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Taxation and the Cost of Capital in Mozambique

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Chapter 15

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Abstract

This chapter draws on fundamentals of corporate finance to illustrate the effect of taxes on the cost of capital for Mozambican firms. It shows how Mozambican income taxes favour lending relative to equity investment, the returns from which are taxed twice; and illustrates the extent to which the yield on government securities creates a lower bound on the cost of financing. To confer the same tax treatment to income from equity as granted to interest income, either dividend payments ought to qualify as expenses when computing a firm's tax liability, or dividends received should be exempt from personal income tax. Alternatively, extreme reductions in the corporate tax rate would be required to remove the fiscal bias against equity investment.

1. Introduction

1.1. Relationship to firm financing

A firm's cost of capital is the rate of return which investors (or lenders) require in order to invest in it. Firms are not exclusively owned by shareholders. A firm's value depends on its ability to transform some collection of resources into output, which when sold generates income. The inputs are acquired using the funds provided by equity and debt holders. Lenders are entitled to a pre-determined fraction of the firm's income. Once debt obligations are met, the government collects its (direct) share of firms' profits. Shareholders own the residual claim to a portion of this stream of income.

The crucial distinction between the claims of equity holders and debt holders is not that interest payments are fixed and known in advance, while dividends are not. The payments on variable rate loans are neither fixed nor known in advance. The norm in the Mozambican credit market is for interest rates to be indexed to a money market rate. And dividends will be fixed if managers and shareholders decide that they should be so – if the firm has the cash to pay.

The distinction is in the set of circumstances in which the providers of capital can exercise control. For as long as an indebted firm can meet its obligations towards its lenders, equity holders control the firm. This assumes owner-managed firms, which is of course the dominant form of governance in Mozambique and most other developing countries. Once the firm fails to meet such obligations however, control passes to lenders.

When a firm approaches a financial intermediary to raise external finance, debt and equity are alternative instruments through which the intermediary will gain access to some portion of the firms' revenues. The regulations that govern Mozambique's financial system recognise this by permitting banks to hold equity, as well as debt, in the corporate sector. But the tax system does not. It treats income from owning a priority claim to firms earnings (i.e. from lending), and income from residual claims (i.e. from owning equity) differently, by taxing the latter more heavily. This note seeks to explain clearly and precisely how, to what extent, and with what implications for the cost of capital.

1.2. Double taxation of equity income and financial sector development

In Mozambique (not uniquely), individuals and corporations are taxed separately. The tax liability of shareholders is assessed independently of the tax liability of the corporations they own. In particular, and in contrast to interest payments, dividends do not count as expenses in the computation of the paying firm's tax liability. Yet, like interest income, dividend income is fully taxable in the hands of the receiving shareholder. A corporate tax rate of 32 percent and personal income tax of 32 percent (at the highest bracket) imply a tax rate on income from risky equity investment of 54 percent.

Internationally, the effect of the double tax on equity income is at least partly mitigated by lower capital gains tax.[1] The return from equity investment is not only, nor even primarily, due to dividend income. There is a liquid capital appreciation component, due to the tradability of equity shares. Gains from increases in the value of shares, which exceed dividends as the source of returns, are taxed at the capital gains rate. The latter is normally lower than ordinary income tax, under which interest (and dividend) income falls. The effect is the following. Although interest income is paid from earnings before tax and dividends are paid from after-tax earnings, the personal tax rate on equity can be close to, and is usually lower than, the rate on interest income.

In addition, numerous countries have introduced measures that reduce the double tax even when equity returns flow mainly through dividends, which is the case for unlisted firms. Greece and Norway allow dividends to be deducted from corporate taxes; Australia, Canada, France, Germany, Italy, and the UK have an imputation system, where dividends received create a tax credit for part or all of the taxes paid by the corporation.[2] Similar measures are currently absent from the Mozambican tax code. They are as important in Mozambique as elsewhere.

