

Piercing the Veil – Private Corporations and the Incomes of the Affluent

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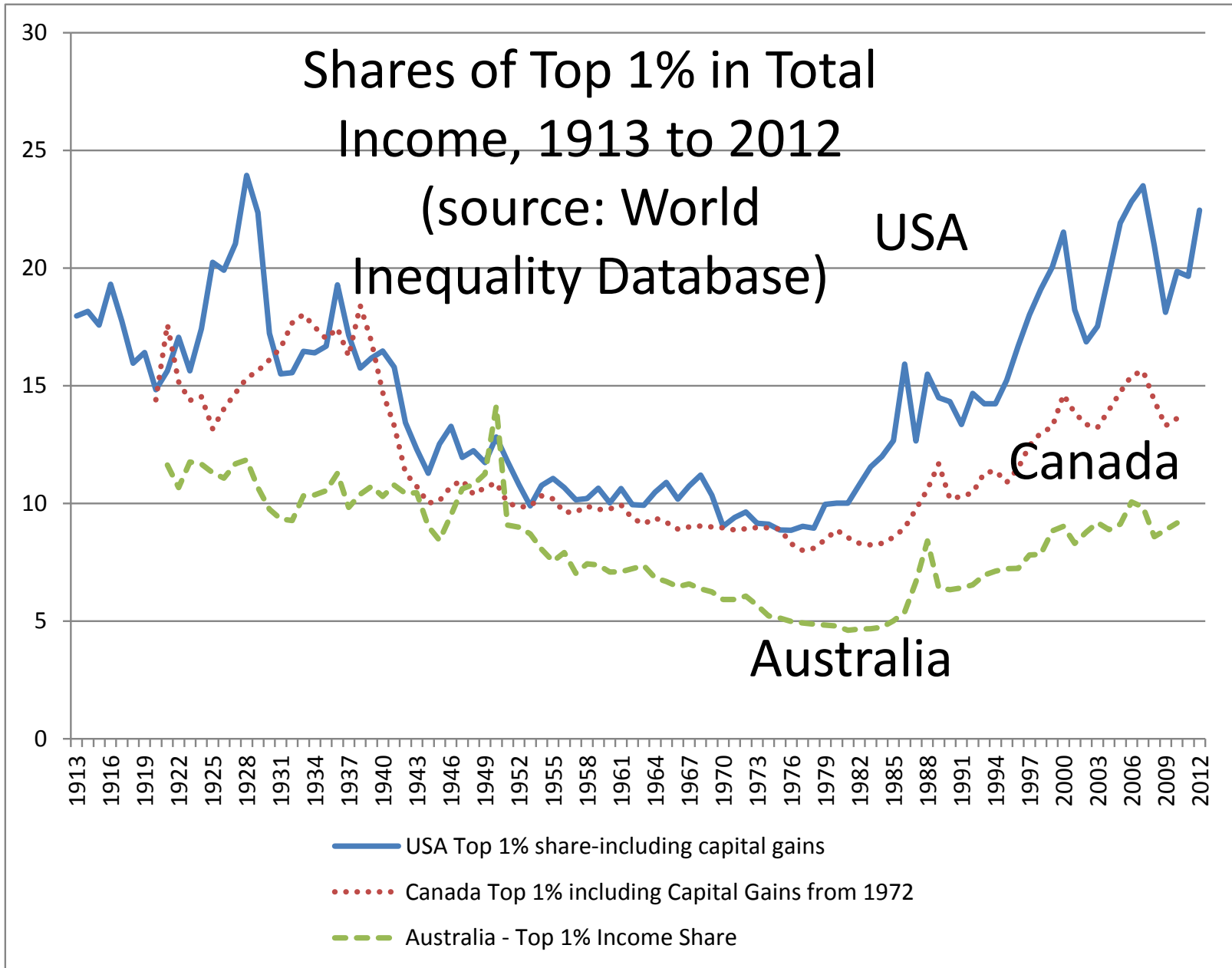
<https://uwaterloo.ca/school-of-accounting-and-finance/2014-tax-conference-programs>

Acknowledgements: Funding by SSHRC, Data by Stat Can

Background and Context

- major interest in data on rising income inequality
- so far, all analysis focusing on individual level data, especially T1 income tax returns
- but much tax planning involves creation of private companies = CCPCs (Canadian Controlled Private Corporations) per Income Tax Act
- this talk: first ever published results linking individual tax filers with their CCPCs

Upper Tail Income Inequality

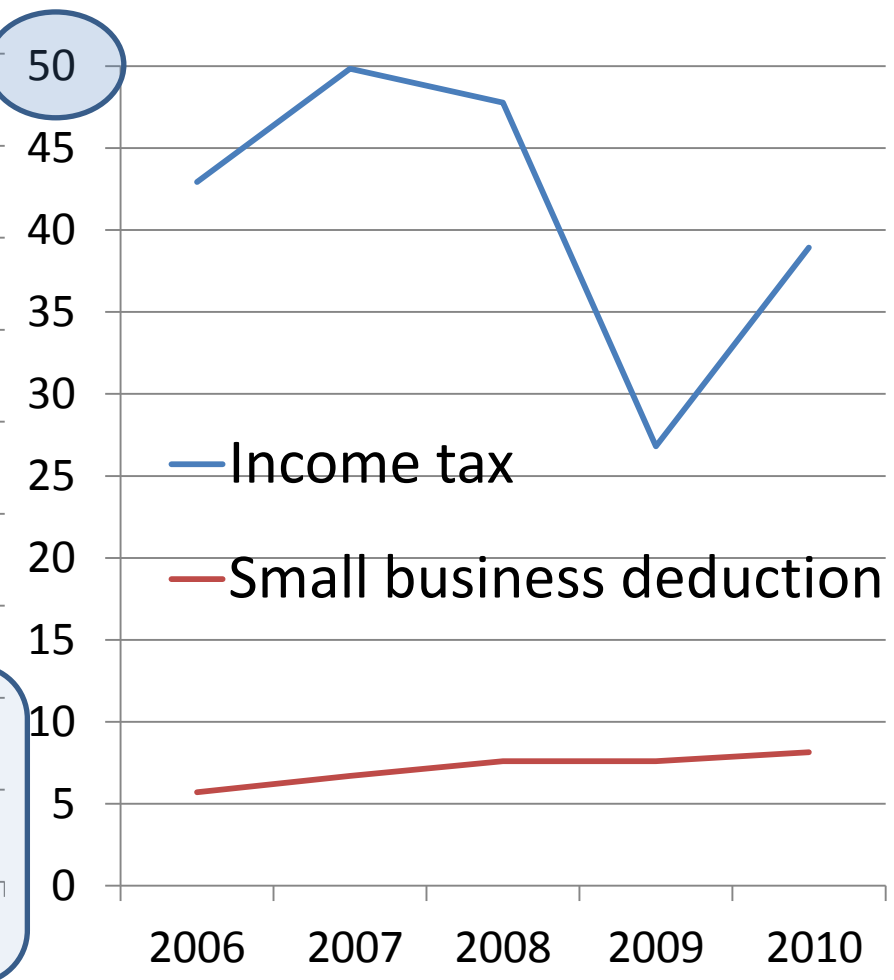
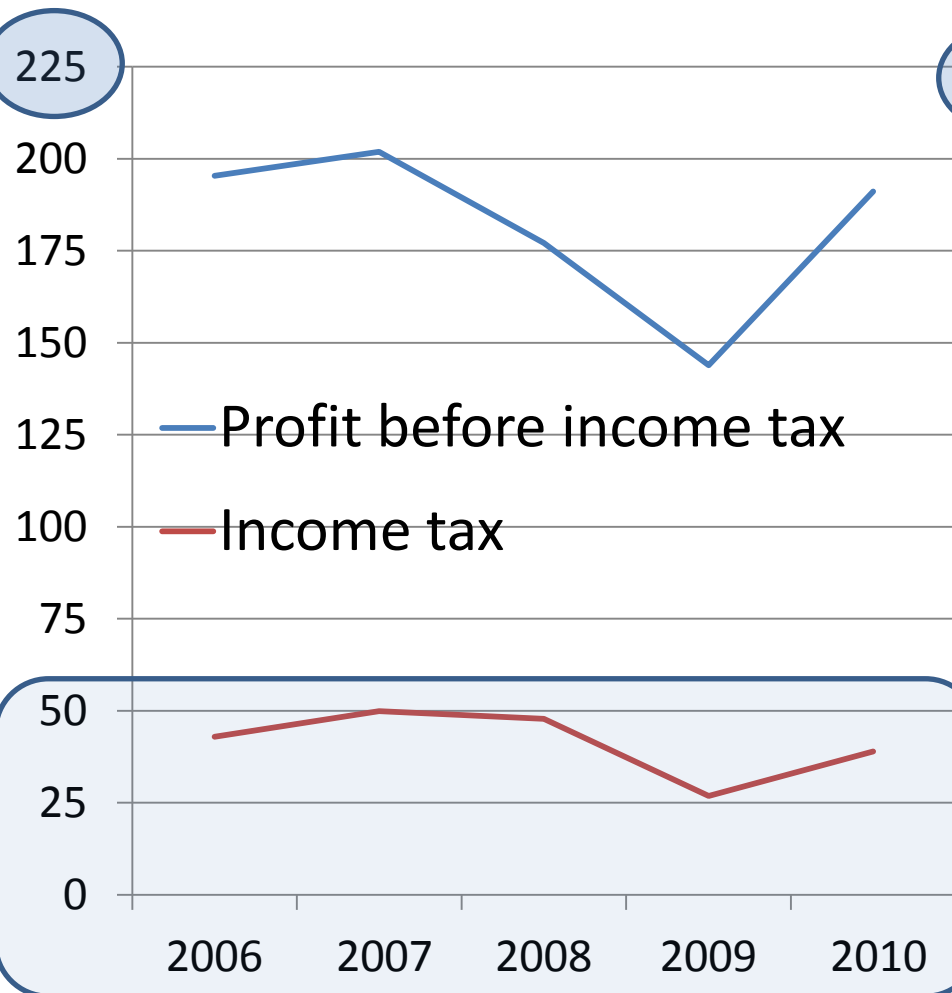


