Funding the Future

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Nick Shaxson of the Tax Justice Network has article on Comment is Free this morning, barging in favour of corporation tax. He cites ten reason for having this tax. I shamelessly quote them:

1) Corporate profits depend on tax-financed public goods: healthy and educated workforces; good infrastructure; publicly enforced respect for contracts and property rights, and so on. When corporations avoid or evade tax, legally or illegally, they free ride on the backs of the rest of us. Stop taxing them, and you savagely undermine political community.

2) Corporation taxes are an essential backstop to personal income tax. Cut them to zero, and wealthy individuals will increasingly reclassify their earnings as corporate income, typically using offshore corporate structures, and escape tax. Gauke's arguments about employees footing the corporate tax bill are irrelevant.

3) Gauke's claim of a "consensus among economists" that the burden of corporation taxes falls on employees and not on capital owners, is false. The US Congressional Budget Office **said last week that it was "unclear" how much of the corporation tax burden fell on employees; earlier, it said that capital bore most or all of the corporate tax burden. The Institute for Taxation and Economic Policy (ITEP) in Washington said this month that the incidence of corporate tax fell mostly on capital owners, not employees. It added that corporate income tax was among the most progressive taxes, because stock ownership was heavily concentrated among the wealthiest taxpayers. This is an especially precious tax.**

4) When Gauke talks about "employees", who does he mean? Goldman Sachs employees **earned $430,700 on average last year. To the extent that the burden falls on them, taxing such firms makes the tax system more progressive. It would also cut into excessive bank remuneration, which has been a big factor in the recent financial crisis. Taxing financial corporations also curbs the "too big to fail" problem where large banks can hold governments hostage and shift losses on to taxpayers.**

5) If corporation taxes didn't fall on the owners of capital, as Gauke claims, then corporations, responding to shareholders' wishes, shouldn't mind being taxed. So why do they spend so much time and money designing tax avoidance strategies?

6) Limited liability companies are separate legal persons, greater than the sum of their parts. So they should be taxed separately: this is not "double taxation". Limited liability lets shareholders dump costs on to society when things go wrong. Corporations must pay for this privilege.

7) Many corporations earn what economists call rents. These — like oil money that flows effortlessly into Saudi or Kuwaiti coffers — are earnings that arise not from hard work and real innovation but from accidents of nature or good fortune. Adair Turner **recently explained** **how banks in the City of London are particularly adept at earning rents, such as from exploiting insider knowledge and expertise; from natural oligopolies in market-making and other activities; and from "valueless" trading activity. Economists since Adam Smith — including Turner — have advocated taxing rents especially hard.**

8) Corporate tax avoidance, despite hiding behind weasel words such as "tax efficiency", is unproductive and inefficient. When corporate managers pursue tax avoidance they take their eye off what they do best — producing better or cheaper goods or services — and focus instead on engineering transfers of wealth from taxpayers to corporations. Clamp down on it, hard, to make markets more efficient.

9) It matters where company owners and business activities are. Take a US mining company digging gold in Zambia. If Zambia raises corporation taxes, wealth will flow from wealthy US stockholders to ordinary African taxpayers. The investor will stay, because that's where the gold is — and even if it goes, another will take its place. That basic formula works for profitable opportunities in general. Tax corporations, within reason, and they may bluff and bluster — but they will stay.

10) The "Laffer argument" that corporation tax cuts pay for themselves has been thoroughly debunked. Even Greg Mankiw, formerly chairman of George W Bush's Council of Economic Advisers, **calls Laffer's adherents** **"charlatans and cranks".**

As Nick concludes

So we should support the ... demand for more funding for tax staff. And we should be screaming about the horrifying proposed reforms to corporation taxes. Stick up for corporation taxes. They are fair and just. And they work.

I second that.