Funding the Future

# Corporation tax at 5.5% is â€˜almost government-app...

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No, I didn't write that headline. The Tax Journal did. As they note:

*Heather Self, a Director at the law firm McGrigors  provided an overview of a major reform of the UK's controlled foreign companies (CFC) anti-avoidance rules in a* Tax Journal webcast published yesterday.

These are the rules of which the the Tax Journal notes:

*Anti-poverty campaigners claim that the changes will 'water down' the CFC rules and cost developing countries up to £4bn a year. The reform comes at a time of widespread criticism — on all sides of the political spectrum — of corporate tax avoidance by some of the world's largest groups.*

So what did Heather Self have to say? Well, it was this:

*'I'm assuming that a UK-headed group with some bank debt has a genuine operating company, elsewhere in the world, that needs finance for its business. If the UK plc sets up an offshore finance company, it can funnel that bank debt through the finance company to the operating company, get a deduction in the UK for the bank interest, a deduction in the operating company for the loan, and then the really good news — the tax in the finance company will only be 5.5%. That's a quarter of the corporation tax rate of 22% which we're now heading for. In summary, a double deduction in exchange for just a 5.5% charge.'*

Yes, you read that right: there could be 44% of tax deduction and 5.5% of charge - a tax subsidy of 38.5% as a result.

This is the reality of the Tories way of addressing tax avoidance - to give yet more tax breaks to their friends in big business.

Max Hastings should take note.