Funding the Future

If cutting interest tax relief helps release capital fo...

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The FT has reported that:

UK property companies are seeking changes to the proposed implementation of a global agreement to fight tax avoidance that is set to add £660m to their annual tax bill.

Private equity and infrastructure companies are also among those groups facing additional payments under OECD rules on base erosion and profit shifting (Beps), which place limits on the tax deductibility of debt.

So, they're upset that the rentier sector will pay more tax, as will private equity funds, many of which pursue business activities that strip rather than add value. And they say that this is unacceptable.

First, I would argue that neither of these sectors need these state subsidies for their cost of capital: if they cannot survive without this level of state support they should question why they are in business.

Second, if their business models are so tax dependent then it is quite reasonable to ask if tax avoidance is involved.

Third, in that case it is fair to ask whether capital might be better used elsewhere without these subsidies, in which case the tax reform may be wholly beneficial.

And fourth, we should celebrate a lowering of leverage: businesses with lower leverage tend to be more durable.

If there is an unintended consequence of BEPS here it would seem to be wholly beneficial. Bring it on, I say.