

The trouble with corporation tax

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Economia magazine, the Institute of Chartered Accountants in England and Wales official journal [has published a comment piece by me on corporation tax today](#) in which I address the issue of the problems with that tax and the demands some are making for its substantial reform or even abolition. I argued as follows:

Corporation tax is a core part of our tax system. On average it raises 10% of UK tax revenues. Calling for its abolition reveals a lack of understanding of its importance

First, corporation tax is a backstop to income tax: without it anyone who could incorporate would pay tax at will. We cannot afford that.

Second, tax-free companies would allow those with wealth to accumulate more in a tax-free environment, exacerbating wealth inequality.

Third, a tax-free business sector would distort competition, providing much opportunity to large business, but little or none to small enterprise.

Fourth, corporation tax is source-based. It taxes profits made in or attributable to the UK. If it was abolished and instead company distributions to their recipients were taxed, the ownership of shareholdings would flee the UK and the tax base will collapse.

Fifth, in many cases we don't know who the owners of companies are — so have no other way of taxing them. Sixth, source-based corporation taxes are the contribution paid for the right to trade in and make profit from UK markets. We grant that right by offering limited liability. As a result society shares the risks of capital communally, as the banking crash of 2008 showed.

Corporation tax is a distribution to society for the right to have limited liability; as compensation for the costs it imposes, and for the costs of market failure. Unless business pays that, ordinary people will.

Abolish corporation tax and the outcome would be increased inequality and bias against small business. Reform is needed, with an emphasis on changes to transfer pricing

rules, tax residence and permanent establishment. We need a proper anti-avoidance principle and to revert to a residence and source basis for this tax: the territorial basis introduced by the government is a licence to abuse offshore havens. Last, we need companies to account for the tax they pay — so full country-by-country reporting is essential.

Corporation tax can work. All that is needed is political will.