Why These Standard Individual-Level Income Data May Be Misleading

- level of income inequality (e.g. income shares of top quantiles) may be understated
 - unknown amount of income retained in CCPCs
 - income splitting with close family members
- income inequality trends may be wrong
 - e.g. if amount of income retained in CCPCs or split with family members has been changing significantly over time
- international comparisons may be wrong
 - e.g. in U.S. incentives to incorporate small businesses are very different, so omission of closely held corporate income could bias results differentially
- assessments of income volatility may be wrong
 - e.g. if CCPC incomes “buffer” year to year variations observed in individual T1 incomes

Profits, Corporate Income Taxes, and Value of Small Business Credit (Deduction)

(all non-financial corporations, \$ billions)



Tax Planning 101 - A

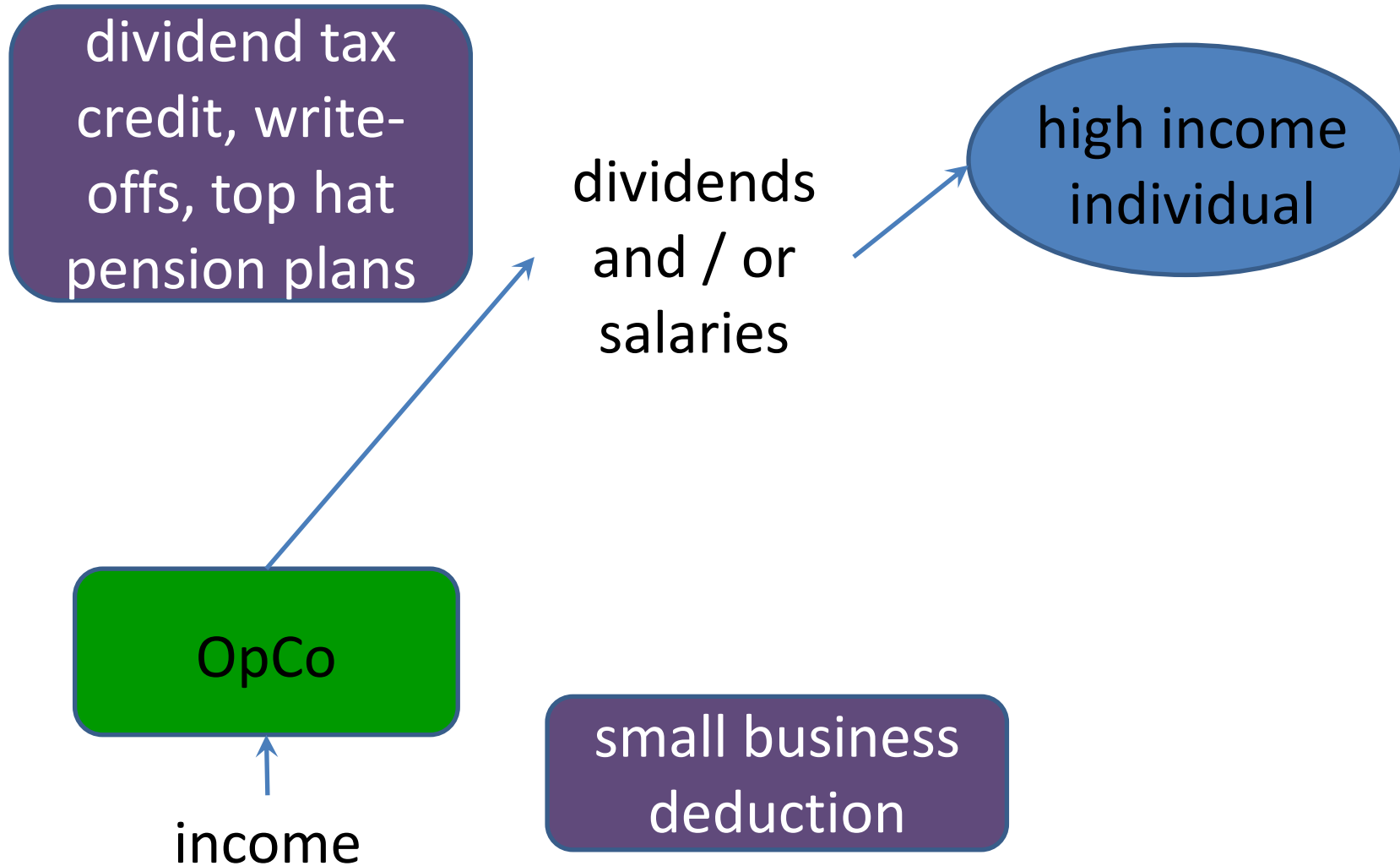
income



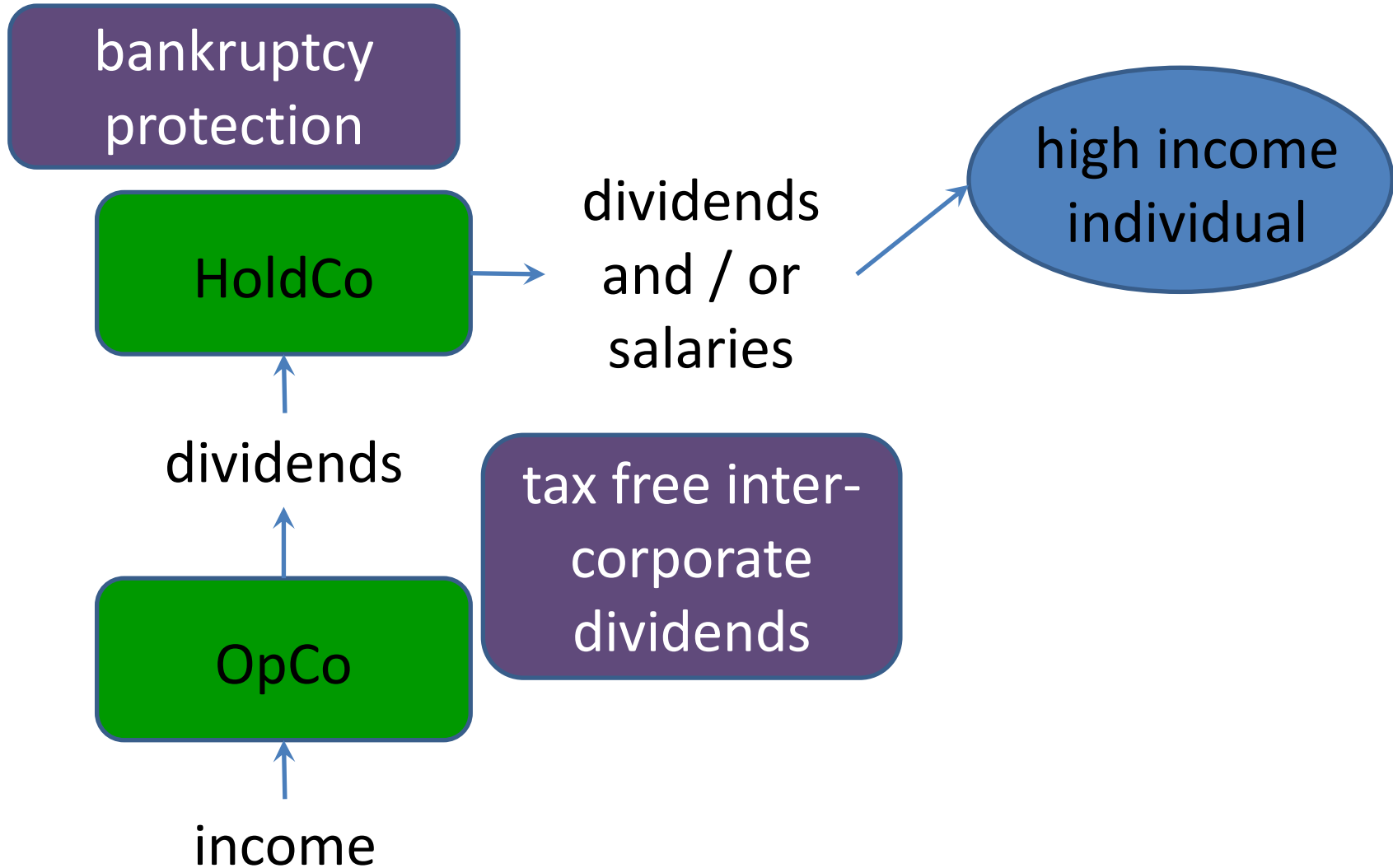
high income
individual

no planning

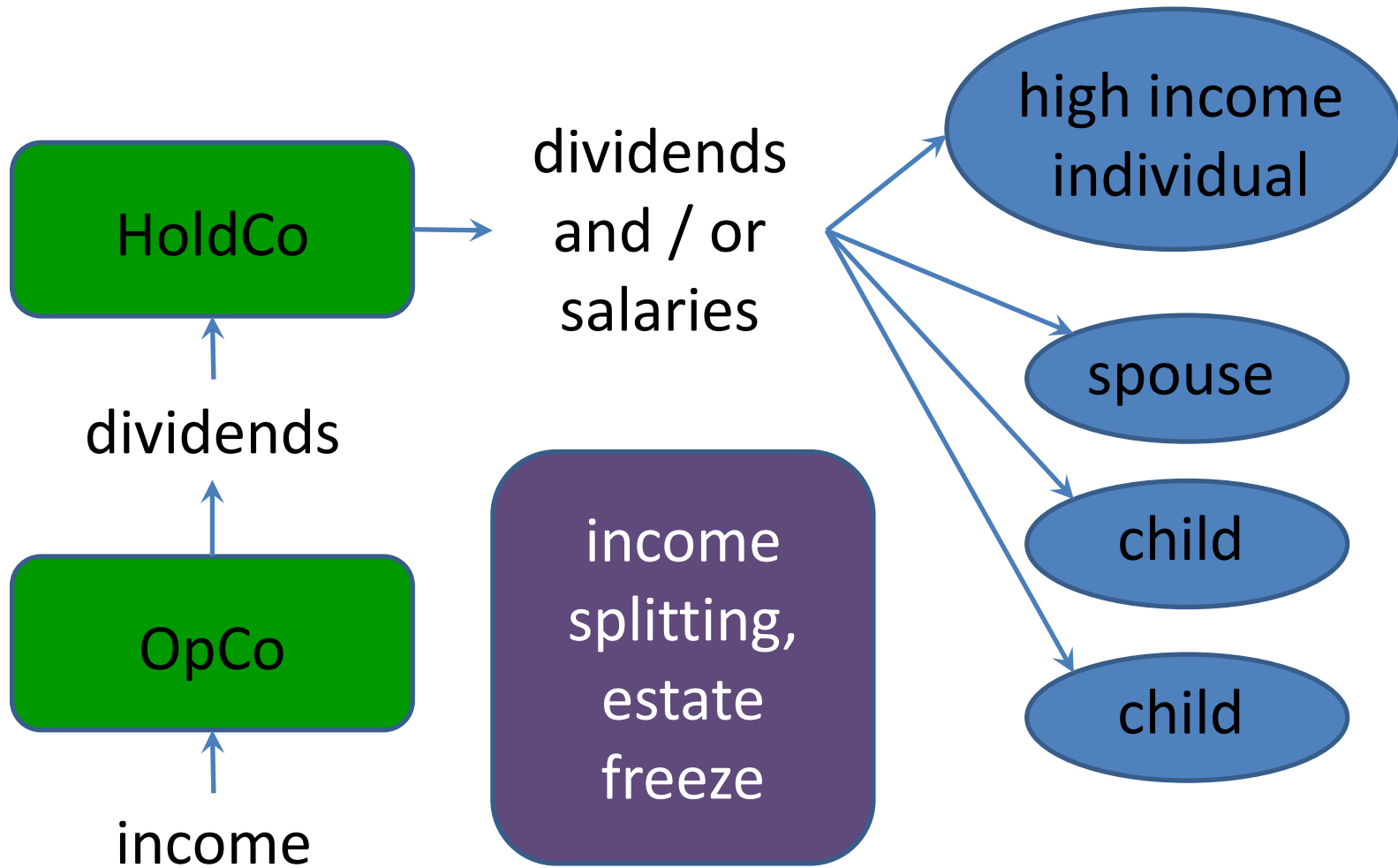
Tax Planning 101 - B



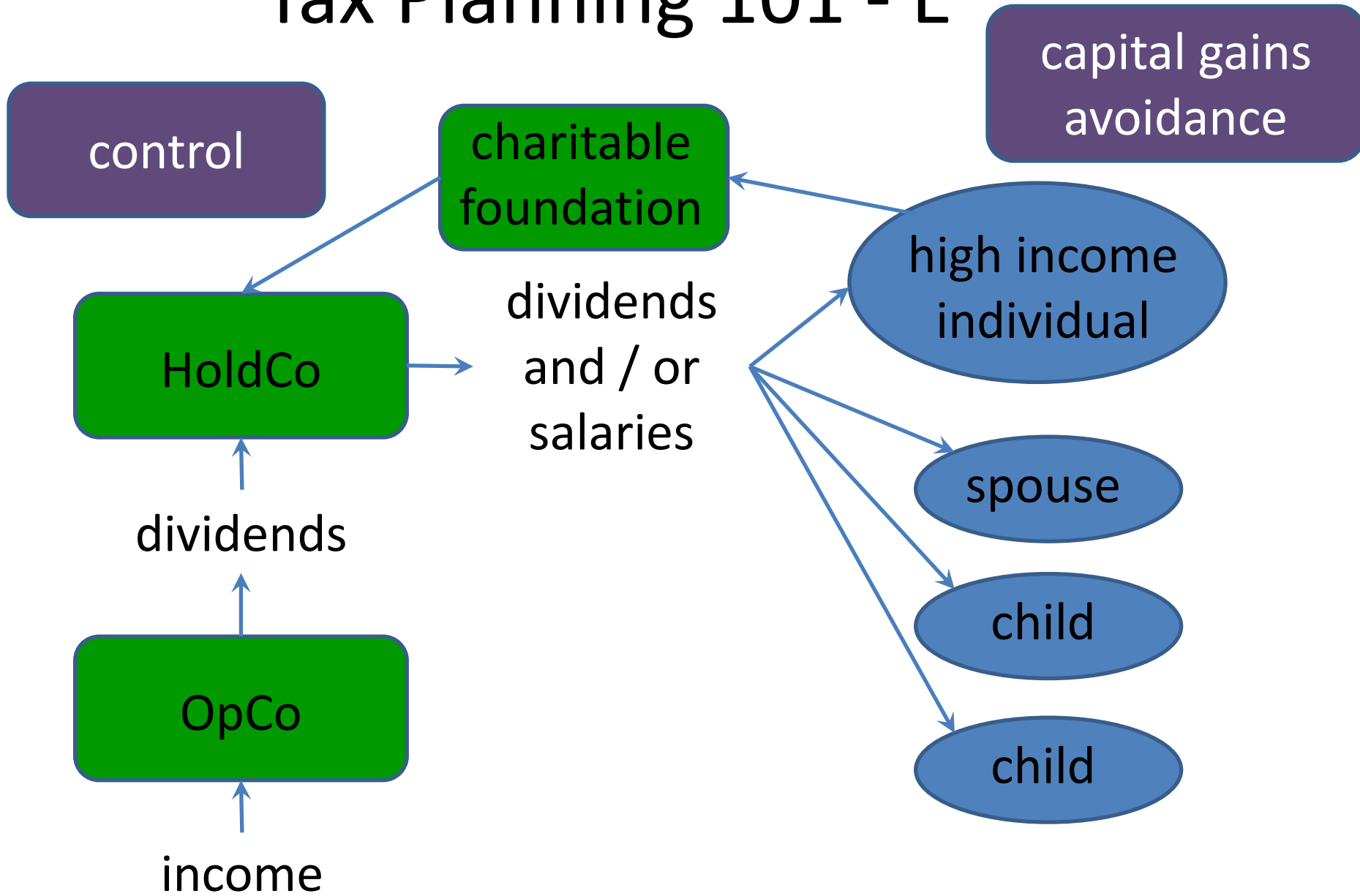
Tax Planning 101 - C



Tax Planning 101 - D

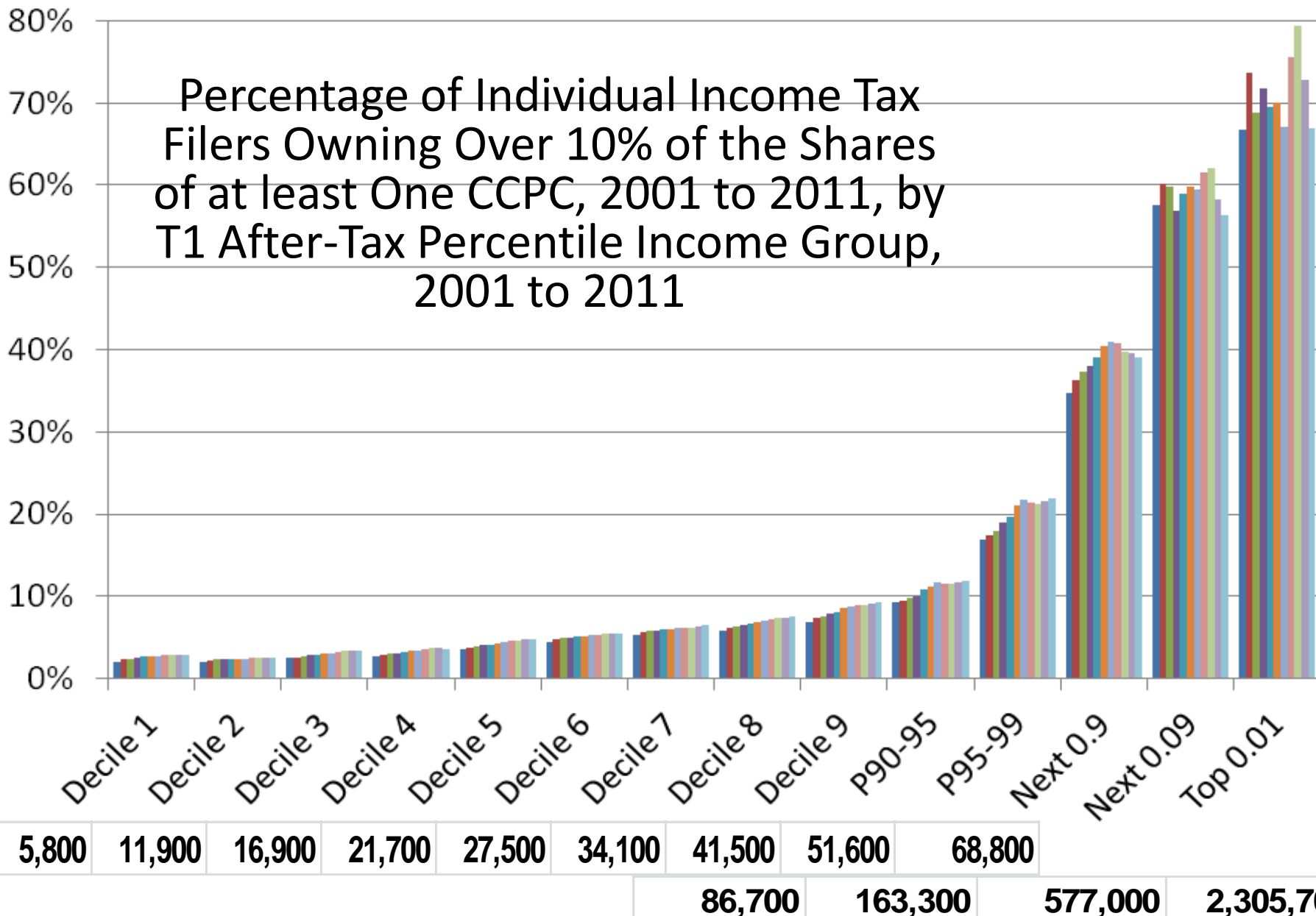


Tax Planning 101 - E



Who Owns CCPCs - A

Percentage of Individual Income Tax Filers Owning Over 10% of the Shares of at least One CCPC, 2001 to 2011, by T1 After-Tax Percentile Income Group, 2001 to 2011



