Ireland stands in the way of tax reform

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The Irish Times has noted:

The [Irish] government has told the European Commission that imminent moves to introduce pan-European rules on the taxation of business profits will seriously damage Ireland's recovery prospects and threaten further budget cutbacks and tax increases.

The EU executive plans to publish draft laws in March to develop a common European formula for the calculation of corporation tax, measures the Government has vowed to oppose because they could dim the lustre of Ireland's generous business tax regime.

In an escalation of its campaign against the initiative, the Department of Finance has warned in a private submission to taxation commissioner Algirdas Semeta that the measures would shrink the Irish economy, reduce employment and curtail foreign direct investment.

This is an important issue. Formulary apportionment basically allocates the profit of a multinational corporation to countries based on underlying economic realities which are weighted by a formula. The standard formula allocates one third on where customers are, one third on where labour is and one third on where physical (not intangible) capital is located.

You can immediately see that this would be severely detrimental to Ireland. For example, whilst many IT companies are based there, and make sales from Ireland, under the formulary apportionment method very little of their profit would actually be allocated to Ireland because it is only the presence of some staff there that indicates that the formula would have any weighting towards the Irish Republic.

So we are in the situation that to bail out the Republic of Ireland necessary tax reform that would eliminate a great deal of tax haven abuse, and the massive amount of tax avoidance that is perpetrated from Ireland through distance selling, is apparently to be tolerated. I have a very strong suspicion that a great many countries in Europe will not agree. I'm also confident that the European Commission shares that view or they would not be putting this item back on the agenda now.

Ireland's position is fundamentally flawed, and the myth of its economic strength has been shattered. I suspect that the common consolidated corporate tax base (CCCTB) will be making progress over the coming years, and that will be good news for the rest of us.

PS it so happens that country by country reporting provides some of the information that would assist allocation of profits under a formulary apportionment method of corporation tax allocation. it's another of its merits, because it would let tax authorities see very quickly whether there was a risk inherent in a particular group structure, or not. The benefits to that tax authority, the people living in that country, and to the shareholders of the corporation that might be subject to attack, is obviously enormous. The only risk is to the management to want to undertake tax avoidance to increase earnings to trigger their own bonus arrangements.