

We need a corporation tax

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There appeared to be a spate of articles published in the USA yesterday suggesting that the US corporation tax should be abolished.

The arguments used for doing so were, I think, disingenuous. So for example, [it was argued](#) that:

The United States should either reach agreement with its trading partners on a common way to allocate profits of multinational corporations or should scrap the corporate tax and directly tax shareholders instead.

This is surreal when read in the context of the article. What the authors noted is that outside the US countries are moving towards only taxing profits where they arise. But this, they argue, undermines the competitiveness of US companies that are notionally taxed on their worldwide income, even though as we well know many (start thinking Google and just keep going) are absolute masters at paying almost no tax at all on their income arising outside the USA. And yet, if you read the above paragraph it would seem that they're blaming other countries for this when in fact many - including the UK - would be only too pleased to tax a much more appropriate part of the profits of US corporations arising in their states.

This claim made is then to be seen for what it is, which is best described as a misleading picture of the situation. The problem with US tax is domestic lack of willingness to tackle the obvious flaws in its worldwide tax system which leads to abuse everywhere. It is most certainly not a problem imposed by other states.

But the straw man suggestion that the US and its major companies is the poor victim in all this is then seen as the excuse for the real argument being put forward here, which is that the US corporation tax should be abolished because it is so unfair to those poor companies - most of whom enjoy tax rates far, far below the US headline rates (which are, admittedly, unrealistically high in the current world economic environment, although I would not reduce them to anything like UK levels).

Of course those making this argument suggest that they are not arguing for the

abolition of tax. They do instead say that the tax burden should be shifted to taxpayers, almost invariably when they received dividends from the company. They also suggest taxpayers should be taxed on the annual increase in the value of their shares, but with relief given if values fall.

So, in a few short paragraphs we move from 'poor US companies' (a solution wholly capable of being fixed if the American Right wanted to do it) to 'let's abolish the corporation tax', a long cherished aim of those on the American Right who want to increase US inequality.

So let me first of all remind you why we have a corporate tax system. First of all it raises money. Not perfectly, but it works. Secondly, the alternative is taxing dividends, which already exists. It would raise no more money. And third, taxing movements in value may just be an upfront payment on capital gains tax, which already exists, so this will raise no more money either. In other words this is a demand to reduce taxes and so reduce the size of government. Let's be clear about that.

Second, corporate income taxes were introduced to stop tax avoidance. It was just too easy to incorporate, shift income you did not need to live on today (something only those already well off enjoy) into a company and watch it accumulate tax free. This would, of course, happen again if the corporation tax was abolished. So, demanding abolition of the corporate income tax is simply demanding that more tax shelters be made available to wealthy people when many more complex ones have currently failed.

Third, the corporation tax is pragmatic. It includes a measure of capacity to pay - called profit. It is charged on just one entity, the company, rather than lots, the shareholders, and so it is cheap and can be effective (a sin in the Right's eyes). But most of all, it can be collected. And that is not true of shareholder taxes because in many countries - and the US is particularly bad at this - we have no idea who the shareholders of companies are and we have no way as a result of tracing them if they decide not to declare their income. The means by which shareholders can hide their identities from view are legion, and nowhere more than in the USA. Abuse of this law would be at staggering scales.

And finally, that tax on increases in value in shares. How is that going to apply to the millions of private corporations in the US and elsewhere? Do they get an annual valuation (which is expensive) and who checks they're not lying? This would be enormously expensive to administer so you can see the next argument already, which is that they should be exempted. Suddenly there's another gaping loophole.

Corporation taxes aren't perfect. Unitary taxation internationally - which the US opposes - could solve all the allocation issues though. And without these corporate taxes I can guarantee tax abuse would run riot to the sole advantage of the wealthy.

We need corporation taxes. The campaign to keep them has to get serious. The

suggestion that they be abolished is a massive threat to well-being in the US and around the globe if it were to happen. And those arguing for abolition have enormous piles of cash available to them to make their case.