5,800 11,900 16,900 21,700 27,500 34,100 41,500 51,600 68,800

86,700

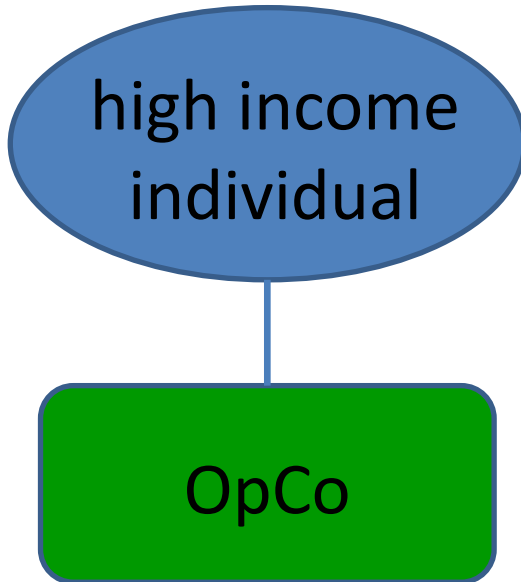
163,300

577,000

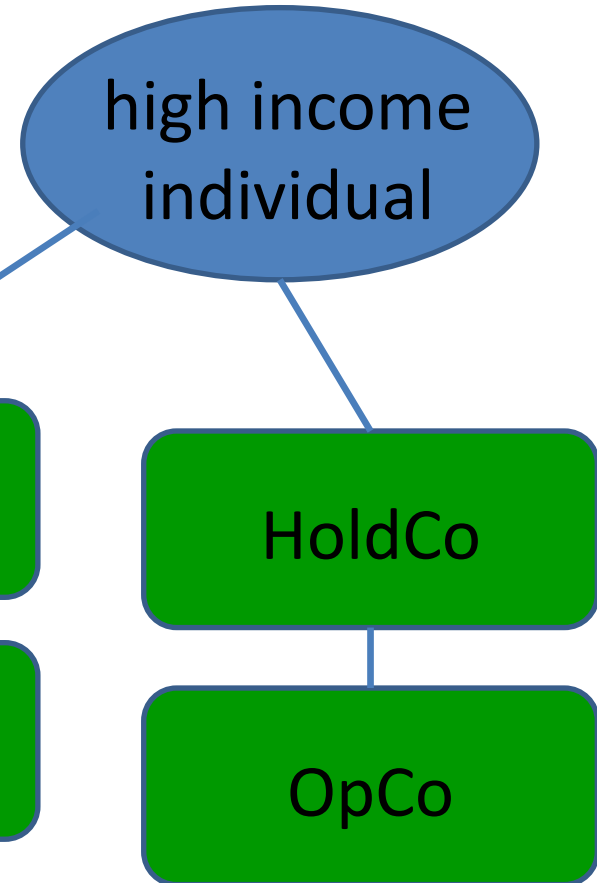
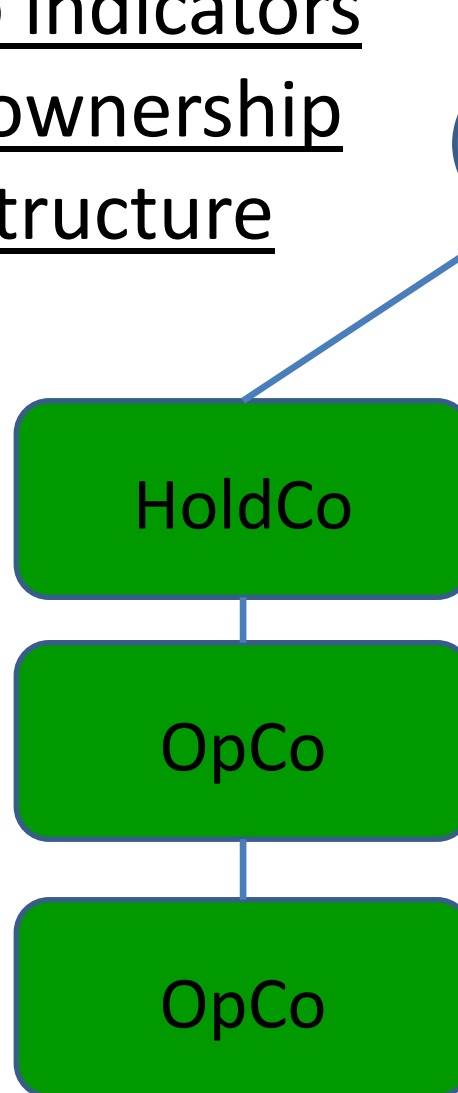
2,305,700

