludes that these harmonization initiatives lack any persuasive normative basis either economically or politically. The third part of the article reviews strategies for enhanced information exchange among national tax administrations as the primary goal of international tax reform. Enhanced access to information is justified as the most effective means of ensuring residence-based taxation of individuals.

T.E.

J.D.B. Oliver, Jerome B. Libin, Stef Van Weeghel, and Charl du Toit, "Beneficial Ownership and the OECD Model" [2001], no. 1 *British Tax Review* 27-68 and **"Beneficial Ownership"** (July 2000), 54 *Bulletin for International Fiscal Documentation* 310-25

This article considers the meaning of the term "beneficial ownership" as it is used in articles 10, 11, and 12 of the OECD model tax treaty[7] to determine entitlement to relief from source country tax on dividend, interest, and royalty payments. The article is based on the proceedings of a seminar held in October 1999 as part of the annual congress of the International Fiscal Association. The authors were the four panelists at the seminar.

The article begins with a brief review of the historical background surrounding the incorporation of the term "beneficial ownership" in the OECD model tax treaty and in selected bilateral treaties. This review is followed by an extensive discussion of the possibility of an internationally accepted meaning of the term. The authors conclude that it is difficult to identify any broad consensus, and they are particularly critical of the failure to account for the textual meaning of the term as required by the Vienna convention. The lack of any international meaning is contrasted with the use of the term "beneficial ownership" as a term of art in non-tax law in common law countries. Despite this definite meaning, the authors argue that "beneficial ownership" as used in tax treaties should not take its meaning from the relevant domestic law, but should have a separate and distinct meaning for treaty purposes. After discussing three possible treaty meanings, the authors recommend that the OECD should amend the commentary on articles 10, 11, and 12 to clarify the intended meaning of "beneficial ownership" in these particular contexts.

T.E.

Graeme S. Cooper and Clare Cunliffe, "Skinning the Tax Avoidance Cat" (March 2001), 30 *Australian Tax Review* 26-38

The authors of this article draw an interesting and instructive comparison between the standard features of statutory general anti-avoidance rules (GAARs) and recent proposals in the United States aimed at deterring tax avoidance through the use of corporate tax shelters. The first part of the article describes the general features and limitations of GAARs incorporated into the income tax legislation of Australia, Canada, and New Zealand. The second part describes the development of the principal features of the corporate tax shelter legislative regime proposed in the United States. Although the authors generally prefer the use of GAARs as a response to tax avoidance, they suggest that the information-reporting requirements and the penalty regime for promoters of tax shelters in the US corporate shelter proposals may provide useful enhancements. In particular, the information-reporting requirements provide an important detection mechanism, while the promoter penalty regime may usefully alter economic incentives on the tax shelter supply side. The more speculative proposition is whether the standard purpose-based approach to the application of GAARs should be rejected in favour of a quantitative application rule that depends on some sort of measurement of the relative amounts of expected pre-tax profit and tax benefits associated with an impugned transaction.

T.E.

Edwin van der Brugen, "Source Taxation of Consideration for Technical Services and Know-How" (2001), vol. 7, no. 3 *Asia-Pacific Tax Bulletin* 42-60

The scope of source jurisdiction to tax payments for "technology-related rights and services"[8] is a critical issue for technology-importing countries. This article considers resolution of this issue under tax treaties, with particular reference to the treaty policy of China, India, and Thailand. Van der Brugen posits the following four possible bases for maintenance under tax treaties of the source jurisdiction to tax technical fees paid by a resident enterprise to a non-resident:

1) the payments constitute business profits connected to a permanent establishment maintained in the source country;
2) the payments constitute independent personal services income attributable to a fixed base in the source country;
3) the payments constitute royalties subject to withholding tax; or
4) the payments are subject to a specific tax treaty provision permitting the application of withholding tax to technical fees.

Van der Brugen concludes that the fourth alternative is the most direct and preferable assertion of source jurisdiction to tax. He observes that India has successfully implemented this alternative in a number of its bilateral treaty negotiations. The suggested second-best approach is an extension of the concept of a permanent establishment, consistent with the UN model tax treaty, to include certain furnishing of services in a country over a period in excess of a specified threshold. In the absence of either of these two alternatives, maintenance by a technology-importing country of its source jurisdiction to tax depends on a broad interpretation of the concept of royalty payments to cover technical fees. Tax treaties restrict taxation as income from independent personal services to those unusual cases in which such fees are paid to non-resident individuals.

