Published on *Adam Smith Institute* (http://www.adamsmith.org)

Tax: wake up and smell the competition [1]

Written by **Dr Eamonn Butler** [2] | Friday 25 January 2013

Just when you think it's safe to return to David Cameron, he bites you in the leg. That is what UK business leaders are thinking right now, after his warning to international companies to 'Wake up and smell the coffee' ? a phrase that is supposed to remind us of Starbucks, the fact that they manage to pay very little tax in Britain, and how unpopular that is.

Well?corporation tax. Even Starbucks pays plenty of other taxes: business rates, value added tax, employer's national insurance, and all the income tax that is stopped out of their workers' salaries ? though I've probably missed out import tariffs and a dozen others.

But Mr Cameron can't have it both ways. You cannot say you favour tax competition and then complain when you lose out from it. Nor that you believe in being part of an open Europe, for that matter. Companies are perfectly entitled to base themselves anywhere they like in the EU, and operate in any other part. If Britain's taxes are too high, they will simply base themselves somewhere else.

High taxes are forcing big companies out of Britain and small companies out of business. That point was made to me yesterday by a small-business friend who now says that he is doing two-thirds of his business online or out of offshore companies. The reason? The likes of Amazon, now selling not just books but all kinds of goods and indeed now services too, have an instant 40% tax advantage due to their foreign domicile. High-Street shops, with all their overheads and then their local and national government taxes, cannot compete with that.

This trend can only accelerate as more and more business is done online, through companies that hardly have any real domicile at all. People might complain about them not paying UK taxes, but they still buy their products, because they are so much cheaper. Mary Portas will not save the High Street, nor will trying to pursue international companies for any loose change that HMRC can screw out of them. But turning Britain into a tax haven might just do it.

It's time to wake up and smell the competition. The UK needs to make itself so attractive in terms of taxation and regulation that businesses actually start elbowing each other to move their operations here. Then we might see some recovery and stop whining about tax avoidance.

blog comments powered by Disqus [4]

Source URL: http://www.adamsmith.org/blog/tax-spending/tax-wake-up-and-smell-the-competition

Links:
[1] http://www.adamsmith.org/blog/tax-spending/tax-wake-up-and-smell-the-competition

[2] http://www.adamsmith.org/authors/dr-eamonn-butler
[3] http://disqus.com/?ref_noscript
[4] http://disqus.com