

John Kay supports unitary taxation in the FT: this is t...

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As John Kay [notes in the FT this morning](#):

Many multinational companies that appear to be operating successfully in Britain pay little or no corporation tax in this country. It is not difficult to understand why ordinary people on wages and salaries, and small British companies that pay tax at the normal rate on their profits, are angry.

As he correctly concludes, little can be done to mend the existing international corporate tax system: it is fundamentally intellectually flawed.

The consequence is, as he notes, that an alternative system is now needed. Despite George Osborne's hopes, and the OECD's claims, tinkering with a failed mechanism cannot ever now make it work. As Kay notes:

The states of America quickly experienced the problems encountered in a highly integrated economy with many different tax collectors. Many states dealt with the issue through profit apportionment. Instead of attempting to estimate what fraction of a company's total profit was earned in California and what amount in Wyoming, apportionment states taxed corporations on a share of their aggregate US profits corresponding to the share of their total US activity that took place in the state. The most common basis of apportionment is the "[Massachusetts formula](#)", which gives equal weight to sales, payroll and assets.

This is, of course, unitary formula apportionment taxation that I and the Tax Justice Network [have been promoting for some time](#). As Kay also notes:

Some states, notoriously California, attempted to apply this principle on a global basis. Through more than a decade of aggressive lobbying by British multinationals, this arcane issue became a major cause of friction in Anglo-American relations. In the mid 1980s, the British claimed victory and the US agreed to limit apportionment to its own frontiers.

However, the battle that Queen Elizabeth's Conservative government won had little

more legitimacy than the battle that King George's forces lost to America two centuries earlier. Well conceived apportionment is the best — perhaps only — answer to the problem presented by multiple company tax jurisdictions.

Quite so.