Pic 'n' Mix Tax System

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The EU has a complex system of taxation with many different national rates of corporation tax and diverse tax and benefit systems for ordinary citizens. The EU itself has a special rate of tax for MEPs and employees. The whole subject is very complicated and for that reason it has many winners and many losers.

In focussing on corporates the biggest problem is the ability of companies to use transfer pricing to take advantage of differing rates of corporation tax. As an example, someone producing car engines in a country with relatively low corporation tax could load the engine with high value and transfer that to a higher tax car assembly plant in another country. This transfer pricing is fairly common, but countries need to move further to harmonise corporation tax, particularly in the case of global corporations.

Countries also try and compete to lure foreign investment by lowering corporation tax. The Republic of Ireland has a 12.5% rate whilst the UK is set to lower its rate from 19% to 17% by 2020. This is surely not good for ordinary citizens that need to make up the shortfall with higher taxes on wages and living costs. Whilst some countries gain tax revenue initially, they are reducing the global tax take from corporations and eventually all countries are engaged in a race to the bottom.

The other area of concern is IP (Intellectual Property) where there are low tax rates within the EU. Corporates can transfer royalties to a head office set up in low IP corporation tax countries such as Luxembourg or Malta. Since 1 January 2018, Luxembourg provides for an 80% tax exemption on eligible net income for qualifying IP rights. Malta applies up to 6/7 of its 35% corporation tax (effectively 5% rate) on IP royalties provided they are paid out in dividends. These dividends could then be received as income in say Monaco where there is zero income tax.

Dividend income is also a concern in itself. Philip Green's wife who is a Monaco resident received tens of millions of pounds tax free from the Arcadia Group. In 2005 his wife received a then record £1.2bn dividend payment tax free. Richard Branson receives much of his income free of tax as a resident of the Virgin Islands. He has holding companies that carry out contracts for the UK NHS and receives profits tax free. Both Philip Green and Richard Branson are Knights of the Realm!!

The really big global players such as Facebook, Amazon, Airbnb, Google, Microsoft, Uber and so forth are able to suck value from nations but use their shear scale to manipulate their tax base and play one country off against another. Countries such as the UK, France and Germany appear to be moving towards addressing this issue by introducing digital taxes to trap revenue generated within their jurisdiction that might otherwise escape taxation.

The real issue here is that without a fair taxation system evermore of the burden falls on ordinary resident taxpayers to keep the lights on whilst predatory corporations and individuals profit from the very society they fail to support.

> The client state is too heavy a burden,
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> Whether they be bankers, claimants or civil servants,
>
> The global elite choose what they pay,
>
> Whilst the rest of us have no say.

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