

Taxing Tech

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Last week [I suggested](#) that the wrong way to tax tech companies was on their revenues, as the UK Treasury seems to now be suggesting. Instead I suggested what I call an alternative minimum corporation tax, which is, in effect, a single state anti-avoidance measure that taxes a tech multinational on the likely apportioned part of its profits that arise in the country that is aggrieved by being paid too little tax is, as is the case for the UK in the case of the tech giants.

The FT has now published a leader comment on this issue. As [it says the issue is significant](#):

Such companies displace older businesses – pay television, store-based retail – that have a harder time deploying wheezes such as sending fees to the entities, parked in tax havens, that hold server computers or intellectual property. So the UK does not just lose tax revenue; it is forced into the position of subsidising one form of economic activity (the software-based one) over others. No government should tolerate this.

I agree. There is a reason for intervening: markets are being distorted.

But the FT agrees that revenue is the wrong basis for an alternative tax:

The challenge with a revenue tax is seeing that it hits only its intended target. It may be fine to hit eBay, Netflix, Facebook or Amazon on the basis of local sales. But then what happens to early-stage, unprofitable tech start-ups? They pay no corporate tax now, and that is exactly as it should be.

Which is why I argued for a tax on profits alone, and so does the FT. As they say:

A better solution will be less elegant and take longer to reach, but would distribute the burden of taxation more fairly. It would involve coming to a consensus about where and when tech platforms create value. The current regime, by default, holds that most of the value is created by the intellectual property or at the nominal location of an electronic transaction, and that little or none is created where the service is delivered. A more balanced formula is needed.

Again, I agree. That is why a formula based on people (who create the tech, after all) and sales (which gives the tech its value) is required. That's what I offered. By implication the FT agree a formula is required: it is.

I suggest an answer based on unitary taxation is the solution. I suggest an alternative minimum corporation tax is an intermediate step to that solution that deals with all the issues the FT raises.