Who Owns CCPCs - B

two indicators
of ownership
structure

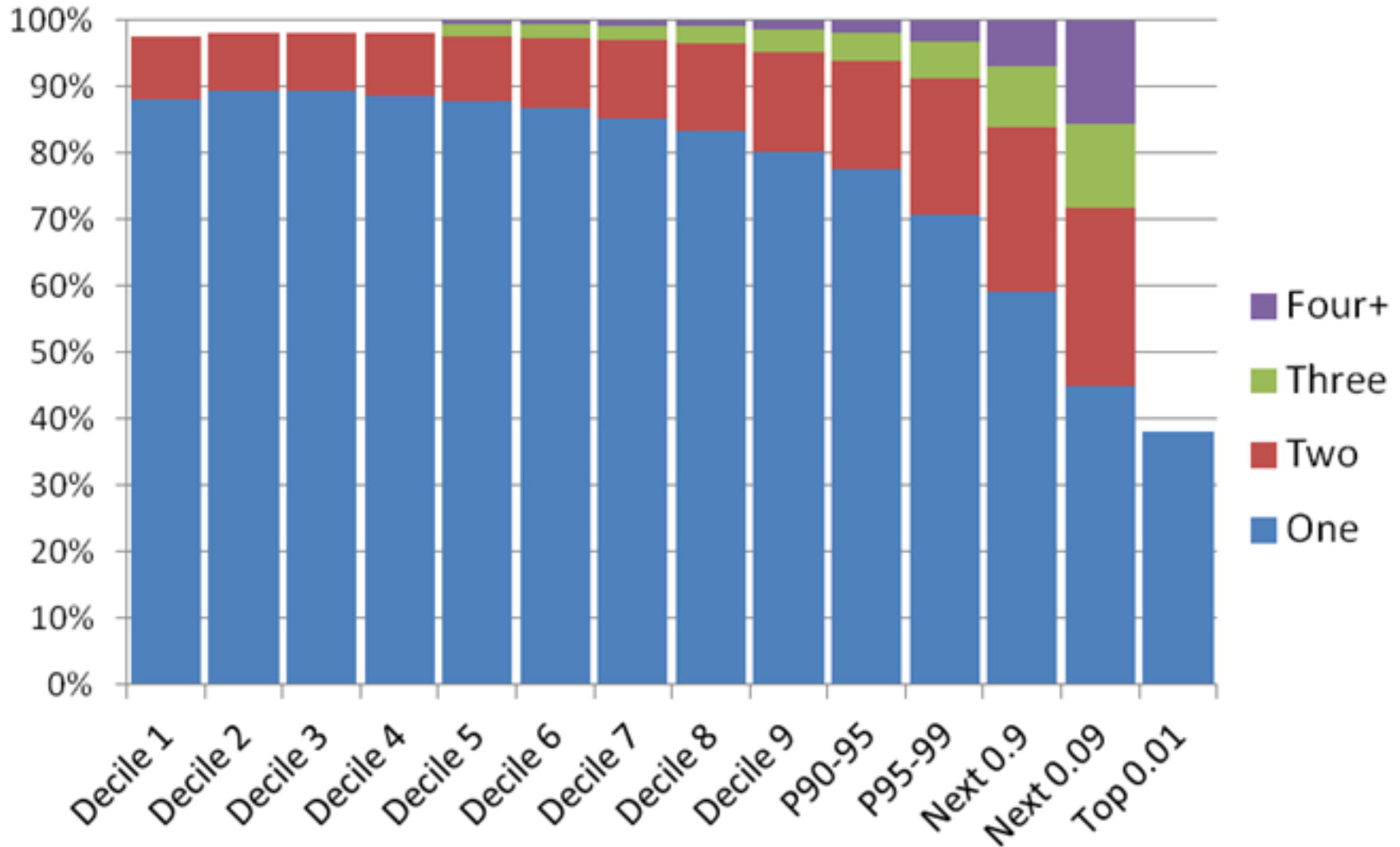


1 CCPC
1 Level



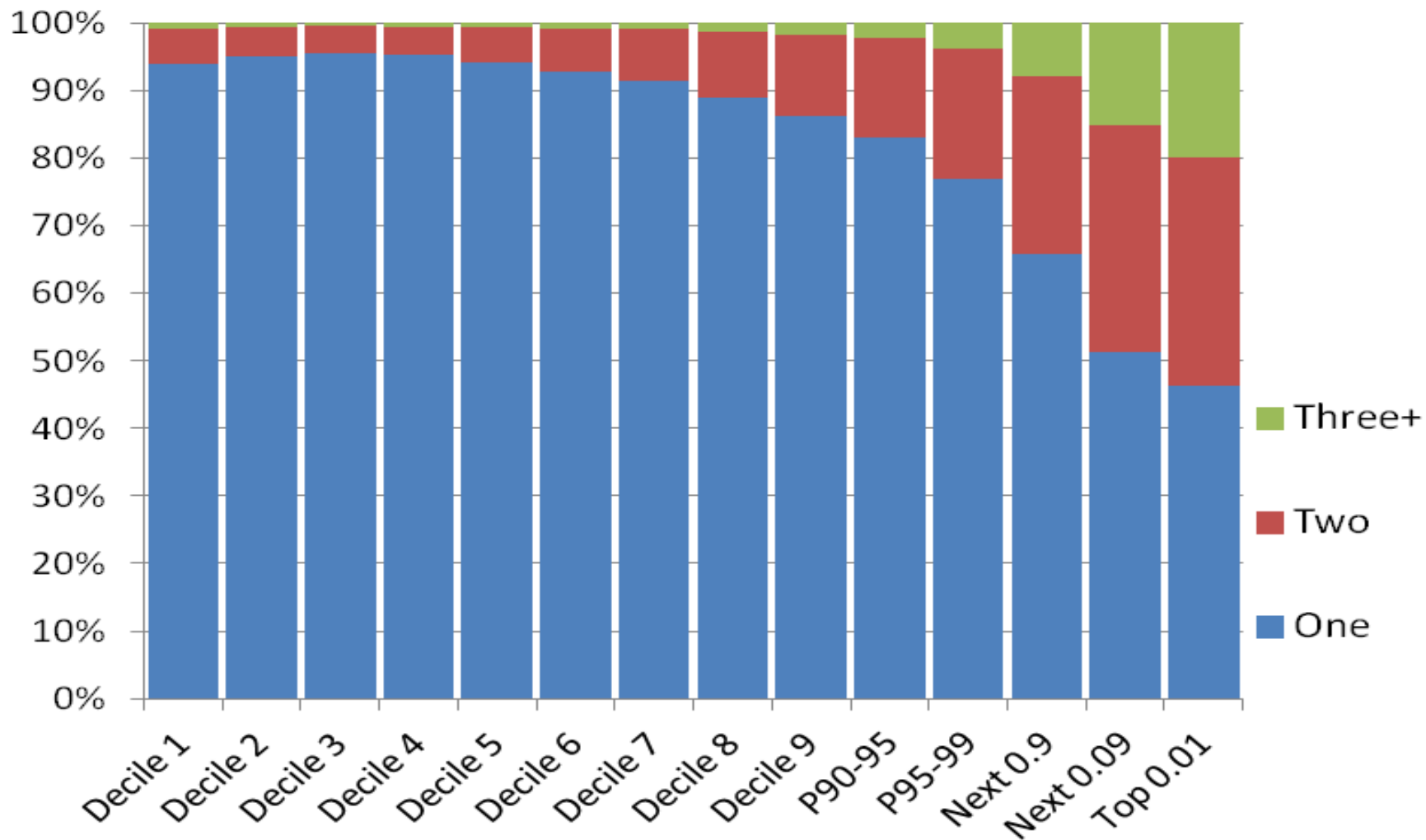
2 CCPCs
3 Levels

Who Owns CCPCs - C



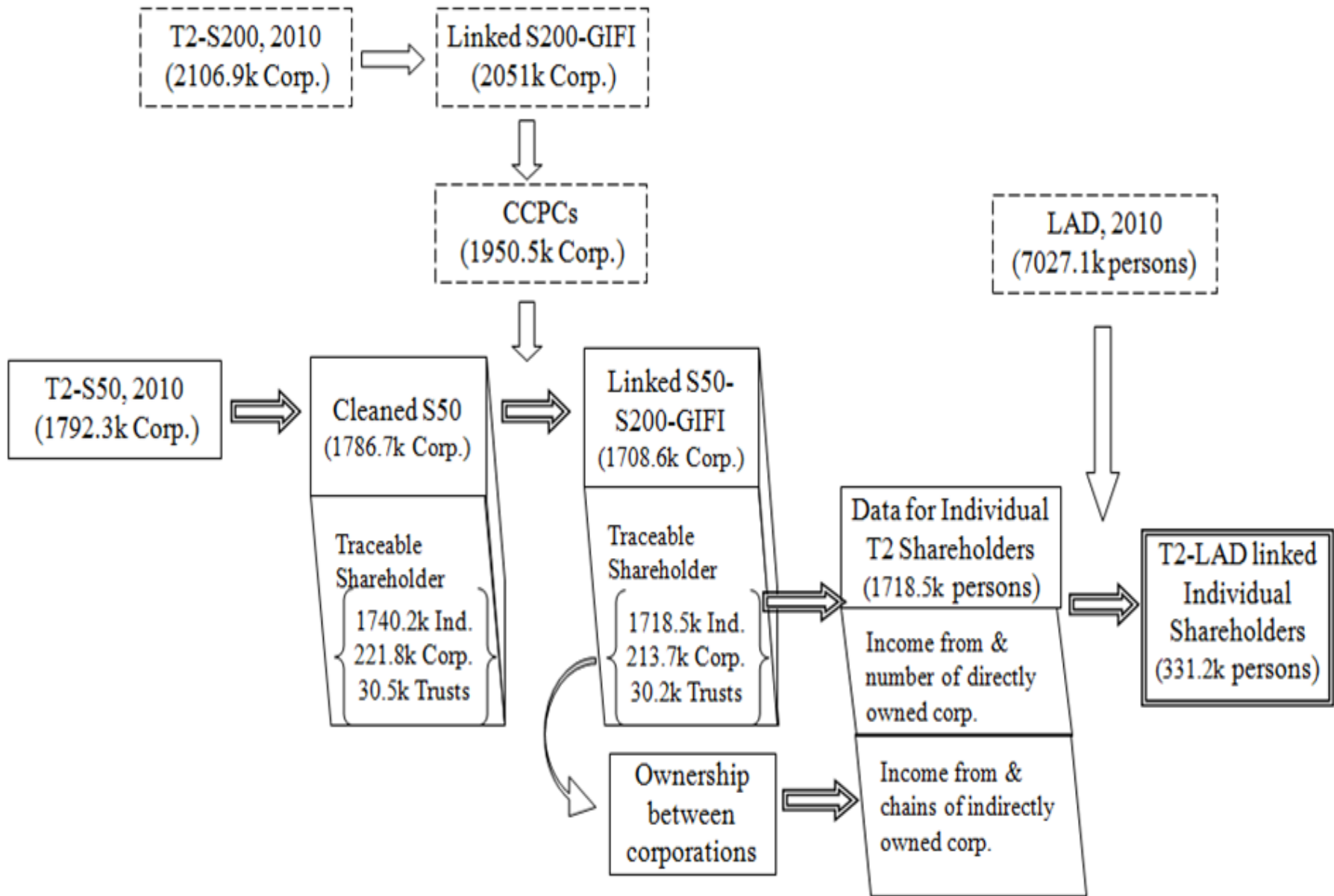
