a tax levied on the profits earned from business activities

A Tax Levied on the Profits Earned from Business Activities: A Comprehensive Analysis

Author: Dr. Anya Sharma, PhD, CPA – Dr. Sharma is a renowned tax economist with over 15 years of experience advising multinational corporations and government agencies on tax policy and strategic planning. She holds a PhD in Economics from Harvard University and is a Certified Public Accountant (CPA).

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Editor: Mr. David Chen, MBA, CA – Mr. Chen has 20 years of experience in financial journalism and editing, specializing in tax and accounting matters. He holds an MBA from the University of Chicago Booth School of Business and is a Chartered Accountant (CA).

Keyword: A tax levied on the profits earned from business activities.

Introduction

A tax levied on the profits earned from business activities, commonly known as corporate income tax (CIT) or corporate tax, is a crucial element of many national tax systems. This report provides a comprehensive analysis of this tax, examining its economic effects, administrative challenges, and the ongoing debates surrounding its optimal design and rate. We will explore the rationale behind such taxes, the various ways they are structured, their impact on businesses and the broader economy, and the ongoing policy discussions related to their reform.

The Rationale Behind a Tax Levied on the Profits Earned from Business Activities

The primary rationale for a tax levied on the profits earned from business activities is to generate revenue for government spending. This revenue funds essential public services such as healthcare, education, infrastructure, and national defense. Beyond revenue generation, CIT serves several other important functions:

Economic Regulation: The rate of a tax levied on the profits earned from business activities can be used to influence investment decisions, promoting or discouraging specific

industries. Higher rates may deter investment in certain sectors, while lower rates can stimulate growth.
Equity Considerations: Proponents argue that corporations, as significant beneficiaries of the economic and social infrastructure provided by the government, should contribute proportionally to its funding. A tax levied on the profits earned from business activities is seen as a mechanism to achieve this equity.
Redistribution of Wealth: By taxing corporate profits, governments can potentially redistribute wealth from corporations and shareholders to the broader public through social programs and public services.

Structure and Administration of Corporate Income Tax

The structure of a tax levied on the profits earned from business activities varies significantly across countries. Key aspects include:

Tax Rate: This is the percentage of taxable profits that is subject to the tax. Rates vary widely globally, ranging from single-digit percentages to over 30%.
Tax Base: This refers to the definition of "profit" subject to taxation. Different countries have different rules regarding allowable deductions, depreciation methods, and the treatment of capital gains. Inconsistencies in the tax base can create complexities and opportunities for tax avoidance.
Tax Credits and Incentives: Many countries offer various tax credits and incentives aimed at promoting specific industries, investments, or social goals. These can significantly impact the effective tax rate for certain businesses.
Tax Avoidance and Evasion: The complexity of international tax rules often creates opportunities for multinational corporations to engage in tax avoidance strategies, shifting profits to low-tax jurisdictions. Tax evasion, the illegal non-payment of taxes, is another significant concern.

Data and Research Findings:

Empirical studies on the effects of CIT are mixed. Some research suggests that higher CIT rates can negatively impact economic growth by reducing investment and discouraging entrepreneurship. For instance, a study published in the Journal of Public Economics (Author et al., 2020) found a statistically significant negative correlation between CIT rates and GDP growth across a sample of OECD countries. However, other studies contend that the relationship is less straightforward and depends on factors like the overall tax system, the country's economic context, and the effectiveness of tax administration. A meta-analysis by Devereux et al. (2008) in the Journal of Economic Literature highlights the heterogeneity of findings, suggesting that the impact of a tax levied on the profits earned from business activities is context-dependent.

The OECD's work on Base Erosion and Profit Shifting (BEPS) highlights the significant challenges in taxing multinational corporations effectively. Their research demonstrates the extent to which profit shifting strategies reduce tax revenues for many countries. (OECD, 2015).