Since Mozambique's stock market consists of little more than a handful of illiquid shares listed, the benefits from owning equity capital accrue almost exclusively through

[1] Note also that in countries under a classical tax system (no integration) it is usual for small firms to be largely or completely exempt from corporate taxes. (Example: subchapter S firms in the US pay no corporate taxes. Profits are passed to shareholders, and the latter liable to personal income taxes.) In Mozambique, very few firms can be meaningfully categorised as anything other than "small to medium" sized firms.
[2] See for example McKenzie and Thompson (1996), Grinblatt and Titman (1998).

dividends. Thus, the tax penalty on equity can be particularly high. The consequence is an incentive for potential investors to benefit from business activity by lending, rather than acquiring equity (a firmer, longer-term commitment), or not investing at all. With respect to financial sector development, the relative un-attractiveness of equity investment contributes to the slow expansion of the stock market, and the virtual inexistence of private equity investment – which is arguably the form of alternative financing that the Mozambican private sector could benefit the most from.

Given the private sector's frequently expressed concerns about the restricted availability and high cost of external financing (see IMF, 2004, and DNEAP Discussion Paper 33), and the central importance of private sector investment for sustained economic growth (see Jones, 2006, for Mozambican evidence), the effect of corporate taxation on the attractiveness of equity investment is not consistent with the central role of private sector growth in the Government of Mozambique's economic growth plan.

2. Relative attractiveness of alternative forms of ownership

Consider a standard one period risk-neutral setting. Suppose a firm is financed by a combination of owners' equity capital and debt. Let E represent the initial equity investment, and D the amount initially borrowed, at the rate of interest r_D. So the amount to be repaid to lenders is $(1+r_D)D$. (Most bank loans in Mozambique have short maturities.) Let X denote end of period payoff, before interest and tax. After repaying debt and corporate taxes, at rate τ_C, and assuming no cash is retained for future investment or working capital, profits available for distribution are equal to $\left[X-(1+r_D)D\right](1-\tau_C)$. If this entire sum is paid out to the providers of equity capital, the investor is liable for personal income tax on the dividends received, at rate τ_E. The (maximum) amount received by investors is thus

$$\left[X-(1+r_D)D\right](1-\tau_C)(1-\tau_E).$$

So the rate of return on equity, after corporate and personal taxes, is

$$r_E(1-\tau_C)(1-\tau_E),$$

where $r_E=(X-(1+r_D)D)/E$ is the pre-tax return on equity. Lenders pay income tax on interest received, so the after-tax return on debt is $r_D(1-\tau_D)$.

The condition for indifference between investing in equity and lending as alternative ways of owning a firm's cash flows is that the after-tax return from each be equalised:

$$r_E(1-\tau_C)(1-\tau_E)=r_D(1-\tau_D) \qquad [1]$$

Consider only investors whose total personal income puts them at the highest threshold for personal taxation. In Mozambique, $\tau_C=\tau_E=\tau_D=0.32$. The above condition for indifference simplifies to $r_E(1-\tau_C)=r_D$, or $r_E=r_D/(1-\tau_C)$, implying that for any positive corporate tax rate, investors will only be indifferent between debt and equity if the pre-tax return on the latter strictly exceeds the former, $r_E>r_D$.

A reasonable estimate of the weighted average rate of interest on one-year bank loans in Mozambique for 2005 is circa 25 percent.[3] Take this rate as the pre-tax return on debt. Then, given the corporate tax rate of 32 percent, after-tax return equivalence requires that $r_E = 0.25/0.68$, i.e. 36 percent return on equity, or 47 percent larger than the return on debt. The result:

Result 1. *In the absence of non-debt tax shields, investors with the possibility of acquiring private sector debt obligations (i.e. lending) in Mozambique will find equity in the same firms a more attractive investment only if the expected pre-tax return on equity is strictly larger than 1.47 times the interest rate on the loan.*

A few remarks and further results follow.

2.1. One reason why banks do not invest more in equity

Banks in Mozambique are the dominant participants in the financial sector. In addition to extending loans, commercial banks are allowed to hold equity in the corporate sector. But very few, if any, ever do. Result 1 above partly explains why.

2.2. Why treasury bills seem so attractive

Banks can lend to the government by investing in Treasury bills and government bonds.[4] The average rate of interest on one-year Government bonds issued in July 2006 was over

[3] Data from Banco de Moçambique, the central bank, indicates a simple arithmetic average nominal interest rate on one-year loans of 23.5 percent for July 2006.

[4] Other institutions and individuals can only buy treasury bills in the secondary market.

