

# The IMF says that the time for major corporation tax re...

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The [IMF has issued a new report this morning](#) that says that the time for major corporation tax reform has arrived. The summary appears lacklustre:

*The policy paper Corporate Taxation in the Global Economy stresses the need to maintain and build on the progress in international cooperation on tax matters that has been achieved in recent years, and in some respects now appears under stress. With special attention to the circumstances of developing countries, the paper identifies and discusses various options currently under discussion for the international tax system to ensure that countries, and in particular low-income countries, can continue to collect corporate tax revenues from multinational activities.*

The reality is that this is big news. As Christine Lagarde of the IMF [argues in the FT this morning](#):

*The public perception that large multinational companies pay little tax has led to political demands for urgent action. The call for a new approach is intense, and with good reason. The ease with which multinationals seem able to avoid tax and the three-decade-long decline in corporate tax rates compromise faith in the fairness of the international system.*

She adds that as a result:

*Clearly, we need a fundamental rethink on international taxation.*

*An IMF paper published Monday analyses various options in the context of three key criteria: better addressing profit shifting and tax competition; overcoming the legal and administrative obstacles to reform; and ensuring full recognition of the interests of low-income countries.*

I cannot disagree: this is something I (and many others) have worked for over a long period of time. But I have concerns. One comes from the two routes to reform that Lagarde mentions, which are:

*First, to create minimum-tax schemes. One approach – for companies investing outside their home country – would be to reduce the scope for shifting profits to low-tax locations. This would limit competition by ensuring that a multinational’s home country imposes at least some tax, no matter where the profit is made. ...*

*Second, to create a system that fully taxes routine profits – something like a normal return on investment – on basic activities in the country in which they take place, while splitting any remaining profits among all the relevant nations. This is the “residual profit allocation” approach. Determining how to allocate the above-normal profit is key here, and would require multilateral agreement. Using a formula for this purpose would introduce a new element into the international system. This method could include value created in the destination or market country – where the users of services or more traditional customers – are located.*

I am [on record as favouring the former](#). I am not changing my mind. I am also on record of using formula apportionment, for which country-by-country reporting is ideally suited as a base, and is now available for tax purposes.

So what is my concern? This first is that there will be very powerful lobbies in favour of reforms that are decidedly unhelpful. That suggested by Martin Wolf in the FT last week, [about which I have a letter in the FT this morning](#), is one such decidedly unhelpful reform that moves in the exact opposite direction from that which is required.

Second, as I (and others) note in that letter:

*Corporation tax has three purposes. One is to protect the income tax base from attack. The second is to tax capital, which by and large it does, making it a rare tax as a result. And third, it is a tax that should be used to apportion taxable benefits to those locations where value is added in the global supply chains that benefit us all.*

I could not have put it more pithily than that. The point though is that the first two issues are largely domestic. Of course they have international consequences. But they are about domestic revenue protection and collection (and this does matter, because social justice demands that tax be collected fairly even in an MMT world). It would be all too easy to focus on the international aspects of corporation tax and forget this at present.

I note as a result with some relief that tax spillovers get some mention in the IMF paper. Tax spillovers are the impact one tax or tax admin system has on another tax or tax admin system in the same or another country. However, the focus is too international and too limited to corporation tax spillover as far as I can see. The IMF is aware of a new paper Professor Andrew Baker and I are having published this month in Global Policy on this issue, where we argue for a much more broadly based tax spillover assessment. It is the first academic paper of its type. What we propose is that

a proper spillover assessment has to take both domestic and international risks created as well as suffered into account, for all jurisdictions. And we have designed a framework to achieve that goal which will also be published. At more than 50,000 words in all, it is not a light read. But we have been in discussion with the IMF and they have assured us they are taking note: we were the only academics who submitted to their recent consultation on spillover as far as we are aware, and as they said.

So I warmly welcome this call to action.

But I would add that to make it work a broad mindset is required. And the call for corporation tax reform that effectively abolishes the tax has to be rejected. whilst domestic factors have to be taken into account. Tax spillover assessments will ensure that these issues are addressed.