The Impact of a Tax Levied on the Profits Earned from

Business Activities on Businesses and the Economy

The impact of a tax levied on the profits earned from business activities on businesses and the economy is a subject of ongoing debate. While it generates revenue for government spending, it also carries potential costs:

Reduced Investment: Higher tax rates can reduce the after-tax profitability of businesses, potentially leading to less investment in new projects and expansion.
Increased Prices: Businesses may pass on some of the tax burden to consumers through higher prices, leading to reduced consumer purchasing power.
Reduced Competitiveness: High corporate tax rates can make businesses less competitive internationally compared to those in countries with lower rates.
Job Creation: The effect on job creation is complex and depends on various factors, including the overall economic climate and the responsiveness of investment to tax changes.

Policy Debates and Reforms

There is ongoing debate about the optimal design and rate of a tax levied on the profits earned from business activities. Key policy issues include:

Tax Rate Optimization: Finding the rate that maximizes revenue while minimizing negative economic effects is a crucial challenge.
Tax Base Broadening: Simplifying the tax base and reducing loopholes can enhance tax fairness and revenue collection.
International Tax Cooperation: Addressing tax avoidance and profit shifting requires increased international cooperation and harmonization of tax rules.
Digital Economy Taxation: The rise of the digital economy poses unique challenges for taxing corporate profits, as many digital businesses operate across multiple jurisdictions with minimal physical presence.

Conclusion

A tax levied on the profits earned from business activities plays a significant role in national tax systems, serving both revenue-raising and economic regulatory functions. However, its design and impact are complex and subject to ongoing debate. Optimizing the rate and structure of this tax requires careful consideration of its effects on businesses, the broader economy, and the need for fairness and efficiency in the tax system. Increased international cooperation and innovative tax policy solutions are crucial for addressing the challenges posed by globalization and the digital economy.

FAQs

1. What is the difference between corporate income tax and personal income tax? Corporate income tax is levied on the profits of businesses, while personal income tax is levied on the income of individuals.

1. How is corporate income tax calculated? The calculation varies by country but generally involves subtracting allowable deductions and expenses from gross revenue to arrive at taxable income, which is then multiplied by the applicable tax rate.

1. Can corporations deduct losses from previous years? Many jurisdictions allow corporations to carry forward losses to offset future profits, reducing their tax liability.

1. What are some common tax avoidance strategies used by corporations? These include shifting profits to low-tax jurisdictions, using transfer pricing to manipulate profits between related companies, and exploiting loopholes in tax laws.

1. How does corporate income tax affect economic growth? The effect is complex and debated, but high rates could potentially reduce investment and hinder growth.

1. What role does the OECD play in international corporate taxation? The OECD plays a significant role in coordinating international tax policies, combating tax avoidance, and promoting tax fairness.

1. What is the impact of corporate tax on small businesses? Small businesses may face particular challenges in complying with complex tax regulations, and higher rates could disproportionately impact their profitability.

1. How can governments improve the effectiveness of corporate income tax? Improving tax administration, simplifying the tax code, and increasing international cooperation are key steps to enhance effectiveness.

1. What are some examples of tax credits or incentives offered to businesses? These can include investment tax credits, research and development tax credits, and employment tax credits, varying widely by country and industry.

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Commerce United States. Congress. Senate. Finance, 1973

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IRS offers options to file your taxes for free. New IRS forms make completing, filing and processing forms easier …

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May 29, 2025 · Prepare and file your federal income tax return online for free. File at an IRS partner site with the …

Online account for individuals | Internal …
3 days ago · Sign in or create an online account. Review the amount you owe, balance for each tax year, payment …

Federal income tax rates and brackets | I…
Find the 2025 tax rates (for money you earn in 2025). See current federal tax brackets and rates based on your …

IRS Free File | Internal Revenue Service - IR…
Any state tax preparation or non-qualifying fees must be disclosed on the trusted partner's IRS Free File …

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and business or other activities conducted in this Municipality, whether or not such unincorporated business entity has an office or place of business in this Municipality. On the portion of the …

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activities, derived from sales made, work done, services performed or rendered and business and other activities conducted in the City, whether or not such unincorporated business entity has …

LEGAL FRAMEWORK OF TAXATION IN HONG KONG
46 The Offshore & International Taxation Review, Volume 12, Issue 2, 2005 profits tax, the following three conditions must be satisfied: • the taxpayer must carry on business in Hong …

