Apple's taxdodging ways [1]

Written by **Tim Worstall** [2] | Sunday 5 May 2013

Apple's played a clever game in getting around some of the US corporate tax rules [3]:

> Apple Inc. (AAPL) avoided as much as $9.2 billion in taxes by financing part of a $55 billion stock buyback with debt rather than offshore cash that would have been billed by the U.S. government, Moody?s Investment Services estimates.

That's pretty good really. A $17 billion bond offering has saved them $9 billion in tax.

As background, US companies don't pay US corporate income tax on their foreign profits that they leave in foreign. It's complex but this is the basic outcome. Apple's got some $100 billion in such profits parked offshore and the shareholders, who do after all really own this money, would like some of it. The problem is that the US corporate income tax is 35%, those offshore profits have only paid perhaps 3 or 4% in tax so far, so 30 odd % will be demanded by the taxman if they're taken back into the US to be sent out as a dividend. So, instead, Apple borrows money in the US and pays that out as a dividend.

Hurrah!

Which brings us to the usual complaint but, well, companies *should* pay tax on their profits. So why am I cheering someone avoiding doing that? The answer there being tax incidence. It never is a company that bears the economic burden of a tax: it's some combination of shareholders, customers and or the workers. In general with corporation tax we say it's split between the workers and the shareholders. The workers get lower wages: because taxing returns to capital means less capital is employed in that economy. It's capital plus labour that raises productivity, raised productivity raises wages. The shareholders because, obviously, the dividends, the profits, are the return to capital and these are being taxed.

So given that we're not actually taxing the companies why is it that we send the tax bill to the company? Simply because it is convenient to do so. There is no economic reason at all to tax company profits. It's just that they're a nice big pile of money that we can tax, without having to go around all of the investors and workers and collect their little bits.

Which is why I applaud Apple's plan. It's becoming increasingly clear (as Google, Facebook, Vodafone, Boots and so on are showing) that companies are no longer a convenient place to go collect the tax money. They're just too good at not being the patsies and coughing up the cash. Given that the only reason we do tax companies is convenience, if it's no longer convenient then perhaps we should stop doing it?

Simply abolish corporation tax altogether. Make income taxes on dividends and other returns from investment the same as they are from any other source of income. There, job done.

And hundreds of thousands of accountants and lawyers will have to go do something productive for a living. Shame, eh?

blog comments powered by Disqus [5]

Source URL: http://www.adamsmith.org/blog/tax-spending/apples-taxdodging-ways

Links:
[1] http://www.adamsmith.org/blog/tax-spending/apples-taxdodging-ways
[2] http://www.adamsmith.org/taxonomy/term/5778
[3] http://www.bloomberg.com/news/2013-05-02/apple-avoids-9-2-billion-in-taxes-with-debt-deal.html
[4] http://disqus.com/?ref_noscript
[5] http://disqus.com