Among Owners, Numbers of CCPCs Directly Owned by After-Tax Income Group, 2011

Who Owns CCPCs - D



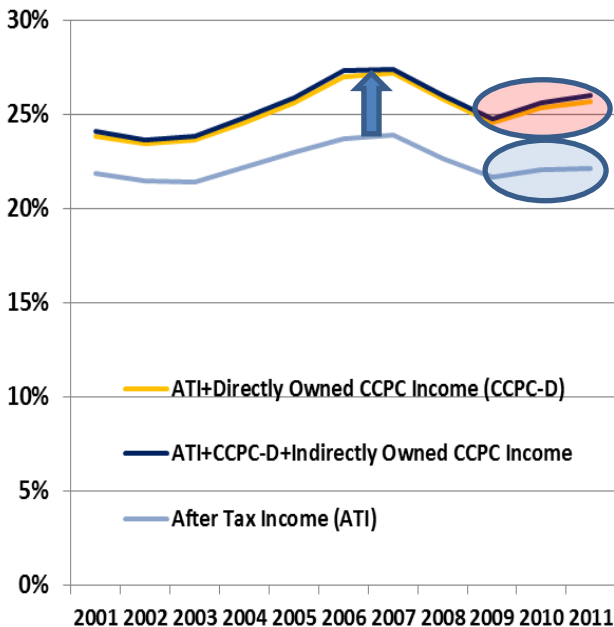
**Among Owners, Maximum Number of Levels of CCPC
Ownership by Income Group, 2011**