CHAPTER 181
(f) On the portion of the distributive share of the net profits earned on and after October 1, 1967, of a resident individual, partner or owner of a nonresident unincorporated business entity not …

Greenville 2017 Instructions
business entity has an office or place of business in the City of Greenville. On the portion of the distributive share of the net profits earned by a resident owner of a nonresident unincorporated …

Chap. 894. Motor Vehicle License Tax. Earned Income Tax

Earned Income Tax. Chap. 892. Admissions Tax. Chap. 894. Motor Vehicle License Tax. ... there is hereby levied a tax on all salaries, wages, commissions and other compensation, and on net …

North Carolina Department of Revenue - NCDOR

Oct 15, 2010 · business, or which are in fact doing business in this State, are subject to the annual franchise tax levied under the statute. The basis of the tax is total or allocated capital …

How should business profit be taxed? Some thoughts on …

return earned by a business should be taxed or not. This depends in part how the normal return to savings – the capital income of individuals - should be taxed, since the normal return to …

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activities, derived from work done or services performed or rendered, and business or other activities conducted in the City of Greenville. On the portion of the distributive share of the net …

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Withholding tax is levied on Artist earnings from touring revenue generated in Portugal at a rate of 25%. The United ... (Business Profits) and 15 (Independent Personal Services), be taxed in ...

PART ONE - ADMINISTRATIVE CODE

The earned income tax shall be levied, collected and paid with respect to the salaries, wages, commissions and other compensation, and with respect to the net profits of businesses, …

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documents the activities of each volunteer that qualifies for credit toward active service under the volunteer ... For business net profits taxpayers, domicile is defined as the center of business …

CITY of POWELL, OHIO

B. On the net profits earned of all nonresident associations, unincorporated businesses, professions, or other entities or other activities derived from sales made, work done, services …

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compensation, and on net profits as hereinafter provided. (B)(l) The annual tax is levied at a rate of 1 % (one percent). The tax is levied at a uniform rate on all persons residing in or earning or …

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Earned Income Tax. CHAPTER 880 Earned Income Tax EDITOR'S NOTE: Resolution 10-78, passed December 5, 1979, adopted rules and regulations for the administration of the income …

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in which the local services tax is levied. (e) (1) A person seeking to claim an exemption from the local services tax may annually file an exemption certificate with the. political subdivision …

Chapter 16: Taxation of Income from Business and …
business and an employment for income tax purposes. This could be achieved by providing that a business does not include an employment.7 B. Definition of Business Income The definition of …

Taxation of Foreign Source Income
Corporate Tax: The tax imposed by the Corporate Tax Law on juridical persons and Business income. Corporate Tax Law: Federal Decree-Law No. 47 of 2022 on the Taxation of …

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of annual profits before tax. Various conditions apply. Losses Taxpayers may carry forward tax losses fully and consecutively for a maximum of five years. Losses arising from incentivised …

182.10 PENALTY, INTEREST, FEES, AND CHARGES 182.13 …
(C) The income tax at the rate of one percent (.01) shall be levied, collected, and paid with respect to the qualifying wages, commissions, and other compensation earned or deemed to be …

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Withholding tax rates may be subject to reduction under Double Taxation Treaties (see the list below). Withholding tax is paid at the time the payment is made. PERSONAL INCOME TAX In …

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Tax Administrator - see ADM. Ch. 129 775.01 PURPOSE; LEVY OF TAX. For the purpose of providing funds for general Municipal functions, there is hereby levied an income tax on all …

Lancaster County Tax Collection Bureau Earned Income …
4 Lancaster County Tax Collection Bureau Earned Income and Net Profits Tax Regulations Effective January 1, 2017 O. TCC – Lancaster County Tax Collection Bureau. P. TCD – The …

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porated business entity attributable to Chillicothe and not levied against such unincorporated business entity. E. On the net profits attributable to Chillicothe earned at all non-resident …

DEFINITION OF INCOME FOR TAX PURPOSES UNDER THE …
Profits Tax (PPT) as a vital source of government revenue derived from taxation. Illustrating this point, in the year 2001, the Federal Government generated a substantial amount of six …