18 percent. [5] Moreover, the income earned from holding treasury bills is tax-free.[6] That is, in case of government debt we have $\tau_D = 0$. When comparing equity investment with buying government debt, the condition for investor indifference is thus

$$r_E(1-\tau_C)(1-\tau_E) = r_{GD}$$

Using the fact that for investors in the highest income tax bracket $\tau_C = \tau_E = 0.32$, a tax-exempt rate of return of 18 percent on government bonds implies that the above condition is only satisfied when the pre-tax return on equity reaches 39 percent.

The cost to the government of its securities is determined in the primary market for government debt, where participation is restricted. Before drawing conclusions on the scope for raising more funds for each unit of future interest payments (i.e. obtaining a higher price for debt obligations issued), consider the relative attractiveness of government and private sector debt. With a weighted average rate of interest on loans of 25 percent, the after tax return from private lending is 17 percent. Private loans require significant overheads and involve default risk. Treasury bills do not, yet offer comparable after tax returns. The general result:

[5] According to Banco de Moçambique data, the rate of interest paid on one year treasury bonds issued in July 2006 was 18.25 percent. It dropped to 16 percent by September 2006, and was unaltered at 16.5 percent from December 2006 to mid-January 2007. (See various issues of "Sintese de Situação Financeira" available at the Banco de Moçambique website: www.bancomoc.mz.)

[6] See Decreto 22-2004, Artigo 13, República de Moçambique.

Result 2. *In the absence of non-debt tax shields, investors with the possibility of acquiring government debt obligations in Mozambique will find private sector equity investment more attractive only if the expected pre-tax return on equity is at least 2.1 times greater than the return on government debt; and private sector lending (more attractive than government debt) only if the rate of interest, net of default, is at least 1.47 times larger than the return on government debt.*

2.3. Implications for public debt management

First, government borrowing crowds out private sector investment through two channels: banks facing high default rates from corporate borrowers and/or high overheads associated with lending will prefer default free government securities; and any other investor with no tax exemptions prefers government bonds to equity. Second, the government seems to be selling bonds too cheaply, paying a higher rate of interest than necessary.

Result 3. *There is scope for both reducing the cost of government borrowing in the domestic market as well as promoting private sector investment by raising the price of government debt securities (i.e. reducing the rate of interest on government debt obligations). This may be achievable by promoting increased competition in the primary market for government securities, where participation is currently restricted; re-examining the design of government securities auctions; and carefully managing government borrowing requirements (which determine the supply of securities).*

Should the government start taxing interest earned on treasury bills and/or bonds? Not necessarily. If it imposes taxes, it will receive additional revenue from these taxes, but it will have to pay a higher pre-tax rate of interest. The interest currently paid represents the required after-tax return from holding government securities – given the existing auction rules. If the income from holding these is taxed, bidding institutions will (all else constant) simply bid lower prices for buying the bonds, so that the higher pre-tax interest permits a sufficient attractive after-tax return. What is a sufficiently attractive after-tax return given the current financial sector conditions? Precisely the rate received under the tax exemption.

A preferable solution is to increase competition in the primary market for government securities. All else constant, the increased demand will raise bond prices, reducing the interest rate on bills. Private sector will benefit through a lower benchmark interest rate; and the government will benefit through a lower cost of domestic financing (receiving more metical in each auction for each metical it will be liable to pay in the future) – even without removing the tax exemption on interest from holding government securities. It might also be of interest to subject the auction rules to careful examination given the well documented sensitivity of optimal bidding behaviour to auction design. Evidently, sporadic large increases in treasury-bill issues will always push bond prices down and interest rates up. The preceding recommendations presume the minimisation and careful timing of issues.

2.4. Allowing for non-debt tax shields

So far the analysis has ignored the existence of non-debt tax shields. Mozambican entrepreneurs, as well as foreign firms operating in Mozambique, receive non-trivial allowances which can substantially reduce firms' tax liabilities. (This is especially so in the case of large foreign investments which command significant bargaining power when negotiating for concessions before committing. See the chapters by Byiers and Kuegler in this volume.) Such tax shields and exemptions reduce significantly the effective corporate tax rate.

