

Ten Reasons to Defend the Corporation Tax.

How the corporate income
tax protects democracy and
curbs inequality.

... and seven myths, busted.



Where there is an income tax, the just man will pay more and the unjust less on the same income

Plato

To tax and to please, no more than to love and to be wise, is not given to men

Edmund Burke

Pay your taxes, and set your country free

Michael Waweru, Kenya Revenue Authority

Corporate income tax is
worth fighting for...

The corporate income tax is under attack, around the world. Politicians, businesspeople, think tanks, large accountancy firms and economists who think they understand tax are calling for ever more draconian cuts. Some are even urging outright abolition of the tax.

Corporate tax rates have plunged since the 1980s, worldwide, meaning that an ever-smaller share of soaring corporate profits are being used to finance schools, roads, hospitals and the rule of law.

As headline tax rates have fallen, corporate tax avoidance and evasion are getting steadily worse. Multinationals are gorging on a fast-expanding feast of tax cuts and loopholes, often with the help of tax havens like Luxembourg or Ireland or Bermuda, and large accountancy firms that are their most powerful lobbyists and supporters.

A long-running smear campaign against the corporate income tax has created a widespread belief that the corporate tax is a bad, inefficient tax.

This perception is based on profound myths, fallacies and misunderstandings. This document skewers these myths and reveals why the corporate income tax is one of the most precious of all taxes.

It holds the whole tax system together. It curbs political and economic inequalities and helps rebalance distorted economies. It protects democracy. It boosts financial transparency and accountability and curbs criminal behaviour. It stops large multinational corporations and their wealthy owners from extracting wealth from societies by free-riding off taxpayer-funded public goods such as roads, education systems, or courts. It protects developing countries in particular, boosting self-reliance and curbing their dependence on foreign aid. It underpins economic growth. And it raises trillions in revenue that is used as a basis to pay for essential public services.

Most of these good things cannot easily be measured, so they often get airbrushed out of economists' models. Yet they are no less important for that.

Ten reasons to fight for the corporate income tax

This short article is a summary of a longer document that outlines the arguments in detail, with full references. It is not aimed at any particular country, rich or poor. [Read the full report here.](#)

1

Revenue

Corporate tax revenues make up roughly a tenth of all taxes in rich countries, worth many hundreds of billions of dollars each year. The share in developing countries is higher. These taxes are irreplaceable.

[Read the full Section 1, with references, here.](#)

2

Backstop: Corporate taxes hold the whole tax system together

Corporate income taxes are a fundamental backstop to the personal income tax. Many countries set up their corporate taxes for this reason.

If the corporate tax were abolished, this would tear a giant hole in the personal income tax for wealthy people. They would simply form shell corporations and escape their income taxes by claiming that their earnings are not ordinary personal income but the income of the corporation.

As more people used the corporate vehicle as a tax shelter, tax authorities would be pressured to cut top personal income tax rates, to try and deter this behaviour. The entire tax system would become compressed, subsidising the rich at the expense of the poor.

This “backstop” role alone is a killer reason to defend the corporate income tax.

[Read the full Section 2, with references, here.](#)

3

The corporate tax curbs inequality and protects democracy

Corporate profits are soaring as corporations muscle in on economic returns which, in an earlier age, would have gone to employees and society generally through wages, benefits and taxes.

These soaring profits translate into steadily growing corporate political power. So corporate taxes curb both economic and political inequalities.

Most corporate wealth is owned by wealthy people, in every country. In the United States, for example, nine tenths of corporate stock is owned by the top tenth of the income distribution. These wealthy capital owners are the ones who ultimately pay most of the corporate income tax.

So the tax is one of the most progressive taxes a state can levy. It reduces inequality within and between countries.

[Read the full Section 3, with references, here.](#)

4

National tax ‘competitiveness’ is fool’s gold: corporate taxes enhance national welfare

Many people have been fooled into thinking that cutting corporate taxes obviously must make a country more tax ‘competitive.’ The opposite is likely to be true.

The tax ‘competitiveness’ ideology falls apart once you examine it.

The corporate tax is not a cost to an economy, but a transfer within it: from one wealth-creating sector (corporations) to another wealth-generating sector, government, which creates and protects wealth through education, roads, courts, police services and so on.

Corporate tax cuts carry multiple and diverse costs that hurt national welfare, and cause immense leakage: a large portion of corporate tax cuts flow to foreign shareholders.

Nor do corporate tax cuts generally attract much useful investment either. They tend to attract unproductive profit-shuffling and accounting nonsense: the least useful stuff.

[Read the full Section 4, with references, here.](#)



5 Corporate tax cuts ricochet around the world

One country's tax rules spill over to affect other countries.

When a country cuts taxes on corporate income, corporations may shift foreign paper profits towards that country in response, undermining other countries' efforts to tax those profits. Tax havens have made a business model of doing this.

