Taking Peston to pieces on tax

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Robert Peston has looked at the Oxford Centre for Business Taxation report on corporation tax in commentary on his BBC blog and come to some very strange conclusions.

Peston's main arguments are (and I edit to reduce to this list):

1) Multinationals have contributed 85% of all UK corporation tax revenue over the past 10 years. in 2007 UK owned multinationals paid £16.5bn of corporation tax, foreign-owned multinationals paid £17.7bn, and "domestic groups" paid only £1.1bn. So, Peston argues that without corporation tax paid by multinationals, British multinationals and foreign ones, there would be little revenue at all from this source. So it seems to make sense to encourage them to stay here.

2) However, the research also indicates that as a proportion of trading profit, the tax liabilities of the UK's 100 biggest companies are lower than for other businesses: unsurprisingly, big companies have the wherewithal to engage in sophisticated tax planning that reduces their tax bills.

3) Even so the biggest 1% of companies pay 81% of all corporation tax. So although in an ideal world, some may want the corporation tax system to be more progressive, in this less-than-ideal world big businesses are making a non-trivial contribution.

4) Although the UK's corporation tax rate has been well below the average for the G7 biggest economies for more than 25 years, UK corporation tax revenues as a proportion of GDP have generally been well above the G7 average. Peston claims that this provides some evidence, therefore, that lower headline rates which reduce the incentives for avoidance or for relocation abroad increase the overall take from companies.

Unfortunately Peston's analysis is simplistic, too accepting of the arguments and prejudices in the underlying report and fails to look for the external factors that influence the claims Oxford make, but twhich they have not drawn attention to themslves. In other words I'm arguing he's reporting and not analysing what they had to say.

To summarise my counter arguments they are:

1) Of course multinationals pay most tax, but there are numerous reasons for this. These include:

a) The UK has the largest financial market in Europe clustering financial, oil, mining and other companies in a way that no other centre in Europe does. It probably has more multinational companies per head of population than anywhere else in the wold. Of course they make a disproportionate contribution.

b) The proportion of profits within the UK economy has risen over recent years. I show this here. Almost all of this will relate t multinational corporations - so unsurprisingly they are paying more tax. But this may not be a cause for celebration - remember this means that labour is getting a smaller share and that means the wealth disparities in the UK have risen. I don't consider that good news.

c) Multinationals earn more for a number of reasons - first they can exploit developing countries (and I think they do); second they can transfer price to increase yield; third many create monopoly profit by eliminating domestic competition. Domestic companies are disadvantaged as a result. This theme could be developed - and I do not have room to do so here - but the finding is, I suggest unsurprising. The issue is not that multinational corporations pay more - wherever earned - but that they use their power to oppress local competition. That oppression is not necessarily good for the UK economy. UK companies employ more people in all likelihood - and that generates more tax and more added value.

2) Let's be clear about the second point - that large companies pay lower rates of tax than smaller ones. I have argued this previously and it has been denied - but Oxford has now confirmed my findings. But I have made this an issue for good reasons. They are:

a) This reverses the policy direction of successive UK governments. We have decided to have a progressive taxation system - and that continues to be what parliament endorses, and yet that is not what we have got. That creates what I have called an 'expectation gap' which rightly gives rise to protest. That this exists is confirmed by the newsworthiness of the story Peston picks upon. The gap is real, and I'll assess its size in another blog, later.

b) If the intention of parliament is not being fulfilled and the messaging that it is intended to deliver to the UK population and business community that there is a deliberate bias in our tax system to help small business overcome the disadvantages it faces when competing with large business is not being delivered in practice then very clearly our corporate tax system is not working as expected, and that is enough reason to demand change in it.

c) If allowances and reliefs, however legally claimed, bias in favour of banks and large companies then those allowances and releifs are not working as intended;

d) If large multinational corporations pay no more tax tha small local companies, despite the intention otherwise, the evidence of international tax planning is high;

e) As Peston himself says, the evidence that access to expensive advice distorts outcomes is also high - and also evidences that th outcome is not chance, but deliberate and clear evidence of the tax planning that I and others allege takes place.

3) Peston's argument assume i) progressivity does not matter ii) it's not achievable and c) if w tried to introduce it then business would leave. All three are wrong. We bias small business because it has additional costs over large business. By implication we now have a tax system that biases against domestic small business. In addition, we have a tax system that may well increase and not reduce inequality - and theRight hate this being said, but inequality harms all in a society. It's also just not true business will leave the UK. The fact is people are here. Markets are here - including the financial markets tat have nowhere else to go in our time zone - and skilled people are here. Business is not going anywhere else. And for good reason. This is where money can be made. That means we could increase the non-trivial contribution business makes without changing the business dynamic.

4) This is where Peston really shows his lack of knowledge. Tax yield is a three part function. It is:

(Tax rate x tax base) - Tax avoided and evaded = tax yield

I will leave evasion aside now - although it is an issue I will return to soon. The existence of avoidance is already accepted by Peston. It's the remaining function he shows he does not understand. Countries have a choice on tax base. That's how they define the profits subject to tax. The UK has chosen a residence basis to 2009 - when this data was valid. Now it is moving to a territorial basis - which is the basis of tax heist George Monbiot, I and others have written about.

Let's leave the tax hesit aside for a moment and make clear why the UK tax base is so big - which proves why it is not rate that gives rise to our realtively high tax take. The base is big precisely becasue we have included world wide income in the tax base. So we collect more tax and rightly so - which is another issue I will return to soon. Our base gives us a big yield.

The fact that London is in the UK gives us another boost - nowhere else proportionately has the same boost - as I note above. And it's not going anywhere else, so that's also a fact to consider. But that's base again, not rate.

And we should also not ignore the fact that the number of small companies in the Uk has jumped by more than a million in a bit over a decade - giving us by some way the largest number per head in Europe, more obvious tax havens apart. And some of them do pay tax, although the more interesting question (on which more later) is why so few do.

Put these facts together though and Peston's claim that a low rate works is just pure Laffer curve fantasy and he should know better than that.

The truth is much more prosaic. Go back to Peston's blog and what he was trying to prove was that Monbiot was wrong to say that the latest Tory reforms on overseas branches, dividends and controlled foreign companies are not a tax heist. And yet Oxford confirm otherwise. Labour, they say, increased corporate taxes in 2008. The Tories have undeniably they say reduced them in 2010 - and that's before the new rules on offshoring. Add those in and something much more important happens. As Oxford notes, few companies have overseas income but those that do have a lot - indeed the credit for overseas tax was £8.1 bn in 2008-09, the last year for which data is available. To assume that this gave rise to just £100 million of additional UK tax that will be the sum total now lost from changes now made is absurd: it must be more than that, because we're fundamentally changing our tax base.

The result is Peston is wrong, and maybe very wrong. He clearly needs a crash course in tax. Because on this story he's bought a line that is utterly misleading, and it's not the job of the BBC to repeat such things in such unquestioning fashion.