

## Why corporation tax is the best proxy measure we have f...

Published: January 13, 2026, 2:47 pm

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I [noted yesterday that any assessment of 'fair tax' has to be about appraising the choices a taxpayer makes](#) based on the best possible information available.

There were, however, obvious problems in seeking to do this and these are issues we have had to address when creating the [Fair Tax Criteria](#) which seem worth addressing.

The first problem is that in some cases we have no right to know a taxpayer's affairs. This is true of all people's personal tax affairs in the UK and it is true for all people who trade in their own name or in unlimited partnerships. In all these cases there is no right to enquire about what a taxpayer does. That, unfortunately, means that unless the taxpayer wants to give up their right to privacy in these situations there is nothing we can do about appraising the fairness of the tax they pay in that case. We have to accept what are facts of life. We will develop a standard for those who want to give up that right to privacy in due course if there is demand for it; right now multinational corporations are a higher priority for us.

This decision is partly pragmatic. Although maybe two thirds of all UK business are unincorporated [the VAT Factbook issued by the government](#) shows that over the last decade about 95% of all UK trade by value has been undertaken by limited companies in the UK. This justifies our focusing our attention on companies, especially when [we know that the average income of many self-employed people is very low, and falling](#). The fact is that it is the combined tax paid over by limited companies, whether on their own behalf e.g. as corporation tax, or as agent when operating VAT and PAYE, that has most impact on our national well-being when it comes to tax and that justifies our focus on them.

Second, we also know that companies have to be accountable. This quality is built into them by their very nature: in the UK it has almost always been the case that the privilege of being granted limited liability has been given subject to the requirement that the accounts of a company be published on public record, even if the rules on what must be disclosed have altered over time.

Despite this accountability we do we also know that there is little way of effectively

reporting the behaviour of companies as tax collection agents. So, for example, there is little reporting of a company's activities in collecting VAT and PAYE in their published accounts. Figures for these taxes do not often impact very significantly on the reported profit and loss of many companies (employer's national insurance and some VAT circumstances apart) under existing accounting rules and so they are not highlighted in published accounting data. We could ask for these rules to be changed but experience suggests that this is a long drawn out process. To therefore expect us to appraise these issues is simply unrealistic: we can't do so because data is not readily available and that's unlikely to change soon. That is why we have little choice but focus on corporation tax which is the only tax for which data on a taxpayer by taxpayer basis has to be on public record. That is precisely why we concentrate on it since rather usefully for our purposes it has to be reported in a company's accounts.

Corporation tax's significance is therefore twofold. First, because it is a tax actually paid by the company itself it provides a very good indication of the company's decision making processes with regard to tax. [As already noted](#), we think that these decision making processes play a key part in appraising whether a company pays fair tax, or not. Secondly, as data is available corporation tax it can act as a proxy for all other taxes where data is currently not available.

This proxy point is important. It has to be accepted that it is never possible to full appraise all available data when creating an assessment system. The result is that proxies for the behaviour that is to be measured have to be used. So for example, the number of points a football club earns in a league table is a proxy for how good they are. As a matter of fact the number of goals they score in a season, or their overall goal difference could be used instead and possibly be more factually accurate and yet say less about the balance of their achievements. Awarding league points is a proxy measure for measuring the success or otherwise of a team but is not an absolute one. In the same way, appraising a company's corporation tax position is a proxy measure for its attitude to all tax, but is not an absolute one. It is just that it's the only one we currently have available in practical terms.

The same is true of corporation tax: it's not a perfect measure. We accept that is the case, of course. But it is the only measure available. And when all is said and done it is quite a good one and plenty good enough to act as a proxy measure. Which is why we are happy to use it alone and believe that the result is the best available indicator of a company's tax behaviour.