Funding the Future

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The FT has reported this morning that Paul Ryan and his key colleagues in the US legislature have abandoned plans to introduce their corporate tax reform in that country.

They called the planned reform a border adjustment tax. Technically it is a destination based corporate cash flow tax. Either way it imposed a tax charge on importing goods into a country and let income from exports off corporation tax altogether. Let me ignore the technicalities, firstly because I have dealt with them before and secondly because this isn"t going to happen in the US (or anywhere else come to that) right now and instead deal with the consequences.

The first of those consequences is in the US. It needs another tax plan that is revenue neutral right now (because their law requires that) and it has not got one. Another Trump failure is on the cards.

Second, this means that the US does now, after all, need to rejoin the attack on tax havens. They thought this tax might get round that need. Now it won't and so they need to address the tax haven issue again, which is good news.

Third, this means the corporation tax actually survives in the US, which is pretty important for the defenders of that tax elsewhere, as I am here in the UK.

Fourth, this means the US will not leave the OECD led tax system. The OECD rules are flawed, but having international agreement on tax is better than not having it.

Sixth, this is a boost to those of us supporting unitary tax systems (called the Common Consolidated Corporate Tax Base in the EU) which is now the only viable alternative to the existing system on any table anywhere.

Seventh, given the US need for revenue neutrality talk of a very low tax rate there is also now off the table, which is again good news for those, like me, who believe that we need minimum corporation tax rates.

In other words there are just about no downsides to this news.

There's another upside though. This plan was created by Mike Devereux and related parties, including the ideologues at the supposedly politically neutral Institute for Fiscal Studies here in the UK, who included it in their Mirrlees Review (very much following the prescription for economists Dean Baker referred to yesterday) of what they saw to be the best direction for the future of UK taxation. Devereux et al won some political support for this idea in the UK as a result, including in the UK parliament, where in my time I have strongly criticised it when giving evidence to committees. I have also vocally opposed it at World Bank events. I now sincerely hope we have heard the last of it, and much else in the deeply misguided Mirrlees Review which deserves to be consigned to the same bin that Ryan has used for his plan.