Take the extreme case where tax exemptions or non-debt tax shields reduce the effective corporate tax rate to zero. Now reconsider the comparison above between buying government bonds and investing in equity. The condition for indifference becomes:

$$r_E(1-\tau_E) = r_{GD}$$

With the rate of tax on received dividends at 32 percent, and a tax-free return of 18 percent on government bonds, this condition translates to approximately $r_E = 0.26$. In brief:

Result 4. *When non-debt tax shields reduce the effective corporate tax rate to zero, equity investment becomes more attractive than buying government debt obligations if the pre-tax return on equity is at least 1.47 times the yield on government debt.*

Similarly, comparing the after-tax returns from equity investment with corporate lending when the effective corporate tax rate is zero but the income from dividends and interest are taxed equally, equity investment will be as attractive as corporate lending if simply $r_E = r_D$. This sounds trivial. But bear in mind it only applies *when the effective corporate* *tax rate is zero*.[7] For any positive effective corporate tax rate, the required return on equity is strictly larger than the required return on debt. The fewer the exemptions, the larger this difference must be. The closer the effective corporate tax rate is to the standard rate, the larger will the excess return on equity have to be. Ignoring risk and agency issues, the required return on equity equals the required rate of interest on debt only when non-debt tax shields reduce the effective corporate tax rate to zero.

Note that this is true before any adjustments for the higher risk associated with equity investment. We are considering only the tax effects. Reliable measures of the equity premium in Mozambique do not exist. But it is safe to conjecture that it is larger than in neighbouring South Africa, where the long-term equity premium is estimated at between approximately six and eight percent.[8]

2.5. Depreciation and other special allowances

Mozambique has a complex and partly ad-hoc system of special tax exemptions. Simultaneously, the rates of tax on interest and dividend income are equal. But interest payments are tax-deductible while dividends are paid from after-tax profits. Because of very low financial development (existence of only a trivial and illiquid stock exchange in particular), lower capital gains tax cannot be relied on to keep the effective tax on equity income lower than that on interest income, thus compensating for the tax disadvantages of dividends. The consequence is that equity investments offering expected returns which

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[7] Of course, equity is normally a riskier form of corporate investment. This last result implies that on a risk-adjusted basis, the pre-tax required return from equity has to exceed the return from lending – even if the effective corporate tax rate is zero.

[8] See Biljon and Hassan (2007).

elsewhere may be regarded as highly profitable, are only attractive in Mozambique if there are special tax allowances.

There are good reasons to either eliminate or change substantially the system of fiscal exemptions. (See the chapters by Byiers and Jones in this volume.) But the preceding analysis suggests that any such changes will impact on the after-tax cost of capital and therefore require changes in the combination of taxes on corporate profits, interest income, and dividend income, to mitigate the effect of the reductions in exemptions on the after-tax cost of capital.

3. Effect of taxes on mix of debt and equity in firms' balance sheets

In the absence of non-debt tax shields, a firm with taxable profits will be indifferent between debt and equity financing if the after-tax cost of debt equals the after-tax cost of equity.[9] Under the Mozambican IRPC, interest payments reduce taxable profits and thus the firm's tax liability, while dividend payments do not. Dividends are paid from after-tax profits. Hence, from the viewpoint of the firm, and ignoring risk (which is firm or project specific), the condition for indifference (in terms of minimising the cost of capital) between the two forms of external financing is that:

$$r_D(1-\tau_C) = r_E \,. \qquad [2]$$

[9] Depreciation is the most common example of a non-debt tax shield. We are evidently ignoring agency and information-theoretic aspects of financing. This paper is focused on exclusively on tax effects.

It follows that, as long as the corporate tax rate is non-negative, debt and equity will be equally costly only if $r_E \leq r_D$. (Specifically, in the Mozambican case, that at a minimum, $r_D = r_E / 0.68$.) Usually, in countries with non-integrated tax systems, the average tax rate on equity income can be equal or lower than the tax on interest income. This is due to low capital gains tax reducing the effective tax rate on equity income as explained previously. That is, $\tau_D > \tau_E$, so that $(1-\tau_D) < (1-\tau_E)$ and conditions [1] and [2] can be simultaneously satisfied under various combinations of τ_C, τ_D , and τ_E larger than zero.

From the viewpoint of investors in Mozambique however, the preceding analysis shows clearly that there will be no incentive for equity investment unless $r_E \geq r_D$. If the firm faces an effective corporate tax rate of zero it was seen that we can have $r_E = r_D$. In this extreme case, we can have both conditions [1] and [2] satisfied provided $(1-\tau_E) = (1-\tau_D)$, which is ensured by the fact that $\tau_E = \tau_D$. But if the firm pays any corporate taxes, it was seen that $r_E > r_D$ if equity is to be attractive, in which case condition [2] cannot be met – the after-tax cost of debt is lower than the cost of equity for any level of return on equity that investors will be happy with.