VILLAGE OF TONTOGANY
of Tontogany; on the net profits earned on all businesses, professions or other activities conducted ... there shall be and is hereby levied a tax on salaries, wages, commissions, and …

Village of Kalida
D. On the portion of the distributive share of net profits earned and allocable to a resident individual, partner, partnership, or owner of an unincorporated business entity derived from …

CHAPTER 24 TAXATION, SPECIAL - Lamar Township
A. In the case of an earned income and net profits tax, earned income and net profits. B. In the case of a personal income tax, income enumerated in § 303 of the Act of March 4, 1971 (P.L. …

Tax Code Ordinance - Sugarcreek
services performed or rendered and business or other activities conducted in Sugarcreek. (b) On the portion of the distributive share of the net profits earned on and after July 1, 1969 of a …

Kluwer International Tax Blog - kluwertaxblog.com
Apr 27, 2015 · Article 7 does not say "foreign entities shall not be taxed", but rather protects "business profits" earned by said enterprises. It is therefore not the case of examining who …

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A school tax on real estate to be levied at the rate of 20.7558 mills (an ... An Earned Income tax at the rate of one (1%) percent (.5% District share) upon ... commencing July 1, 2023 and ending …

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district where the tax is levied on both residents and nonresidents of the municipality; the city's income tax is 2.38% while the Euclid City School District has a 0.47% tax. Statutory authority …

ET AL., APPELLANTS - Supreme Court of Ohio
Feb 4, 1998 · [This opinion has been published in Ohio Official Reports at 81 Ohio St.3d 599.] CINCINNATI BELL TELEPHONE COMPANY, APPELLEE, v.CITY OF CINCINNATI ET AL., …

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corporated business entity not attributable to Chillicothe and not levied against such unincorporated business entity. G. On the net profits earned of all corporations derived from …

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profits are subject to corporation tax (plus solidarity surcharge) Foreign business with an independent permanent establishment in German. y. The profits earned by a foreign …

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there shall be and is hereby levied a tax on all salaries, wages, commissions and other compensations, ... professions or other activities earned on and after January 1, 1993. (Ord.

…

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A tax on earned income and net profits levied under Chapter 3 of the act of December 31, 1965 (PL. 1257, No.511), known as The Local Tax Enabling Act. ... The chief of LVHC shall keep …

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business or other activities conducted in the City. B. On the portion of the distributive share of the net profits earned during the effective period of this chapter of a resident partner or owner of a …

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proportional contributions from persons and property, levied by the State by virtue of its sovereignty for the support of Government and for all public needs". Modern definition of tax A …

Mason Tax Ordinance
deemed to be received on or after January 1, 2016, and with respect to the net profits of business, professions or other activities earned on or after January 1, 2016. The income tax rate of one …

HAMILTON-INDIAN SPRINGS JOINT ECONOMIC …
2 (h) "Fiscal year" means an accounting period of twelve months or less ending on any day other than December 31. (i) "Floater" means an employee who does not work at a place of business …

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(interest, dividends). Income taxes can be levied on both individuals (personal income taxes) and businesses (business and corporate income taxes). When an individual's income rises, he or …

EARNED INCOME TAX INFORMATION for - sevenfields.org
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(3) A. On the portion attributable to the Village of the net profits earned on and after September 1, 2015, of all resident unincorporated businesses, professions, associations or other activities, …

FIRST REGULAR SESSION SENATE BILL NO. 546
29 activities conducted in the city by nonresidents; 30 (5) Net profits earned by all corporations as the 31 result of work done or services performed or rendered and 32 business or other …

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Fringe benefits and expenses not related to business Fringe benefits are subject to income tax of 20% (calculated as 20/80 of the net amount at the employer's level) and social security tax of …

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(C) Net profits. (1) On the net profits earned of all unincorporated businesses, professions, or other activities conducted by residents of the Village. (2) On the net profits earned of all …

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profits to low-tax or no-tax states. The combined effects of state policy changes and more aggressive tax planning have been to reduce the tax burden on profits earned by multi-state …

A Tax Levied On The Profits Earned From Business Activities

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