Funding the Future

Do workers really pay a company's corporation tax bill?

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The IFS is showing its political colouring in reaction to Labour's corporation tax plans, suggesting that:

All taxes are paid by people and corporation tax is no different. Higher rates can reduce the returns to company owners (shareholders), but there is also evidence that a significant share of the burden is passed to workers in the form of lower wages.

First let me make the obvious comment that has to be said that only economists, living in their own fantasy worlds, could make a comment so obviously factually wrong. That's because companies are separate legal persons, distinct from people. And as a matter of fact only they can pay the corporation tax a company owes, so this statement comes from imaginations that cannot face legal (and practical) reality. It is a myth that undermines the credibility of economics, but which far too many economists propagate anyway, that companies are just collections of people when in reality they legally exist, are distinct from their owners and do change the actual taxes due, how the income is categorised, the rate at which taxes are paid, where they are paid, when they are paid, who pays tax as a consequence, and that they also disguise who those who should pay tax might be, sometimes deliberately. The economists' myth is dangerous in that case because it ignores reality and means that much of what they say on this subject is deeply flawed, as is the case with this IFS statement on Labour.

Second, if companies thought their workers paid their corporation tax for them there is little doubt they would give up tax avoidance overnight. They don't.

Third, if corporation tax was paid by workers we should have seen a significant impact on real wages that should have increased as a result in recent years. We clearly have not.

So, fourth, the IFS is then relying, I suspect, on a study by Mike Devereux at Oxford University that claimed that this link with wages was found. But I think that study is flawed. It only looked at corporation tax increases, and that is a false sample base: if the relationship is true the hypothesis should also have been tested for cuts, of which there were many more. Then as I recall the study was not corrected fir the fact that most corporation tax increases arise during periods of economic stress in a country and unsurprisingly at these times wages tend to fall. So a correlation was found, but I am certain causation was not established. What was found were two consequences of economic downturns. They are not related.

The IFS still trots this stuff out though, maybe because it is so costly linked to Oxford. It should be more questioning, and stop using absurd assumptions, like the fact companies do not really exist, that have no relationship to the real world. It likes to think it is credible. It isn't when it says things like this whilst ignoring the glaringly obvious fact that the people who might know - those who run companies - very clearly think shareholders bear the burden of corporation tax. They are very largely right in the main, one major exception being noted, which is that in the case of monopolies like water the customers undoubtedly do pay the company's tax.