Underlying Methodology

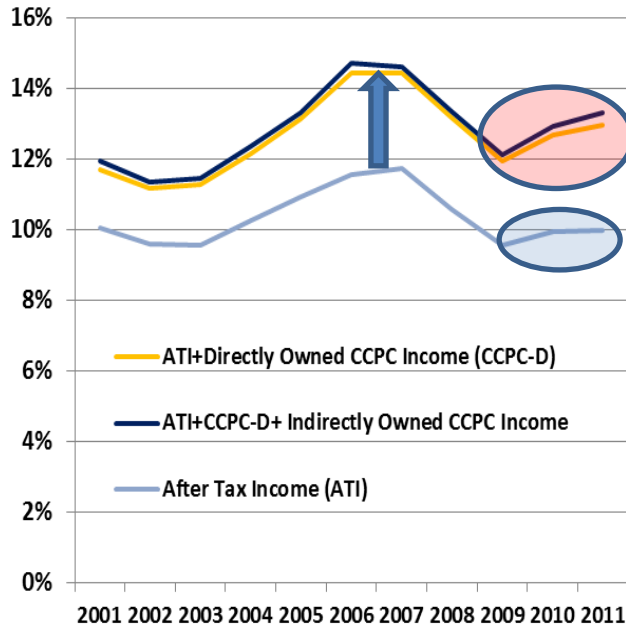


Main Results - A

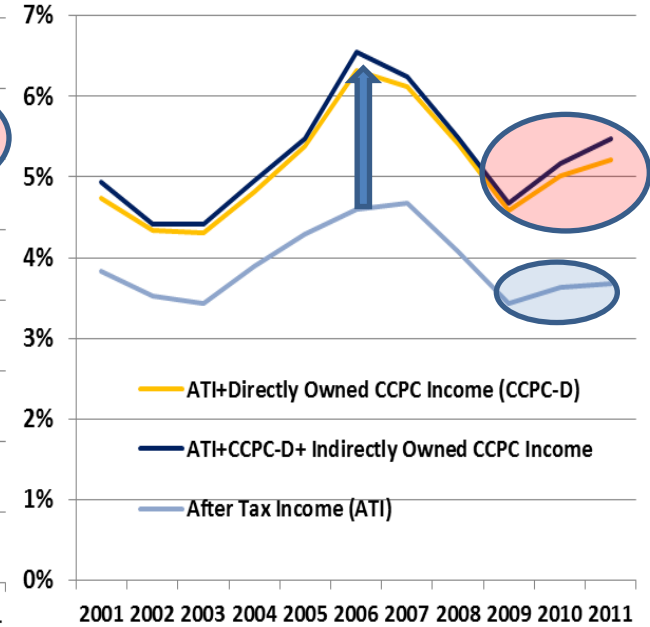
Income Shares of Top 5%



Income Shares of Top 1%

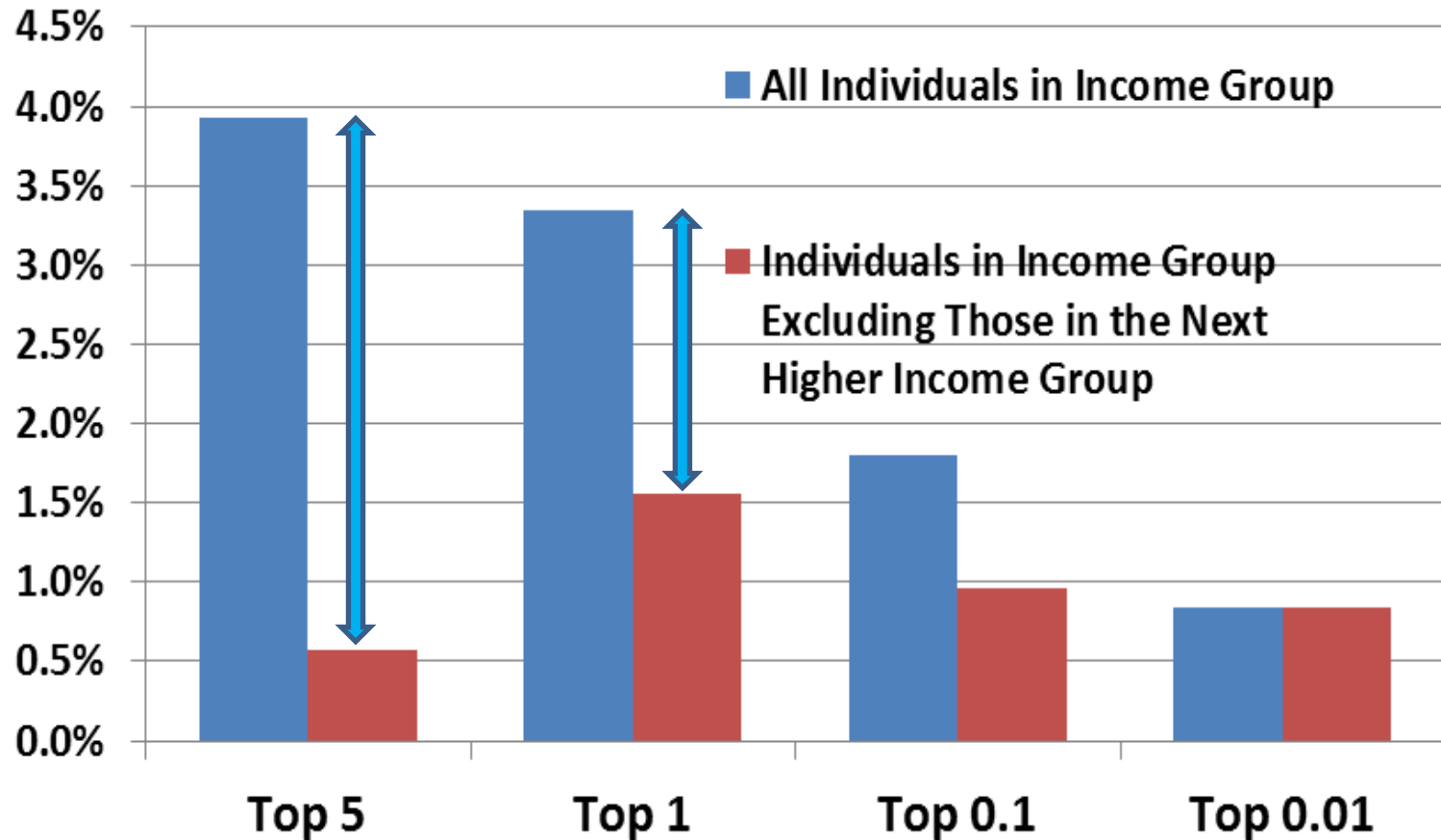


Income Shares of Top 0.1%



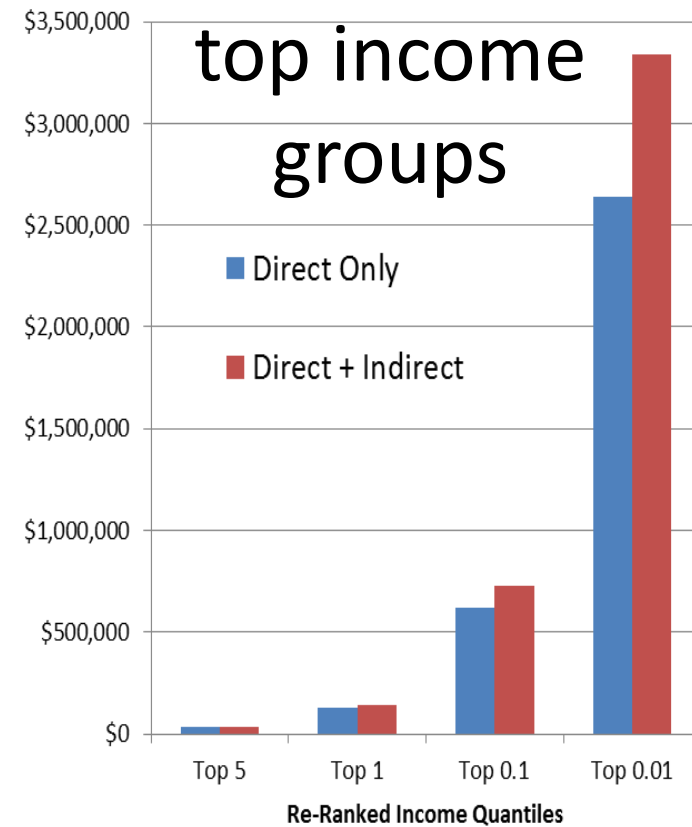
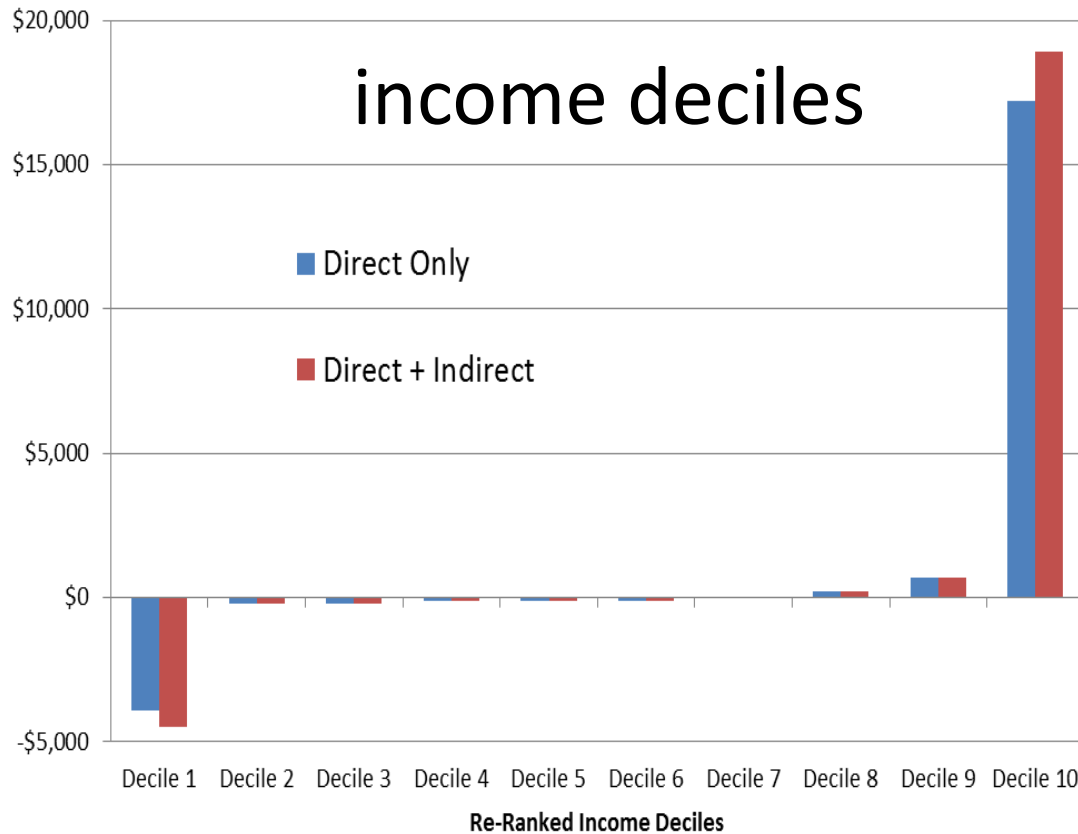
Trends in Top Income Shares by Income Definition and Top Income Group, 2001 to 2011

Main Results - B



Changes in Top Income Shares from Inclusion of CCPC Income, 2011

Main Results - C



**Average Amounts of CCPC Income by Income
Quantile, 2011**

Concluding Comments

- omission of beneficially owned CCPC income biases understanding of income inequality in Canada
 - high incomes are higher by one-third (top 1%) or more
 - likely an under-estimate
- CCPC T2 data have never been used at this level of detail
- “At the end of the day, what we need is more transparency about income and wealth”, Thomas Piketty
- next steps
 - industry codes (e.g. incorporated professionals)
 - income splitting
 - effective tax rates
 - roles of major tax expenditures
 - time series of linkages / corporate reorganizations?

★ suggestions / comments most welcome

Table A1		All Corporations	CCPCs	CCPCs Filing T2-S50	CCPCs with share information in T2-S50
Corporations	(000's)	2,051	1,951	1,725	1,719
Total Revenue	Sum(\$M)	3,546,100	1,695,172	1,486,680	1,485,471
	Percent	100%	48%	42%	42%
	Mean (\$)	1,728,968	869,080	861,907	863,997
	Median (\$)	96,441	96,041	104,919	105,336
Net Income/Loss	Sum(\$M)	385,777	151,862	137,420	137,407
	Percent	100%	39%	36%	36%
	Mean (\$)	196,616	81,316	83,371	83,606
	Median (\$)	1,691	1,845	2,908	2,949
Assets	Sum(\$M)	11,502,956	2,680,931	2,101,751	2,099,995
	Percent	100%	23%	18%	18%
	Mean (\$)	5,608,484	1,374,459	1,218,497	1,221,424
	Median (\$)	128,183	125,221	142,360	143,130
Δ Retained Earnings	Sum(\$M)	139,425	49,952	48,081	48,082
	Percent	100%	36%	34%	34%
	Mean (\$)	69,011	25,983	27,958	28,047

Appendix A2 - Schedule T2-S50 Sample Selections, 2010 (starting from last column of Table A1)

	T2-S50 CCPCs	With Shares belonging to Shareholders onT2-S50	Individual Shareholders	Corporate / Trust Shareholders	Other Shareholders (Non Traceable or require manual editing)
