

## [For the elucidation of the Tax Justice Network: yes, let's abolish corporation tax](#) [1]

Written by [Tim Worstall](#) [2] | Sunday 3 February 2013

The Tax Justice Network is patting itself on the back for having survived a decade of securing government grants. In their little self-congratulatory note they make [this point](#) [3]:

Proponents of tax competition have never answered the crucial question of how far it should be allowed to go before it compromises the functioning of a viable and equitable tax regime. Taken to its logical extreme, unregulated tax competition will inevitably lead to a race to the bottom, meaning that governments will be forced to cut tax rates on corporate profits to zero and subsidise those companies choosing to invest in their countries.

I can't see that not charging tax is a subsidy but still: for the rest of it, yes, that actually is the point. Corporation tax is an extremely bad tax, for two very different reasons, and we'd all be much better off if the same revenue (assuming that we do indeed want to collect that same gargantuan amount of the economy to be spent through government) were raised in some other manner.

The first reason corporation tax is a bad tax is because of deadweight costs. All taxes destroy some economic activity. Things that would have been done in the absence of taxation are now no longer done in the presence of it. This is why we tax booze, fags and petrol: to reduce the amount of smoking, drinking and driving. But, as this [OECD chart shows](#) [4], different taxes have different deadweight costs. That is, some destroy more economic activity than others per £ of tax revenue raised. And corporation tax destroys more economic activity than almost any other form of tax (well, except for the entirely stupid Robin Hood Tax). Thus we would very much like people not to charge corporation tax but to get the necessary some other way: taxing land, property or consumption for example. This has nothing at all to do with whatever wonders will be financed with the tax collected: we are talking purely about how much destruction accompanies certain forms of taxation themselves.

Do note that a large part of the TJN's purported concern is with the poor countries. Exactly those we would want to be striving for the least destructive tax system possible. They really are grasping for all the economic growth they can get: thus corporation tax is doubly contra-indicated. Although, for some reason unknown to myself or anyone else sentient, they keep insisting that said poor countries should be charging more and more corporation tax.

The second reason why corporation tax is a bad idea is that it's a disguised tax. Yer average schmoe in the street thinks that it's the companies paying it: when of course it isn't. It's some combination of shareholders and workers who do. What influences the balance there is how large the economy is (the smaller, the more the workers) and how open it is (the more open the more the workers). And again the TJN is insistent that it's got to be the developing economies that charge companies more corporation tax. Developing countries are by definition small ones. And given that we are talking about foreign capital being invested they're also, in the context of this argument at least, entirely open. Thus the burden of the corporation tax the TJN insists upon is really being carried almost entirely by the wages of the workers. Indeed, Joe Stiglitz once

pointed out that this burden can be greater than 100% of the revenue raised.

So the TJN are stating that the corporates must be taxed more: when the sentient among us realise that actually the burden is upon the poorest of the poor: workers in developing nations.

The above being the double reasons why zero corporation tax, most especially in poor and developing nations, would be such a good idea. All of which leaves me slightly flabberghasted. The TJN has actually managed to get something right:

Taken to its logical extreme, unregulated tax competition will inevitably lead to a race to the bottom, meaning that governments will be forced to cut tax rates on corporate profits to zero

Yes, that's the point.

Corporation tax is a bad tax and we want less of it. Most especially in poor and developing nations.

That with a corporate tax rate of zero hundreds of thousands of highly paid accountants and lawyers will have to go and do something productive with their lives is just an added bonus.

[blog comments powered by Disqus](#) <sup>[6]</sup>

---

**Source URL:** <http://www.adamsmith.org/blog/economics/for-the-elucidation-of-the-tax-justice-network-yes-lets-abolish-corporation-tax>

**Links:**

[1] <http://www.adamsmith.org/blog/economics/for-the-elucidation-of-the-tax-justice-network-yes-lets-abolish-corporation-tax>

[2] <http://www.adamsmith.org/taxonomy/term/5778>

[3] [http://www.taxjustice.net/cms/upload/pdf/TUIYC\\_2012\\_FINAL.pdf](http://www.taxjustice.net/cms/upload/pdf/TUIYC_2012_FINAL.pdf)

[4] <http://freethinkingeconomist.com/2010/03/25/while-i-do-hate-the-argument-from-authority/>

[5] [http://disqus.com/?ref\\_noscript](http://disqus.com/?ref_noscript)

[6] <http://disqus.com>