1) Double taxation of dividends refers to the possibility that

A) shareholders pay tax on dividends and personal income.

B) corporate earnings are taxed at the corporate level and again when distributed to the shareholder.

C) corporate profits are taxed at the corporate level and again when the profit is reinvested.

D) dividends are taxed twice.

2) Before applying the corporate tax rate, firms may NOT deduct

A) wage payments.
B) interest payments.
C) depreciation allowances.
D) dividends.

3) Which of the following is a justification for corporate taxes?

A) Taxing large corporations will help small firms grow.

B) Corporate taxes can ensure both fairness and equity.

C) Revenue from corporate taxes can ensure income redistribution.

D) If a tax were not levied at the corporate level, income could flow to foreign owners without taxes being paid to Canadian governments.

4) Economic depreciation is

A) the change in the distribution of real income induced by a tax.

B) the extent to which an asset decreases in value during a period of time.

C) the money value of the net increase in an individual's power to consume during a period.

D) a subtraction from tax liability (as opposed to a subtraction from taxable income).

Answer Key

1) B
2) D
3) D
4) B