4. Recommendation and remarks

4.1. Summary and recommendation

The primary market interest rate on government securities sets a lower bound on the cost of private sector borrowing. From banks' viewpoint: interest paid by private sector borrowers is not tax-exempt; private sector lending involves larger operational costs than simply buying treasury securities; and it carries larger default risk. In turn, the interest rate on private sector debt, through the Mozambican tax treatment, sets a premium on the lower bound on the required return on equity – over and above the usual risk factor. Because equity investment is only attractive if the pre-tax return on equity exceeds the rate on loans, the average cost of capital is kept strictly above the rate of interest on loans. Hence the double taxation of equity income contributes to under-investment, leading to slow renewal of capital stock and slower economic growth.

Obviously, tax policy is not the sole impediment to sustainable growth, and it is not through tax reform alone that this central objective will be achieved. (It is equally obvious that the judicious use of state revenues can have a significantly positive effect on growth.) But changes to alleviate its adverse effects on the cost of financing would help. Such changes would have to involve either (a) exempting dividends from personal income tax; or (b) permitting dividends to be paid from pre-tax earnings.

Recommendation. *Removing the fiscal bias against equity investment requires that either dividends received be exempted from personal income tax, or that dividend payments be made from earnings before tax, thus reducing the firm's tax liability – or an alternative measure to the same effect.*

The second measure is likely to have a stronger impact on private sector investment, and the least harmful short-term effect on government tax revenues. Due to significant credit constraints, it is estimated that circa 80 percent of private sector investment in

Mozambique is funded by retained earnings.[10] A firm's profit before tax has to match the sum of its tax liability, dividends paid, and retained earnings. Permitting dividends to reduce the corporate tax liability leaves more retained earnings for any given combination of dividends paid and profits before tax, relaxing the firm's financing constraints. Detailed empirical research suggests that reductions in the effective taxation of retained earnings can have significant sustained effects on private sector investment and economic growth in economies with under-developed financial sectors.[11]

As discussed in other chapters in this volume,[12] corporate tax revenues as a share of GDP declined substantially from 1999 to 2005. Personal tax receipts are now twice the volume of corporate taxes. Moreover, the effective corporate tax rate is already lower, for at least some firms, than 32 percent. If dividend income becomes tax-exempt, equity investment in such firms may become essentially tax free. (That is, the state does not receive much from taxing the firms' profits, nor from the dividends received by its owners.) Thus the second measure (treating dividend payments as expenses for the purposes of computing firms' tax liabilities, rather than exempting dividend income from personal taxation) is likely to have the smaller negative impact on aggregate tax receipts. (All firms will benefit from a reduction in the corporate tax burden, and the double taxation of equity income will be mitigated; but the government collects taxes on dividend income.)[13] It would however further reduce the effective corporate tax rate.

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[10] See the chapter by Byers and Fausto in this volume; and DNEAP Discussion Paper 33E of 2006.
[11] See Hsieh and Parker (2006).
[12] See the chapters by Byiers; McCoy and Van Dunem; and Jones.
[13] There may be also an advantage in the facility of tax collections. Firms would have an incentive to declare dividend payments, which can then be used to track taxable dividend receipts.

4.2. Informal remark on the level of the corporate tax rate and growth

Investment occurs when the expected return on investment exceeds the return investors require (i.e. can obtain elsewhere), given the prospect's risk. The investors' required rate of return is the firm's cost of capital. Fix the level of productivity. Then the higher the average cost of capital, the smaller the set of investments which will be attractive.

The results of systematic empirical studies on the effect of taxes on growth are ambiguous.[14] There are a number of reasons for this, including measurement difficulties, and the difficulty with isolating the effects of taxes. Low taxes stimulate corporate activity and private sector investment. High taxes permit higher public investment. Lowering taxes increases the former at the cost of the latter. The net effect on economic growth depends on the marginal productivity of private versus public investment. There is no reason to expect that all countries will experience a higher rate of productivity from one form of investment over the other across time. There may be variations over time for a given country.

