Yet more nonsense about corporation tax [1]

Written by **Tim Worstall** [2] | Sunday 1 December 2013

Yesterday I was muttering about how the lies being told about corporation tax were bending the minds of even respectable establishment figures. Today I find that we've a similar problem whereby we've some deeply uninformed commentary on the tax paid or not paid by Thames Water [3].

> Thames Water sparked fury yesterday when it announced it will not pay corporation tax for up to a decade. Britain?s biggest water supplier has already been berated for racking up more than £1billion in unpaid taxes. But as it reported soaring profits after the summer heatwave, finance director Stuart Siddall said: ?It will be seven to ten years until we pay tax.?

Hmm. Why is this then?

> Thames Water can delay tax payments under government rules as it invests large amounts on new pipes and sewers. Its planned £4.2billion ?super-sewer? under London means it will not be due to pay tax for years.

Ah: the complaint is therefore about an obvious and essential part of any tax system that is trying to tax profits. Which is, of course, that you only try to tax profits. Which produces a problem when someone invests in something.

That problem being that you've got to have some method of making an allowance for what has been invested. Say, just for the sake of argument, that £1 billion is invested in something. And there's £100 million in "profit" coming from that investment. can we then decalre that that £100 million is the profit that we should be taxing? Well, no, we can't, because someone has had to put that £1 billion in at the start. That's a cost: there's no real, economic, profit until that £1 billion has been paid back first. Only then, after the costs of doing whatever it is have been paid is there in fact a profit that can and or should be taxed.

There are various possible methods of doing this, making this allowance, and the law as decided by Parliament does so through the use of capital allowances. Leave aside the details of how it works but this is what is being done. Ensuring that it's only actual profit that is taxed, not the repayment of the initial investment.

And do note again that there has to be some method like this in the tax code: without it there would be very much less investment. And what worries is the following:

> Labour?s Margaret Hodge, chairman of the Commons Public Accounts Committee, called it

> ?deeply unfair?, saying Thames Water ? which is owned by an Australian consortium ? had an ?obligation to pay their fair share in tax?. Tax accountant Richard Murphy, who helped expose tax avoidance by Starbucks, said: ?The reality is that much of this will never be paid. ?They are never going to stop spending money on infrastructure, which means they will probably never pay tax. Companies like this have to say when and if they will ever pay tax.?

At least one of these two knows all of this but is still wibbling nonsensically about it. And at least one of these two has also been calling for more infrastructure investment as a method of getting the economy growing. So to complain about the tax structure that encourages infrastructure investment does seem a little odd.

But to my larger complaint. We're being told an ever more fantastical series of tales about tax absolutely none of which have any grounding in reality. There is no possibility of having a tax system on profits that does not make an allowance for investments made. So why is there this spreading of fear, uncertainty and doubt about the tax system which makes this essential allowance?

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