T.E.

Adrian J. Sawyer, "The Wine-Box Inquiry in New Zealand: Round Two—A 'Gutted' Report but No 'Knockout Punch'" (2001), vol. 55, no. 3 *Bulletin for International Fiscal Documentation* 114-25

The "wine-box inquiry" is an infamous and seemingly never-ending saga in New Zealand tax history. The inquiry was struck in 1994 in response to allegations that transactions implemented by New Zealand corporations using the Cook Islands tax haven amounted to tax evasion. The allegations arose from documents that were provided to a member of Parliament, the Honourable Winston Peters. The inquiry's name derives from the fact that the documents were conveyed in a wine box.

This article updates judicial proceedings and other associated consequences of the tabling of the inquiry report in the New Zealand Parliament on August 14, 1997. The report generally vindicated all parties implicated by the allegations of tax evasion, but did contain several recommendations for reform of New Zealand tax law and practice. The report itself is the subject of an earlier article by the author in the *Bulletin for International Fiscal Documentation*.[9] The judicial proceedings following the tabling of the report were initiated by Peters in a challenge to the findings of the inquiry. After initial failure in the New Zealand High Court, Peters succeeded on appeal to the Court of Appeal, which ordered a further review by the High Court of the inquiry's findings. This review found in favour of Peters in his application for declaratory relief. Sawyer describes these judicial proceedings in some detail and questions why, given the final result, criminal prosecutions have not been commenced. He refers to such prosecution as "the knockout punch" that has yet to be delivered.

Sawyer reviews several different avenues through which criminal prosecutions could be made. He also discusses the High Court decision in *BNZ Investments v. CIR*,[10] which involved a tax-avoidance arrangement that came to light from the wine-box documents. Sawyer concludes with a brief discussion of the recommendation of the New Zealand Law Commission to abolish legal professional privilege for tax advice other than that provided in the course of litigation.[11] The origin of this recommendation was the report of the wine-box inquiry.

T.E.

Robert L. Bish, *Local Government Amalgamations: Discredited Nineteenth-Century Ideals Alive in the Twenty-First*, C.D. Howe Institute Commentary no. 150 (Toronto: C.D. Howe Institute, March 2001), 35 pages. Available on the Web at http://www.cdhowe.org

In this article, Robert Bish, an emeritus professor in public administration and economics at the University of Victoria, addresses an interesting and timely question: does it make sense to amalgamate local governments? His approach is to examine the relationship between the structure and the performance of local governments. The central message in the article is that smaller government may be better government.

Bish first examines the evolution of thought about the appropriate size of local government. While the bigger-is-better notion appears to have been largely unchallenged in the early 20th century, the validity of its claims has been questioned with growing frequency in light of more recent developments in political science and the economic field of public choice.

Bish then addresses three central issues: governance, the production of local government services, and the organization and cost of local government. Bish's first governance argument is that if a government is to be responsive, citizens must be able to communicate their wishes. In reviewing the academic literature, Bish makes a strong case that smaller government is in fact more responsive. He also raises the issue of fiscal equivalence—the concept that when the beneficiary pays the costs, he or she has an incentive to choose an efficient level of service. High fiscal equivalence appears more likely in smaller government. But what of the governance cost to smaller government of having more elected officials and staff? Interestingly, Bish demonstrates that the cost of governance is very low, whether or not amalgamation occurs. Further, it is unclear that amalgamation even enjoys a cost advantage. The important cost issue appears to be not one of governance, but rather of the delivery of services.

In examining the production of local government services, Bish focuses on whether amalgamated governments enjoy greater economies of scale. He acknowledges that economies of scale exist with respect to certain kinds of municipal government activities, typically those that require large capital investments such as water supply and waste management. However, as he points out, most research suggests that about 80 percent of local government activities do not possess economies of scale beyond populations of 10,000 to 20,000. Further, where economies of scale exist, they may be achievable through contracting out and joint agreements. Bish suggests that a more important issue than potential economies of scale is the level of competition in production.

In examining the organization and cost of local government, Bish makes two important observations. First, cost appears to rise with size. Second, where municipal governments remain relatively small, the cost of most services is reduced through competition, while economies of scale are achieved through cooperation, where real savings exist.