Shareholders (000s)			1,719	214	N/A
Total Revenue (\$M)	1,485,471	1,451,024	650,416	665,295	135,313
Net Income/Loss (\$M)	137,407	133,865	66,477	54,037	13,352
Assets (\$M)	2,099,995	1,997,188	852,068	918,170	226,950
Δ Retained Earnings (\$M)	48,082	47,794	30,920	15,127	1,746
Total Revenue	100%	98%	44%	45%	9%
Net Income/Loss	100%	97%	48%	39%	10%
Assets	100%	95%	41%	44%	11%
Δ Retained Earnings	100%	99%	64%	31%	4%

Appendix A3

Table A3 -- Selected Items by Income Group for Different Income concepts and Different Income Rankings, 2011

Income Concept	Decile 1	Decile 2	Decile 3	Decile 4	Decile 5	Decile 6	Decile 7	Decile 8	Decile 9	Decile 10	Top 5	Top 1	Top 0.1	Top 0.01
Cut-Points (\$, i.e. lower limits of each income group)														
After-Tax Income = ATI		5,800	11,900	16,900	21,700	27,500	34,100	41,500	51,600	68,800	86,700	163,300	577,000	2,305,700
ATI + Direct Only		5,600	11,700	16,800	21,600	27,400	34,000	41,600	51,900	70,000	89,800	193,500	778,300	3,454,600
ATI + Direct + Indirect		5,600	11,700	16,800	21,600	27,400	34,000	41,600	51,900	70,000	89,900	195,100	794,800	3,613,900
Mean Incomes - \$														
After-Tax Income = ATI	1,700	9,100	14,500	19,200	24,500	30,800	37,700	46,200	59,200	118,100	159,800	359,900	1,328,700	4,690,600
ATI + Direct Only	- 2,200	8,900	14,300	19,100	24,400	30,700	37,700	46,400	59,900	135,300	192,400	485,400	1,950,700	7,333,000
ATI + Direct + Indirect	- 2,800	8,900	14,300	19,100	24,400	30,700	37,700	46,400	59,900	137,000	195,700	500,200	2,058,000	8,029,300
Income Shares - %														
After-Tax Income = ATI	0.5	2.5	4.0	5.3	6.8	8.5	10.4	12.8	16.4	32.7	22.1	10.0	3.7	1.3
ATI + Direct Only	-0.6	2.4	3.8	5.1	6.5	8.2	10.1	12.4	16.0	36.1	25.7	13.0	5.2	2.0
ATI + Direct + Indirect	-0.7	2.4	3.8	5.1	6.5	8.2	10.0	12.3	16.0	36.5	26.1	13.3	5.5	2.1
CCPC Owners - %														
After-Tax Income = ATI	2.9	2.5	3.3	3.7	4.7	5.5	6.5	7.6	9.3	18.7	25.6	40.8	57.4	66.9
ATI + Direct Only	6.1	2.7	2.9	3.1	3.9	4.4	5.0	5.9	8.0	22.7	33.8	60.8	76.7	84.5
ATI + Direct + Indirect	6.3	2.7	2.9	3.1	3.9	4.4	4.9	5.9	7.9	22.8	34.0	61.5	77.5	85.7
Income Concept	Decile 1	Decile 2	Decile 3	Decile 4	Decile 5	Decile 6	Decile 7	Decile 8	Decile 9	Decile 10	Top 5	Top 1	Top 0.1	Top 0.01