

The real answer to the Apple tax case is unitary taxation

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There has been a lot of heat about Apple's tax abuse, and rightly so. There has been less focus on how to solve the problem and yet that answer is known. It is to be found in unitary taxation. I wrote about this in [The Courageous State](#), saying:

If country-by-country reporting were to be introduced to make multinational corporations accountable, whether they were quoted on a stock exchange or not, then a new method for the allocation of profits between states that would ensure that there was fair taxation of the profits of multinational corporations between countries could also be introduced.

Country-by-country reporting would provide the essential data to check the credibility of such a system which would allocate the total profits made by a company for a year to each and every one of the jurisdictions in which it operates on the basis of a formula. The normal formula used is called the Massachusetts formula and it allocates one-third of the profit on the basis of the state where sales take place, one-third on the basis of the state where staff are engaged and one-third on the basis of where physical assets owned by the corporation are located. Since it is impossible to make a profit without customers, and it is impossible for a company to make profit without engaging people, and every company, without exception, must make use of physical assets at some point, then this formula is in itself complete and allocates profit as fairly as possible on the basis of the true factors of production that generate it. Adding another factor to allow for the use of natural resources would add to the credibility of the formula, as would allocating the tax bill on the basis of head count in a country and not the cost of paying staff in a jurisdiction.

This system of taxation is, inevitably, prejudicial to tax havens. It is rare that there are any physical assets located in these places: the average tax haven company only requires a slot in a filing cabinet in the lawyer's office to support its existence. It is also rare that any tax haven company employs real staff while very few sales actually take place to the population of tax havens, meaning that the overall allocation of profits to such places will be tiny if this system of allocation of profits were to be used to apportion income between states so that each could, in accordance with its own

democratic mandate, then decide what rate of tax should be applied to them in the course of collecting its own taxation revenue.

The system is fair, it is democratic, it defeats one of the principal weapons of the financial/speculative economy in its attempt to withhold taxation payments from all states, whether Courageous or not, and the mechanisms to deliver this system of allocation of profits for taxation purposes can be put in place. That is precisely why Courageous States should support this method of taxation for all multinational corporations.

For more information on unitary taxation this [Tax Justice Network briefing](#) is first rate.

And tax justice campaigners are not alone in proposing the idea. This is from the [FT's editorial of June 17 2013](#):

The best G8 outcome would be an international agreement on how to link tax bases to real economic activity and limit the creation of letterbox subsidiaries whose sole purpose is to locate the most profitable parts of businesses in low-tax jurisdictions — or in no jurisdiction at all.

In the short run, the UK could provide real leadership by backing a push for a common consolidated corporate tax base across the EU. Far from a thin end of the wedge of tax rate harmonisation, CCCTB can protect legitimate tax competition against claims of unfairness. The G8 should also advance the cause of the automatic exchange of tax information between governments, an essential tool for tax authorities to verify that democratically chosen tax structures are working.

The automatic information exchange is happening. The country-by-country reporting is happening. Now we just need the logical tax system to follow on.

This is the time for change to happen.