In the final section of the article, Bish describes the Canadian experience. British Columbia, for example, has allowed for the perpetuation of small local governments. Bish claims that they are relatively low cost, providing the services where they have an advantage and shifting activities to regional districts where there are significant economies of scale of production. He also examines the recent amalgamation that formed the Halifax Regional Municipality and the proposed amalgamation of the 28 Montreal-area municipalities.

This article is well written and very informative. A major strength is its incorporation of prior literature. Whether or not one supports amalgamation, this article provides a strong foundation for developing a better understanding of the issues.

G.F.

Filip Palda, *Tax Evasion and Firm Survival in Competitive Markets*
(Cheltenham, UK: Edward Elgar, 2001), 144 pages, ISBN 1-84064-413-3

In this book, Filip Palda, an economics professor and senior fellow of the Fraser Institute, extends the tax evasion literature. His primary contribution is to demonstrate that previous attempts to measure the loss from evasion have understated the magnitude by failing to adequately measure deadweight costs. More specifically, Palda argues that firms with higher production costs but a greater opportunity or propensity to evade may displace firms with lower production costs and poorer evasion capabilities. His argument that there are significant costs where the most efficient producer may be beaten out by those better able to evade taxes is convincing.

The arguments presented in this book are very well structured. In the introductory chapter, Palda presents his major thesis by way of example. A high school student could read and understand this. The tax evasion literature is summarized, and analytic models are introduced, in the second chapter. In chapter three, Palda extends his argument to subsidies. He argues that subsidies have the same harmful effect as tax evasion in that the more efficient producer may not survive against a less efficient producer who is better at attracting subsidies—that is, he argues that the deadweight costs from subsidies are similar to those under evasion. Parallel arguments are applied to the evasion of regulation in chapter four, using the example of minimum wage. Chapter five places the results from the preceding chapters in the context where individuals react to each other (a game theory model). In essence, Palda finds that the results are largely robust to assumptions about behaviour. In the final chapter, Palda makes a statement that neatly summarizes the primary implication of his models: "fairness is efficient."[12] In other words, if everyone paid their taxes, efficiency would improve.

This is an extraordinarily well-written book. You do not need to be an academic to read, understand, and appreciate the arguments made. At the same time, the analysis is rigorous. If the book has a weakness, it is a lack of empirical evidence to support the analytic models.

G.F.

Joel Emes, Jason Clemens, Patrick Bashman, and Dexter Samida,
***Flat Tax: Principles and Issues*, Critical Issues Bulletin (Vancouver: Fraser Institute, April 2001). Available on the Web at http://www.fraserinstitute.ca**

This study visits issues surrounding the efficacy, desirability, and implementation of a flat tax. The authors start by defining the key elements of a flat tax. In

Canada, the Canadian Alliance and the government of Alberta have advocated a single tax rate, which they have described as a "flat rate." As noted by the authors of this study, there is a significant difference between a flat tax and a system with a single tax rate. Under a flat-tax regime, all types of income are taxed only once and at the same rate. In addition, most credits and exemptions are eliminated. The most notable deviation is the existence of a personal exemption.

The authors provide a fairly traditional discussion of progressivity, demonstrating that through an appropriate choice of personal exemption, a level of progressivity can be retained under a flat tax. They argue that this approach may be preferred to a progressive statutory rate structure (in which the tax rate increases with increases in income), since the latter has associated disincentives for innovation, savings, investment, and entrepreneurial activity.

Appropriately, the authors review the most widely recognized flat-tax proposal, that put forward in the United States by Robert Hall and Alvin Rabushka of the Hoover Institute. The central arguments in favour of this proposal relate to increased simplicity, horizontal equity, and efficiency. It is asserted that horizontal equity would be improved through amounts being taxed once and only once. (The proposal includes a system of integration.) Efficiency would be improved largely through a shift toward a more efficient tax on consumption, since the Hall-Rabushka proposal would not tax investments. Progressivity or vertical equity would be addressed through appropriate adjustment of the personal exemption rather than through a progressive rate structure.

The next section of the study is perhaps the most interesting. Using a Statistics Canada database and model, the authors simulate the tax effects under various alternatives. The alternatives are distinguished by the level of personal exemption, by the inclusion of exemptions for children and deductions for registered retirement savings, and by assumptions about whether federal government spending and tax revenues should be held neutral or be reduced. Using a 2000 base year, the analysis determines the rate of flat tax and examines the effects on five representative families. In the base case, with no personal exemption, no deductions, and revenues held constant, the federal rate would be 12.7 percent, and the average federal-provincial rate would be 19.7 percent. Of course, adding personal and child exemptions and a deduction for retirement savings would increase this rate. For example, adding the 2000 personal exemption level would raise the federal-provincial rate from 19.7 percent to 26.1 percent. The analysis in this section of the study is very informative and reasonably complete. It allows one to better understand the relative tradeoffs of various proposals, both in aggregate and in relation to different groups of taxpayers.

