Funding the Future

Corporation tax is like democracy: the worst way of tax...

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The Economist, [in an article published](#) over the weekend has realised why we need corporation taxes:

Corporate taxes are a poor way to raise revenue. Since the burden is ultimately borne by people, whether investors, workers or consumers, it would, in theory, be more efficient to tax them directly. But abolishing corporate levies would create its own problems (see [article](#)). In poor countries with large informal sectors, big companies are a rare source of reliable tax revenue. In rich countries, wealthy people would doubtless turn themselves into companies to avoid income taxes. For policymakers, therefore, the priority is to make corporate taxes less distorting and less easy to avoid.

The fact is that corporation taxes are like democracy, easily the worst way of taxing the income earned by companies that will at some unpredictable date in the future become the income of others bar all the other ways we have tried, including not doing it at all.

How to make it less easy to avoid? The Economist is unambiguous: the OECD arm's length pricing approach has to go:

Better to think of each firm as a single entity. Then countries could either agree to share the tax on companies' worldwide profits according to a formula that takes account of their sales, employees, assets and so on; or allow the entire worldwide profits to be taxed by the home country, with a tax-credit mechanism for countries where the work actually goes on or revenue is earned–but, crucially, not brass-plate jurisdictions–in order to avoid double taxation. In both cases, the incentives and opportunities to move profits into tax havens would be greatly reduced.

Quite so. But the OECD has just flunked this. So we get the Google deal. And as the Economist concludes:

Tax diplomacy, like politics, is the art of the possible. But failing to push harder for a radical overhaul, at a time when the planets were aligned for change, looks like a costly mistake.

So now we have to start all over again.

And I argue that is possible.

And even essential.