For a cross section of African countries, Skinner (1987) found that for the 1965-1973 period, the benefits from public investment out-weighted the negative effects of the taxes raised to finance them; but for the 1974-1982 period the productivity of public investment fell to the point that tax-financed public investment reduced output growth. For the Mozambican case, Jones (2006) finds that over the post-war period, the contribution to output growth from private investment largely exceeds that of public investment, but no definite conclusions are made regarding investment productivity.

[14] See for example Easterly and Rebelo (1993), Easterly (2002).

The anecdotal evidence can also shed some light. Data from a recent survey by KPMG, an international auditing firm, imply that the corporate tax rate in Mozambique is not high in comparison to most low growth developing countries in Africa.[15] It is however higher than the rates in two of the most well governed countries in Africa: Botswana, one the world's fastest growing countries over the past decades, and Mauritius – both with corporate tax rates at or below 25 percent. Moreover, the Mozambican corporate tax rate exceeds the average rate in the Asia-Pacific region, in Latin America, and the European Union, where a number of countries have been steadily reducing rates in the past decade.[16]

Country or Regional Average	Corporate Tax Rate, 2006
Mozambique	32
Botswana	25
Mauritius	25-15
Asia Pacific	30
Latin America	28
European Union	25

Source: KPMG

[15] It is common to see comparisons of Mozambique with countries in a comparable level of development. Intuitively, this seems natural. The obvious problem is that countries in such low level of development tend to be poorly governed. Their economic policies are not usually an example to follow.

[16] Behind the EU average are some notable reductions, motivated by the need to revive competitiveness as an investment destination. Two examples: the reduction in Austria from 34 to 25 percent in 2004; Germany's decision in 2005 to reduce the average rate from 38.7 to 29, by 2008.

The same study suggests that worldwide, the average rate of corporate tax reduced from 38 to 27 percent between 1993 and 2006. In some cases, reductions in corporate taxes are followed by periods of increased economic growth. A remarkable example is Ireland, the so-called “Celtic Tiger”. The initial impulse for the very high growth rates it experienced through the 1990s is largely attributable to very low corporate tax rates: 12.5 percent by 2004, reduced from 40 percent prior to 1993. EU countries are dropping corporate tax rates to lure (or prevent flight of) investment and stimulate economic growth. In 2005 the average corporate tax rate in the European Union had dropped to 25 percent – well below the Mozambican rate. Increasingly, only very large economies with enormous domestic markets and numerous other sources of competitive advantage manage to retain comparatively high corporate tax rates and robust economic growth, particularly the USA at 40 percent. Mozambique seems to have largely ignored the worldwide reductions in corporate tax rates.

4.3. Informal remark on timing

Of course there are two issues to bear in mind. There is an urgent need for increased investment and sustained growth in Mozambique. But simultaneously, there is a pressing need for increased domestic revenues to fund government budget. However: First, private sector-led economic growth will generate more profits, so that reduced tax rates need not cause reductions in income tax revenue. Second, even if temporarily it does, in the long-term it is unlikely that Mozambique will be able to apply higher corporate tax rates than developed countries with far higher capital and labour productivity, and expect to attract much investment.

In this regard, there is an important question of timing. Development funding to Africa has received considerable attention recently. The number of African countries which simultaneously have a pressing need for aid and satisfy the emerging requirements for funding, in terms of macro-economic management, democratic governance, and other criteria regarded as desirable in the donor community, has diminished considerably. Mozambique occupies what is arguably a particularly good position as an aid recipient. Assuming the country remains in its developmental path, there are no indications of large reversals of foreign aid in the near future. Indeed, improved governance may lead to increased funding. This may present an opportunity to bear the possibility of a short to medium term reduction in tax revenues due to a reduction in corporate taxes without much strain on the budget. Once the effects of lower taxes feed through higher domestic growth, this temporary loss can be compensated for.

5. Conclusion

Mozambique is characterised by a combination of i) comparatively high corporate tax rate; and ii) non-integration of corporate and personal income tax systems. The associated double tax of equity income creates an incentive for lending rather equity investment, and raises the required rate of return on the latter. Given the high levels of real interest rates on domestic currency loans, this translates to a high cost of capital and consequently under-investment by domestic entrepreneurs. Removing this fiscal bias requires that either dividend payments be made from pre-tax profits, thus conferring dividends the same treatment as interest; or that dividend income be exempted from taxable income.

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