The authors argue that where "fairness" is measured over time, income mobility smoothes the distributional effects of a flat tax. Their data indicate that significant income mobility does in fact exist over the course of one's lifetime. The implication is that, although a shift to a flat tax may at that particular time provide a significant shift in the burden of taxes, over a longer period these effects are mitigated. The authors argue that most taxpayers would gain in the longer term from the movement to a flat tax. In the final section of the study, they examine experiences with a flat-tax regime in other countries.

The strength of this well-written study is its discussion of how a flat-tax regime could be applied in Canada. It does not create, nor does it claim to create, new theory. Rather, it advocates the adoption of a flat tax, based on the Hall-Rabushka proposal, and examines potential implementation alternatives.

G.F.

Sebastian Killinger, *International Environmental Externalities and the Double Dividend* (Cheltenham, UK: Edward Elgar, 2000), 240 pages, ISBN 1-84064-493-1

Ecological tax reform can, at least in theory, both improve environmental quality and reduce tax distortions—a "double dividend." If the funds from an environmental tax replace or reduce the rate of a distortionary tax (the fiscal dividend), both benefits are realized. This book examines the conditions under which a double dividend can be achieved. In particular, it extends theory by including capital mobility and transborder externalities in the analysis.

Following an introductory chapter, Killinger discusses the ecological tax reform report issued in 1994 by the German Institute for Economic Research (DIW).[13] This well-known report provided one of the first quantitative evaluations of a green tax. Killinger asserts that the report has deficiencies, including the omission of international aspects and revenue effects that would allow one to focus on the existence and magnitude of a double dividend. Killinger then goes on (in chapter three) to examine the international dimension of environmental problems. Here he raises several interesting issues. For example, he argues that it is uncertain whether uniform regulation across countries achieves a higher level of efficiency than unilateral policies. In chapter four, Killinger analytically formalizes the idea of a double dividend and discusses its implications. In chapter five, he integrates international considerations into the analysis of double dividends.

In looking at the effects of ecological tax reform on allocation, this book addresses a very important issue. The results are interesting and have significant policy implications. Unfortunately, for readers without a fairly extensive background in economics, much of this book will be difficult to read and understand.

G.F.

Notes

1 See, for example, Christopher H. Hanna, "Demystifying Tax Deferral" (1999), vol. 52, no. 2 *SMU Law Review* 383-422; and Christopher H. Hanna, "The Virtual Reality of Eliminating Tax Deferral" (1995), vol. 12, no. 2 *The American Journal of Tax Policy* 449-512.

2 E. Cary Brown, "Business-Income Taxation and Investment Incentives," in *Income, Employment and Public Policy: Essays in Honour of Alvin H. Hansen* (New York: Norton, 1948), 300-16.

3 Daniel I. Halperin, "Interest in Disguise: Taxing the 'Time Value of Money' " (1986), vol. 95, no. 3 *Yale Law Journal* 506-52.

4 For readers who may not be familiar with the Japanese context, Hanna thoughtfully includes an appendix describing the historical development of Japan's income tax system.

5 At 1.

6 At 168.

7 Organisation for Economic Co-operation and Development, *Model Tax Convention on Income and on Capital* (Paris: OECD) (looseleaf).

8 At 42.

9 Adrian J. Sawyer, "The Wine-Box Inquiry: Never Mind the Findings but What About the Recommendations" (1998), vol. 52, no. 2 *Bulletin for International Fiscal Documentation* 58-72.

10 (2000), 19 NZTC 15,732 (HC). The Court of Appeal was expected to release its decision in the appeal of this case on May 22, 2001.

11 New Zealand Law Commission, *Tax and Privilege: Legal Professional Privilege and the Commissioner of Inland Revenue's Powers To Obtain Information*, Law Commission Report 67 (Wellington: New Zealand Law Commission, October 2000).

12 At 126.

13 DIW (1994), "Ökologische Steuerreform auch in nationalen Alleningang!" *DIW* Wochenbericht 24, 395-404.