

Why look through taxation does not work

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I [have been asked](#) why we should bother with corporation tax and why not instead 'look through' the corporation and tax the shareholders instead — as many neoliberal economists and libertarians would prefer, since they view the corporation as a mere agent for its members.

The following is a range of the arguments against this proposition — which is both a denial of the legal reality of the existence of companies and a simple charter for tax abuse.

1. The corporation is a legal entity in its own right - why should it be exempt from tax when other people are not?

→? Corporations impose cost on society - they need to pay for the benefit of limited liability

2. Who are the owners?

→? Some owners in quoted multinational corporations hold shares for seconds. How is profit to be attributed to them?

→? How are derivatives, loans and other arrangements to be taxed?

→? What if the owner is a nominee?

→? What if the owner is another company? How many iterations are needed before a warm blooded human being is reached?

→? How are trusts to be treated - especially if discretionary?

3. If all the owners are offshore then no tax would be paid on income arising in the UK

→? Source taxation ceases to be possible

→? A disaster for developing countries where inward investment is high

→? A gift to tax planner everywhere

4. What if the owner had never seen the benefit of the profit - because no distribution had been made to them. Can they be taxed on an income they have never had?

→? Surely this breaches human rights?

5. What about collective investment vehicles such as unit trusts and pension funds? What happens then?

6. How does the admin of advising tens of thousands (if not more) of shareholders of the income they must put on their tax return work?

→? How does this represent efficiency?

7. The exception

There is an exception

→? Small companies

→? Fewer than ten owners

→? Less than £50,000 capital

→? The look through can work - but the company must act as agent to pay the tax for the member - so higher rate tax by withholding will be due by default