For example, just one aspect of recent moves by the U.K. to turn itself into a corporate tax haven is estimated to cost developing countries alone over US\$6 billion annually. And when one country does things like this, others tend to follow suit, in a devastating race to the bottom.

[Read the full Section 5, with references, here.](#)

6 Corporate taxes are particularly important for developing countries

Tax cuts and incentives are typically more harmful for developing countries than for rich countries.

This is partly because corporate taxes make up a much bigger share of taxes than in rich countries. Taxing large, centralised corporations is far easier for weak tax administrations than chasing after large numbers of often poor individuals or micro-businesses. Their tax administrations are also generally weaker and more vulnerable to corruption and special-interest lobbying from those seeking to secure tax benefits.

Corporate tax cuts by developing countries generally involve a damaging transfer of wealth from poor countries to multinational corporations and their shareholders in rich countries.

[Read the full Section 6, with references, here.](#)

7 Corporate taxes can rebalance economies

Corporations worldwide are awash with trillions of dollars' worth of idle cash, which they are not investing productively. This is a reason for stagnant growth in many countries. If they have all this idle cash but aren't investing, why would giving them more cash through tax cuts make them invest more? Tax cuts are like pushing on a string.

Corporate taxes, by contrast, transfer money away from a corporate sector that is letting it sit idle, into the hands of a government sector that is mandated to put it straight to work – educating children, building roads and schools, and so on. This stimulates demand and ultimately feeds corporate profits, and helps bring stagnant economies back into balance.

[Read the full Section 7, with references, here.](#)

8 The corporate tax curbs rent-seeking

Many corporations engage in what economists call rent-seeking: unproductive wealth extraction, rather than wealth creation. Examples include oil producers benefiting from an oil price windfall, or players in the financial sector taking risks at taxpayers' expense, or lobbying to secure tax breaks. Rent-seeking tends to be unusually profitable but it fosters bad governance and damages entrepreneurialism and inclusive economic growth.

Given that rent-seeking tends to earn supersized profits, the corporate tax will disproportionately address rent-seeking, for the benefit of all.

[Read the full Section 8, with references, here.](#)

9 Tax cuts won't stop at zero

So-called 'tax competition' – or 'tax wars,' to use a more economically literate term – happens when countries and states dangle tax lures to try and tempt profits to relocate to their jurisdiction. Others follow suit, in a race to the bottom. The result is a growing cornucopia of tax and non-tax subsidies for multinationals, paid for by poorer sections of society.

The race doesn't stop when multinationals' net contributions hit zero: they turn negative, and keep sinking. There is no limit to corporate players' desire to free-ride off taxpayer-provided public goods and services and subsidies.

[Read the full Section 9, with references, here.](#)

10 Corporate taxes spurs transparency and more accountable government

A state that taxes corporations needs accurate information about their financial affairs. The corporate income tax spurs states to require corporate transparency and accountability, helping them track taxable profits, not to mention nefarious activity. It is no coincidence that in many tax havens a lack of a corporate income tax goes hand in hand with a lack of good information about corporate owners and corporate finances.

[Read the full Section 10, with references, here.](#)

Repealing the corporate tax risks turning the corporate structure itself into a big tax shelter. .

Jared Bernstein, New York Times



Mythbusters

Some comment arguments used to attack the corporate income tax, and why they are wrong.

1

Myth: “Tax avoidance is legal, so what’s the problem?”

Journalists and pundits often describe particular companies’ tax shenanigans as “perfectly legal” or, worse, “perfectly legitimate.” This is usually factually wrong, because they cannot know. The best they can say is that the scheme has not been shown to be unlawful. This is not the same as saying it is lawful.

A PWC official in London recently said that their firm had sold tax schemes that they knew would only have a 25 percent chance of withstanding a court challenge. Plenty of what is labeled ‘corporate tax avoidance’ is in fact unlawful. And many schemes that may be lawful, of course, are abusive from the all-important economic perspective.

[Read the full Section 1, with references, here.](#)

2

Myth: taxes are too high; tax cuts will stop avoidance and curb ‘offshore’

It is often asserted that corporate tax rates are ‘too high’ and that tax cuts will reduce avoidance.

The evidence suggests that the opposite may be true. As corporate tax rates have halved since the 1980s, tax avoidance, evasion and the use of tax havens have exploded.

Avoidance generally happens for reasons other than the tax rate: notably the ease and cultural acceptability of doing so, and the availability of tax

‘planning’ advice. Successful lobbying for countries to introduce tax cuts and loopholes is usually followed directly by prodigious use of those loopholes by the same accountancy firms and corporations that lobbied for them.

And as Section 2 explains, if corporate tax rates fall far below personal income tax rates, wealthy folk start setting up shell corporations to avoid the higher rate. In which case, corporate tax cuts will lead to more avoidance, not less.

