

A corporation tax is an essential part of any tax syste...

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There are occasions when even Guardian economists can prove just how closely wedded to the blackboard and how out of touch with reality they are. Phillip Inman did so this afternoon when writing about corporation tax. [He said this afternoon](#):

Soon there will be no such thing as corporation tax. Among the first items on the shopping list of reforms outlined by [Spain's new prime minister Mariano Rajoy](#) on Monday is a cut in the main business tax.

He said more firms would enjoy a 20% rate as a central plank of his mission to make Spain more business friendly.

And from this Phillip moved on to argue:

The TUC and tax campaigner Richard Murphy's groundbreaking 2008 report [The Missing Billions: The UK Tax Gap \(pdf\)](#), found a £12.5bn difference between what companies should have paid in corporation tax annually and what they really paid.

Some on the left argue, as the TUC did, that government's should play hardball with companies and make them pay the full charge.

But not only is that a forlorn task against the run of play (when governments across Europe are reducing corporation tax rates), it is wrong headed.

We need to generate taxes to fund social welfare and for that we need to redraw the tax map. I subscribe to the OECD's recipe for reform. Despite the Paris think tank's reputation for rightwing, pro-capitalist reforms, in this case it is pretty even-handed.

It would reduce all taxes on income and increase taxes on spending and wealth.

As he continues:

Unfortunately, the proposal leaves most leftists gasping for air. What do you say when a proposal slays the sacred cows you hold dear, but also slays those of the opposition.

The left loses a tax on businesses, and must suffer the regressive nature of high consumption taxes. On the other hand, workers pay less tax and crucially, the owners of wealth, be they rich individuals or corporations, must pay a new tax on their holdings.

The OECD, like most economists I speak to across Europe, subscribes to a tax on land as the simplest and fairest tax on wealth.

He tries to justify his position:

The shift has many positive benefits. The key must be to unlock a desire for work by cutting taxes on incomes. At the moment we lock families into static or falling living standards, partly through the interaction to [income tax](#), tax credits and benefits.

Consumption taxes rise, but there is evidence that skewing VAT away from food to luxuries makes it much less regressive. Land taxes would discourage the wealthy from hoarding land without doing something with it (planning rules permitting). If they want to live in expensive areas of the country or base their businesses in the south-east, then there would be a significant tax charge for doing so, and one they cannot dodge with elaborate schemes or offshore trusts.

Rajoy is, like most rightwing politicians, only tacking one side of the equation. The left should argue the logic of the right's position on income taxes with demands for taxes on wealth.

We do argue for a wealth tax Phillip, we do. But we do so based on our understanding of the real world, which is what Inman's suggestion so clearly lacks.

Let's just address one very obvious problem. About 700 companies pay more than half of all corporation tax in the UK. Details of the [£42 billion paid in 2010/11](#) are here. But this misses the fact that maybe £12 billion is paid by small business - who should also, as I have shown, be liable for much more if only this tax [were not so heavily evaded](#). Inman says we should have no corporation tax but a tax on wealth instead. How is he going to address the taxation of 1 million or probably more small businesses as a result? And how will he stop everyone forming companies to avoid tax henceforth? The naivety of suggesting the abolition of corporation tax to create this potential tax chaos is staggering. The back hole in government finances would be enormous.

Let's take a second issue. We would lose £42 billion from corporation tax. Inman suggests we recover this from VAT or wealth taxes. First, Inman suggests we skew VAT from food to luxuries. We already zero rate food. That shows how much he knows about that: precisely nothing by the look of it. Secondly, perhaps he does not realise there is no EU provision right now for a luxury wealth rate of VAT - although I would prefer one. So, to recover his VAT we'd need not a VAT rate of at least 28% based on [this year's forecast yield of £100 billion](#). That's going to help inflation, isn't it Phillip? And boost the

economy a lot, isn't it? Whilst of course creating no labour market distortions, at all. Nor will it create any benefits re-rating issues whatsoever, of course. And let's ignore for a moment the impact on those on pay freezes. The proposal should make every right thinking person shrink in horror. How come Inman thought of none of these issues?

And can we just ignore the suggestion that income tax rates will fall? How does cutting a whole tax raising £42 billion mean income tax rates fall? That's just fantasy. Making up the deficit will be enough of a challenge. Other cuts is just a ludicrous claim.

As is the argument for a wealth tax. I agree with these. Fundamentally. Completely. I want them. But there are some conditions. Like securing the data to assess them. And whilst we have tax havens that let anyone hide their wealth in offshore companies - which are tax free entities that no authority asks questions about - the chance of collecting wealth taxes is about zero percent. Of course I want to shatter that secrecy but suggesting a wealth tax without mentioning that pre-condition is plain absurd.

As for taxing land. Yes, I agree: that has to be done too. But there's an issue Phillip. It's called cash flow in the first instance. Is it reasonable to charge tax when there is no means to pay it? This is the perennial argument with taxing land. How are you going to overcome it? No mention is made? And then there are other problems you ignore. Like finding the owner. Not all land is registered, and much is registered offshore. How do you overcome that? And last, but by no means least - land (despite the Georgists's claim) is not the sole source of wealth. Cash generating assets are as well, very much so, but it seems Inman wants to ignore them.

I could go on, but won't. I want radical reform of taxation. But I also want a tax system that works. I find those like Phillip Inman who're still wedded to the old theories of economics and who have had no real encounter with the real world of tax where the problem of extracting payment is the number one priority putting forward ideas that are barking mad on a blackboard and economic insanity in the real world profoundly annoying. Even if they do work for the Guardian. Especially when they can only increase the wealth gap in society and the opportunities for tax evasion that corrode social justice.

Inman owes the Guardian and its readers an apology.