Funding the Future

he House of Lords recommend some deeply regressive cor...

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The House of Lords' Economic Affairs Committee has reported on Corporation Tax this morning following a review to which I presented evidence. As they note in their report:

All our conclusions and recommendations are listed in Chapter 7. They are summarised below.

We recommend that Parliament should establish a joint committee–made up of MPs and Peers–to exercise greater parliamentary oversight of HMRC and the settlements it reaches with multinationals. Like the Intelligence and Security Committee, the new Committee would examine confidential evidence in private.

We recommend that the Treasury should urgently review the UK's corporate taxation regime and report back within a year with proposed changes to be made at home and pursued internationally, especially through the OECD.

On the international front, we recognise that the Treasury are already working for early implementation of the OECD's Action Plan to tackle Base Erosion and Profit Shifting (BEPS). We recommend that the review should also consider other approaches to the taxation of multinational companies' profits, such as a destination-based cash flow tax.

In the UK, we recommend that the review should re-examine some fundamentals of the UK's corporation tax regime, including differential tax treatment of debt and equity and the scope for introduction of an allowance for corporate equity.

We recognise that the Treasury will already be working on policy initiatives against avoidance already announced by the Government, such as naming and shaming promoters of tax avoidance schemes, and self-certification of compliance with tax obligations by companies bidding for public contracts. We recommend that the review should also consider a series of anti-avoidance measures for the shorter term, such as:

(i) regulation of tax advisers;

(ii) measures to penalise users of failed tax avoidance schemes;

(iii) a requirement on companies with large operations in the UK to publish a proforma summary of their corporation tax returns, so as to bring about greater transparency.

We also recommend that HMRC should be better resourced to deal effectively with the tax affairs of complex and well-resourced multinationals.

I welcome the report: some of its conclusions are clearly relevant and appropriate, I have highlighted those that make obvious sense. There are, however, some deeply worrying recommendations in there.

Giving allowances for equity rather than restricting relief for debt simply reduces, yet again, the tax paid on capital and shifts the burden of tax, once more onto ordinary people.

And a destination-based cash flow tax (a Prof Mike Devereux idea from the Oxford University Said Business School - funded as it is by very big business) is actually and very simply a suggestion to, in effect, increase VAT to replace corporation tax - which would again simply shift the burden of tax from capital onto ordinary people. It would also strip taxing rights out of poorer and developing countries where, of course, consumption is lower but need for corporate tax revenues is highest. This is a theme I will return to.

For now it is worth noting that this is a welcome report for the summary to provides of current thinking. But in terms of its economic logic it reveals a profoundly regressive view point that ignored evidence on unitary tax, gave too much weight to big business and its advisers and which reveals a poverty of thinking about how to really address the problem - which is the ability of multinational corporations to arbitrage the tax system to provide them with an inherent tax advantage, which the committee appeared unwilling to tackle based on my reading of the report, so far.