[Read the full Section 2, with references, here.](#)

3

Myth: tax is theft

Some argue that tax is theft from people’s hard-earned wealth. This tiresome argument is flat wrong.

Tax is not theft if you get something in return. Corporations take benefits from society - roads, educated workforces, police and armed forces, sewage systems, courts, and should contribute towards them, like everyone else.

More philosophically under what system of rights could tax be theft? Obviously not legal rights: the law says you must pay your taxes. Moral rights? What moral justification could there be for a corporation to free-ride off benefits provided by society?

[Read the full Section 3, with references, here.](#)

4

Myth: the corporate tax is unfair “double taxation”

Some say that the corporate tax is unfair ‘double taxation’, because corporate income is taxed first at the corporate level, then again when individuals pay tax on the dividends that corporations pay out. This argument is a nonsense.

First, plenty of dividend income escapes the personal income tax. In the U.S., for instance, two thirds of stock dividends go to tax-exempt entities: if the corporate tax were abolished two thirds of corporate profits would never get taxed.

And Economics 101 tells us that there is a circular flow of income in an economy. Companies earn economic profits, which they pass on to employees and suppliers and shareholders, who spend it, contributing to corporate profits. Money goes around and gets taxed as it pops up in different places. So all taxes are double, or multiple taxes.

This “double taxation” argument is pointless. And why is there not the same level of concern about “double taxation” suffered by poor people, for example when they pay taxes first on their income, then on goods they buy with that “already-taxed” income?

[Read the full Section 4, with references, here.](#)



5

Myth: the corporate tax is inefficient, and should be replaced by VAT

For all the complexities involved in taxing corporations, abolishing the corporate tax would make matters much worse.

The corporation is a centralised tax collection agent: abolishing the corporate tax would need swarms of tax inspectors with butterfly nets to catch all the shell corporation shenanigans that would proliferate, as Section 2 explains.

Corporate tax cuts or avoidance also cause losses and distortions, elsewhere, whether through higher deficits, higher taxes for others, or unbalanced and distorted economic growth.

Corporate tax cuts are subsidies; and tax avoidance opportunities encourage corporate managers to take their eye off producing better or cheaper goods or services and to focus instead on the sugar hit of tax engineering. Multinationals also use tax avoidance as a weapon to out-compete and eliminate smaller, locally-based competitors. This stifles true market competition and harms efficiency.

[Read the full Section 5, with references, here.](#)

6

Myth: corporate bosses have a fiduciary duty to minimise taxes

Some argue that corporate managers have a fiduciary duty to their shareholders to avoid tax.

This is false. The Tax Justice Network in 2013 obtained a formal legal opinion demonstrating beyond doubt that there is no such duty in the UK. In the U.S., the all-important Delaware courts have explicitly asserted that “there is no general fiduciary duty to minimise taxes”.

This will be the case in other countries. Imagine if fiduciary duties required corporate bosses to

despoil the environment or use slave labour in foreign factories because this maximised narrow shareholder value. It is unthinkable. Corporate bosses clearly have responsibilities to others besides shareholders.

[Read the full Section 6, with references, here.](#)

7

Myths and bamboozlement: the Laffer Curve and Dynamic Scoring

The idea behind the “Laffer Curve” is that at a zero tax rate you will get no tax revenue, and at 100 percent nobody will do any work and everyone will dodge tax, so you will also get zero revenue. In between lies the ‘sweet spot’ of maximum revenue, as the tongue in cheek graph shows.

The argument then goes that if your country lies on the right-hand side of the curve, then cutting taxes should boost revenue!

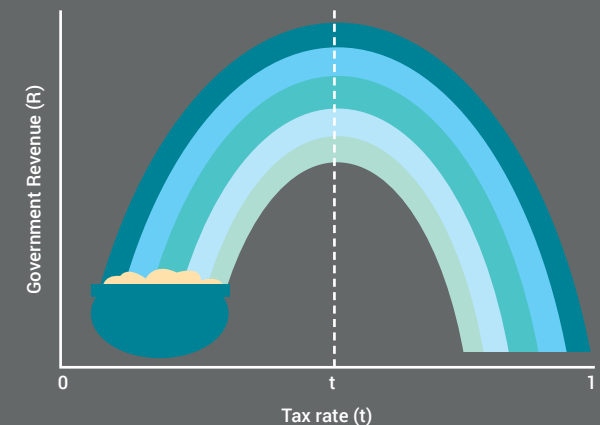
Who does not like a free lunch? The Laffer Curve is a foundation of ‘supply-side economics’ popularised in the era of Ronald Reagan in the 1980s. In real economies, however, the Laffer Curve has proved to be a nonsense.

All the evidence shows that tax cuts reduce revenues – duh! Let’s build 100 luxury space stations, and cut taxes to pay for them!

[Read the full Section 7, with references, here.](#)

For the full document outlining these points in more detail, [click here](#)

The Laffer Curve



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