

Philosophy 100

Second term written assignment

Due: March 15, 9 am. No extensions. No exceptions.

Do either A or B

A. Justice

Write an essay of 1,000 words, based on the following four points:

First, give a short, clear, definition of 'justice'

Second, after having visited the "Justice Centre" (Antigonish) for at least one hour while it is in session, describe what you saw.

Third, state and explain where, if at all, you saw justice.

Finally, state how this experience supports or conflicts with the definition of justice that you started with.

B. Applied Ethics - Morality and Tax Law

Context

The Italian federal corporate tax system has an official, legal tax structure and tax rates just as the Canadian system does. However, all similarity between the two systems ends there.

The Italian tax authorities assume that no Italian corporation would ever submit a tax return which shows its true profits but rather would submit a return which understates actual profits by anywhere between 30 and 70 percent; their assumption is essentially correct. Therefore, about six months after the deadline for filing corporate tax returns, the tax authorities issue to each corporation an "invitation to discuss" its return. The purpose of this notice is to arrange a meeting between them and representatives of the corporation. At this meeting, the Italian revenue service states the amount of corporate tax which it believes is due. Its position is developed from both prior years' taxes actually paid and the current year's return; the amount which the tax authorities claim is due is generally several times that shown on the corporation's return for the current year. In short, the corporation's return and the revenue service's stated position are the opening offers for the several rounds of bargaining which will follow.

The Italian corporation is typically represented in such negotiations by its **commercialista**, an individual whose 'job' or function is to negotiate corporate (and individual) tax payments with the authorities, represented by a person from the Italian tax revenue office. Thus, the management of an Italian corporation seldom, if ever, has to meet directly with the revenue service and probably has a minimum awareness of the details of the negotiation other than the final settlement.

Both the final settlement and the negotiation process are extremely important to the corporation, the tax authorities, and the **commercialista**. Since the authorities assume that a corporation **always** earned more money this year than last year and **never** has a loss, the amount of the final settlement (i.e., taxes which will actually be paid) becomes, for all practical purposes, the floor for the start of next year's negotiations. However, since large amounts of money are involved and two individuals having vested personal interests are conducting the negotiations, the amount of **bustarella** - typically a substantial cash payment "requested" by the Italian revenue agent from the **commercialista** - usually determines whether the final settlement is closer to the corporation's original tax return or to the tax authority's original negotiating position.

Whatever **bustarella** is paid during the negotiation is usually included by the **commercialista** in his fee "for services rendered" to his corporate client. If the final settlement is favorable to the corporation, and it is the commercialista's job to see that it is, then the corporation is not likely to complain about the amount of its **commercialista's** fee, nor will it ever know how much of that fee was represented by **bustarella** and how much remained for the **commercialista** as payment for his negotiating

services. In any case, the authorities recognize the full amount of the fee as a tax deductible expense on the corporation's tax return for the following year.

The Case

About ten years ago, a leading Canadian bank opened a banking subsidiary in a major Italian city. At the end of its first year of operation, the bank was advised by its local lawyers and tax accountants to file its tax return "Italian-style", i.e., to understate its profits by a significant amount. The Canadian manager of the bank, who was on his first overseas assignment, refused to do so both because he considered it dishonest and because it was inconsistent with the practices of his parent company in Canada.

About six months after filing its "Canadian style" tax return, the bank received an "invitation to discuss" notice from the Italian authorities. The bank's general manager consulted with his lawyers and accountants who suggested he hire a **commercialista**. He rejected this advice and instead wrote a letter to the Italian revenue service not only stating that his firm's corporate return was correct as filed, but also requesting that they inform him of any specific items about which they had questions. His letter was never answered.

About sixty days after receiving the initial "invitation to discuss" notice, the bank received a formal tax assessment notice calling for a tax of approximately three times that shown on the bank's corporate tax return; the tax authorities simply assumed the bank's original return had been based on generally accepted Italian practices, and they reacted accordingly. The bank's general manager again consulted with his lawyers and accountants who again suggested he hire a **commercialista** who knew how to handle these matters. Upon learning that the **commercialista** would probably have to pay **bustarella** to his revenue service counterpart in order to reach a settlement, the general manager again chose to ignore his advisors. Instead, he responded by sending the Italian revenue service a check for the full amount of taxes due according to the bank's Canadian-style tax return even though the due date for the payment was almost six months hence; he made no reference to the amount of corporate taxes shown on the formal assessment notice.

Ninety days after paying its taxes, the bank received a third notice from the authorities. This one contained the statement, "We have reviewed your corporate tax return for 19__, and have determined that [the lira equivalent of] \$6,000,000 of interest paid on deposits is not an allowable expense for federal tax purposes. Accordingly, the total tax due for 20__ is lira __." Since interest paid on deposits is any bank's largest single expense item, the new tax assessment was for an amount many times larger than that shown in the initial tax assessment notice and almost fifteen times larger than the taxes which the bank had actually paid.

The Essay

The purpose of your essay is to answer the question: "Was the bank's general manager right to do what he had done?"

In order to answer this question, you should

- 1) define your terms
- 2) provide reasons or arguments for each side--i.e., for the side that says the manager was right, and for the side that says the manager was wrong. These reasons and arguments should be consistent with, and draw on, the relevant material in the context and the details of the specific case
- 3) explain and show why the side you disagree with is wrong or does not have good, relevant, sufficient evidence for it.
- 4) clearly indicate your answer to the problem, both in your introduction, and in your conclusion.

Essays should be about 1,000 words in length. Follow the guidelines for the structure of essays described in class and provided on the web page. It would be useful to refer to some of the ideas on ethics that were discussed in class. Plagiarism will be reported to the Dean.