

## [A refutation of the false propositions of the current tax avoidance debate](#) [1]

Written by [Whig](#) [2] | Tuesday 4 December 2012



Multinationals pay taxes that UK companies also pay such as employer NICs or VAT.

Use by multinationals of infrastructure etc. provided by the UK government is perfectly legitimate as they make a major contribution to UK taxation. Moreover, that such an issue arises is simply an argument to eliminate state provision of infrastructure and thus avoid such 'third party payer' problems.

Multinationals have been accused of avoiding paying corporation tax, which is a tax on economic growth and should be abolished.

Corporations do not have a 'moral duty' to pay more tax than they are required to pay under UK law. Even if we were to assume that all UK tax laws are morally acceptable, the corporations concerned are not in breach of such laws. However, such corporations do owe a genuine duty to their shareholders to maximise returns. Remember that many shareholders are pension or insurance funds so you and I both benefit from increased returns and suffer for decreases.

The function of business activity is not to generate tax revenue. Any tax generated is merely a by-product of their success as businesses and is invariably an impediment to greater success. The function of firms is to satisfy the wants of their consumers. Higher taxation means that firms are less able to satisfy the wants of their consumers.

Higher taxation, whether by raising tax rates or by preventing firms in act legitimately to avoid tax, will ultimately result in higher costs passed onto the end consumer. This means either less consumption of the particular good being taxed, less consumption of other goods because they are foregone or less saving. Either way this leads to less economic growth.

Multinationals are paying taxes in other jurisdictions. If they were not, they would be caught by the rules on Controlled Foreign Companies and Transfer Pricing.

That multinationals are basing themselves in other jurisdictions is a clear indication that rates of corporate taxation in the UK are too high relative to other jurisdictions. If rates were lower ? combined with other necessary supply-side reforms such as reduction of regulatory burdens ? such multinationals would base in the UK and pay UK corporation tax.

To argue that the multinationals concerned should also pay corporation tax in the UK is to argue for the principle of double taxation - something that the large and complex array of international tax treaties

specifically sets out to avoid. This would i) put multinationals at an unfair competitive disadvantage in the UK (possibly illegally?) and ii) potentially open UK-based multinationals to similar treatment by overseas jurisdictions.

[blog comments powered by Disqus](#) <sup>[4]</sup>

---

**Source URL:** <http://www.adamsmith.org/blog/tax-spending/a-refutation-of-the-false-propositions-of-the-current-tax-avoidance-debate>

**Links:**

[1] <http://www.adamsmith.org/blog/tax-spending/a-refutation-of-the-false-propositions-of-the-current-tax-avoidance-debate>

[2] <http://www.adamsmith.org/authors/whig>

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

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