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Why we shouldn't tax companies: because companies don't pay taxes [1]

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It's not unusual to hear the economically illiterate insisting that companies must pay more in taxes. This is illiterate because companies do not pay taxes. They cannot, for only people can bear the burden of a tax: someone's wallet has to get lighter and that wallet must belong to a person.

The really big question therefore is who does pay a tax if we try to levy one on a company? The only three groups possible are the shareholders of that company, the customers of it or the workers. At which point we have an interesting new paper on what that incidence is in the European example [3]:

> A stylised model is provided to show how the direct effect of corporate income tax on wages can be identified in a bargaining framework using cross-company variation in tax liabilities, conditional on value added per employee. Using data on 55,082 companies located in nine European countries over the period 1996?2003, we estimate the long run elasticity of the wage bill with respect to taxation to be ?0.093. Evaluated at the mean, this implies that an exogenous rise of $1 in tax would reduce the wage bill by 49 cents.

As we can see, the workers are paying 50% of that corporation tax bill. Meaning that anyone (and everyone) shouting that companies must pay more in taxes is in fact saying that they want to reduce the wages of the workers.

Something useful to keep in mind when considering the Robin Hood Tax proposal for example. You're not taxing the banks because banks, being companies, do not pay taxes. Which rather blows apart even the spurious justifications for said tax.

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