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International companies stand between us and tax tyranny [1]

Written by **Dr Eamonn Butler** [2] | Wednesday 20 February 2013

The OECD is very worried about the erosion of different countries' tax base, they say. The acronym (everything needs a catchphrase these days) is BEPS - Fiscal Base Erosion and Profit Shifting. I guess the full acronym, FBEAPS, just wasn't so trip-off-the-tongue.

The target, of course, is international companies who choose to base themselves in low-tax countries even as they operate in high tax countries. Now I can see why people in high tax countries might get irritated when companies do this. And no doubt there are moral abuses of international tax differences. But it isn't against the law for companies to set up where they choose, nor to manage their affairs in such a way as to keep their tax burden under control. And, for the time being, it isn't against the law for countries to try to attract business into them by keeping down their taxes.

What would be the alternative? All countries getting together and adopting identical tax codes, so that no one location would be more tax-favourable than any other? That would put all of us at the mercy of high-taxing, high-spending governments. They could jack up tax rates as high as they liked, and there would be no escape. They already have huge power to do this, as most of us aren't mobile. International companies are mobile, though ? and they are the only ones standing between us and tax tyranny.

It is not obvious, by the way, that companies automatically choose to locate where taxes are lower. Companies have to hire people, and their bosses have to live near their HQ, so what they actually look for is good value for money. If there is good healthcare, good education, and good infrastructure, those are benefits that they put into the equation along with the amount of tax they could be liable for. So the fact that they can shop around between tax jurisdictions puts a pressure on governments, not to be low tax, but to provide good value for money. Isn't that what we want?

A number of countries with few other things going for them have chosen to make themselves very favourable to companies with low taxes and with regulations that are not as labyrinthine as ours. I respect their right to do so. But I feel the high-tax, high-regulation countries in the world fear that competition and would like to kill it. We should not let them do so.

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