

# How to tackle bonuses - and high pay - by removing tax ...

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The [Guardian notes today that](#):

*The unions will today turn up the pressure on the banks with a demand that bonuses should be treated as profit and therefore be liable for corporation tax. Even though the corporation tax rate is being cut over four years from 28% to 24% it is still twice the level of tax banks currently pay through employers' national insurance contributions.*

*TUC general secretary Brendan Barber said: "Making mega-bonuses liable for corporation tax could drive reform of our boardroom bonus culture and raise revenues." He added: "The government cave-in on bonuses last week will have only increased public anger."*

*The TUC wants all pay and bonuses that are more than 10 times the average level of pay to be disclosed, as well as the ratio of directors' pay to the average pay per employee. Staff should also have a seat on remuneration committees, he said.*

I am pleased that the TUC has picked up this policy initiative, which is something I first wrote about some time ago.

The economic logic of this proposal is very simple. Maximum pay should either be 10 times median pay in the UK or 20 times the anticipated minimum wage. The number happens to come out at about £250,000 in either case. It is very obvious to anyone that no one need earn more than this figure to live a very good life of more than adequate material sufficiency in the UK. Therefore, any distribution to a person over about this sum must be of profit, and not pay as far as the company making payment is concerned. But profit distributions are not tax allowable in corporation tax. As a result no tax relief should be provided on them for the purposes of that tax. This has the obvious economic consequence of increasing the cost of payment of the bonus, and so reduces the amount of bonus payable, reducing pay differentials as a result, which is the intention of the proposal.

I would stress, however, that this does not mean that if paid by an employer who does

not get tax relief on it the resulting receipt by the employee is not taxable as income from employment. It should, of course be treated in a way, and also be subject to National Insurance. The logic of tax deduction for corporation tax need not be matched by the treatment for income tax or National Insurance. There are ample cases where there is a mismatch between economic justification for a payment and tax treatment. This is one of them. There is no pretence in the proposal that the result is tax neutral. It is meant quite deliberately to tax something (bonuses) that is causing harm to our society, and in that context tax justice is achieved by inequality of treatment, and not by equality.

Disclosure: I advise the TUC