

## On the Dole, Corporate Style

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The [above is the title of a new article](#) by David Cay Johnston for Tax Notes, available on the US based taxprof blog.

Johnston is a first rate journalist who has done a lot of work on tax. But in this article he reviews a book by Prof. Kenneth P. Thomas, a political scientist at the University of Missouri-St.Louis, who documents how tax giveaways to big business are growing around the globe. Entitled 'Investment Incentives and the Global Competition for Capital' the book looks to be somewhat more important than its low key title suggests. What it documents is \$70 bn of tax give aways to US businesses by federal and state governments each year, a rate he thinks six times bigger than the equivalent subsidies in the European Union.

Any suggestion that the subsidies somehow result in better economic performance or investment is squashed:

*Any thought that giveaways of tax dollars stimulate foreign investment in America is demolished by a little table on page 101 of Thomas's book. It shows that between 1985 and 2007, the American share of global direct investment fell by two-thirds, from 36.7 to 12.7 percent. However, in the 15 more developed EU countries where subsidies were few, the share of foreign direct investment increased from 28.6 to 40.3 percent.*

And FDI investment data involving Ireland and Luxembourg does, admittedly, have to be treated with care, but there is real importance in what this book has to say.

It is a persistent argument of business that the tax gap on corporate profits (which I have estimated to exceed £10 billion a year in the UK) is not the result of any form of avoidance at all, but simply the use of perfectly acceptable allowances and reliefs. And some of it may be - of course that has to be true. But that's not the end of the story. These allowances and reliefs may be legal but the point is that they exist because of the power of the corporate lobby. And when decisions are made as to how to tackle deficits then the existence of those reliefs is an issue in play. And for that reason it is right to highlight that they exist and that corporations do undoubtedly benefit from

them in increasing amount. Nothing else can explain the fall in the effective tax rate of major UK corporations from about 28% in 2000 to about 21% in 2009.

And let's be clear, these allowances and reliefs do not happen by chance; they happen because of intense political lobbying. So corporations are not neutral in this debate. Lobbying for the structures that let you avoid tax is part of tax avoidance.

I stress - that does not mean that the activity is illegal. But it does allow anyone to question it. And it does mean that the use of such reliefs is a valid element in the tax gap. This is politics after all. And that's about the choice of "who pays".