Stop corporation tax relief on high pay

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The TUC has published a new report this morning called Bonus Season. The summary says:

Ending corporation tax relief for pay and bonuses worth more than 10 times average annual earnings (£26,200) could raise around £1.7bn a year if applied to the banking and financial services sector, according to a new TUC report published today (Monday).

The TUC report Bonus Season uses data from the Labour Force Survey to show that over a third (36 per cent) of employees earning more than £250,000 a year in the UK work in banking and finance.

The report then uses HMRC data to estimate that around 81,000 people have incomes of over £262,000 (10 times average annual earnings) that come primarily from employment, including 29,000 people in banking and finance.

The report finds that total pay on earnings above £262,000 in the finance sector - which the TUC believes should be disallowed as a deductible expense for corporation tax purposes - is around £6.8bn a year.

Ending corporation tax relief on earnings over £262,000 in the banking and finance sector would raise £1.7bn a year - vital revenues towards paying back the deficit created by the financial crash, says the TUC.

The report also estimates that extending the scrapping of corporation tax relief for top pay and bonuses over 10 times average earnings to all UK companies would raise around £5bn a year.

With the government effectively cancelling out its own levy on bank balance sheets by cutting the rate of corporation tax from 28 per cent to 23 per cent by 2014, the banking and finance sector is no longer making a proper contribution towards paying off the deficit it played a key role in creating, says the TUC.

A previous TUC report The Corporate Tax Gap showed that banks already pay well *below the headline rate of corporation tax and that that the scale of bank losses at the height of the crash has allowed them to knock £19bn off their future tax bills, despite an £850bn bailout from taxpayers and the Bank of England.*

The fact that banks are back recording big profits and handing out billions of pounds in bonuses proves they can easily afford a new tax on big bonuses, says the TUC.

The TUC believes that making earnings more than 10 times average annual earnings liable for corporation tax would not only raise revenue but also tackle growing pay inequality by encouraging companies to spread pay across the workforce, rather concentrating it on those at the very top.

As well as calling for top pay to be liable for corporation tax, the TUC believes the following changes would help tackle the growing pay divide between top executives and the rest of the workforce:

* *Bring a much-needed dose of economic reality to executive pay decisions by introducing worker representation on to remuneration committees.*

* *Make executive pay more transparent by publishing the ratio between top pay and both median company workforce pay and the lowest paid members of staff.*

* *Tackle the closed shop of non-executive directorships (NEDs) by forcing companies to advertise positions externally.*

* *Make rates of pay increase for directors reflect those of other employees, with an explanation given in the remuneration report should this not be the case.*

I think such a policy would be a valuable constraint on high pay. But I should add that I advise the TUC on such issues so my agreement is unsurprising. The message though is a simple one: if all politicians agree high pay is a problem we should simply stop subsidising it. What's the problem with that?