Funding the Future

Charge for the privilege of limited liability

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This letter was in the Guardian this morning. It is from the senior partner of a firm of London lawyers employing more than 150 staff:

There is a simple way of addressing tax avoidance by companies (Editorial, 19 February). Profits in the hands of an accountant are an elastic concept. Revenue and Customs battles to stop companies deflating profits in this country and inflating them offshore — Barclays' use of tax havens is but a wider part of corporate tax avoidance. The irony is, of course, that these companies regularly boast of their corporate social responsibility programmes, when the two most fundamental elements of corporate responsibility — paying their low-paid staff properly and paying their taxes — are frequently flouted.

As you comment, "limited liability is a terrific privilege". What is more, it is virtually free. Companies House charges £30 to establish a company and £15 thereafter for the annual return. If governments are serious about raising revenues, they should consider taxing the privilege of limited liability. The private sector turns over approximately £1tn a year. A large proportion of this will be through limited liability companies. The government should levy a turnover tax on the privilege of limited liability, calculated at varying rates depending on the social usefulness of the organisation. Hence companies producing pornography could be charged a higher rate than those providing social care. Corporation tax yielded approximately £40bn last year. A turnover tax for the privilege of limited liability levied at the rate of 4% of gross turnover should bring in a minimum of £30bn a year. This would be simple to assess and simple to collect. It would allow corporation tax rates to be reduced and, of course, the limited liability tax would be a tax-deductible expense in calculating profits, hence corporation tax receipts would go down in any event, but this would be more than compensated by the revenues generated by the limited liability tax.

In addition, the chancellor should legislate to withhold the right to carry forward losses to offset against future profits for the purposes of calculating the corporation tax for those banks which have been bailed out by the taxpayer. For the taxpayer to have borne the cost of saving the banks, but for those very losses to be used to reduce the banks' corporation tax liabilities in the future, is a double blow to the exchequer and an insult to the taxpayer.

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Turnover taxes might be regressive in some cases, and I would not make them tax deductible. But it is excellent to see other professionals biting the bullet and coming out against tax abuse.