To illustrate the identity between (a) imputation (i.e., treatment of the entity-level corporate tax as a shareholder-level withholding tax) and (b) dividend deductibility, suppose Acme Products earns $100, distributes all of its after-corporate tax earnings to shareholders, and does not have tax preferences or net operating losses.

1) **Corporate and shareholder rates the same** (both 35%)
   (a) **Imputation** – Acme pays $35 of tax and distributes the remaining $65 to shareholders. They are deemed to have received $100 and already to have paid $35 of tax. No further tax consequences, and they end up with $65.
   (b) **Dividend deductibility** – Acme owes no corporate tax after distributing $100 to shareholders. They pay $35 of tax and end up with $65.

2) **Corporate rate is higher** (35% corporate, 20% individual)
   (a) **Imputation** – Acme pays $35 of tax and distributes the remaining $65 to shareholders. They are again deemed to have received $100 and already to have paid $35 of tax. Assuming withholding tax refundability, they get $15 back from the government and end up with $80.
   (b) **Dividend deductibility** – Acme owes no corporate tax after paying out $100 to shareholders. They pay $20 of tax and end up with $80.

3) **Corporate rate is lower** (20% corporate, 35% individual)
   (a) **Imputation** – Acme pays $20 of tax and pays out the remaining $80 to shareholders. They are deemed to have received $100 and already to have paid $20 of tax. They owe an additional $15 of tax and end up with $65.
   (b) **Dividend deductibility** – Acme owes no corporate tax after paying out $100 to shareholders. They pay $35 of tax and end up with $65.

The reason the two systems are identical – barring withholding tax nonrefundability or the creation of corporate losses (by reason of tax preferences) if all earnings are distributed – is that each causes application of the shareholder tax rate entirely to supplant that of the entity-level tax rate for distributed earnings.