



## Cato Institute On Corporate Tax Avoidance

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The Washington-based Cato Institute libertarian think tank this week [May 23] argued that corporate tax avoidance on the part of major multinational firms — including Google, which funnels British profits to a Bermuda entity — causes “no evident harm” to the budgets of the world’s leading industrialised countries.

Politicians are “having fun slapping around big corporations for supposedly not paying enough taxes” said the Cato Institute’s Dan Mitchell in a release titled “Corporate Tax Avoidance: Where’s the Harm?”

In [the US], Apple is the current target, while in Europe it’s Google, Amazon, and Starbucks ....” said economist Mr. Mitchell. “But there is an elephant in the room that the many reporters and politicians blustering over the issue have been too ideologically blind to see: There is no obvious harm being done by today’s corporate tax avoidance.

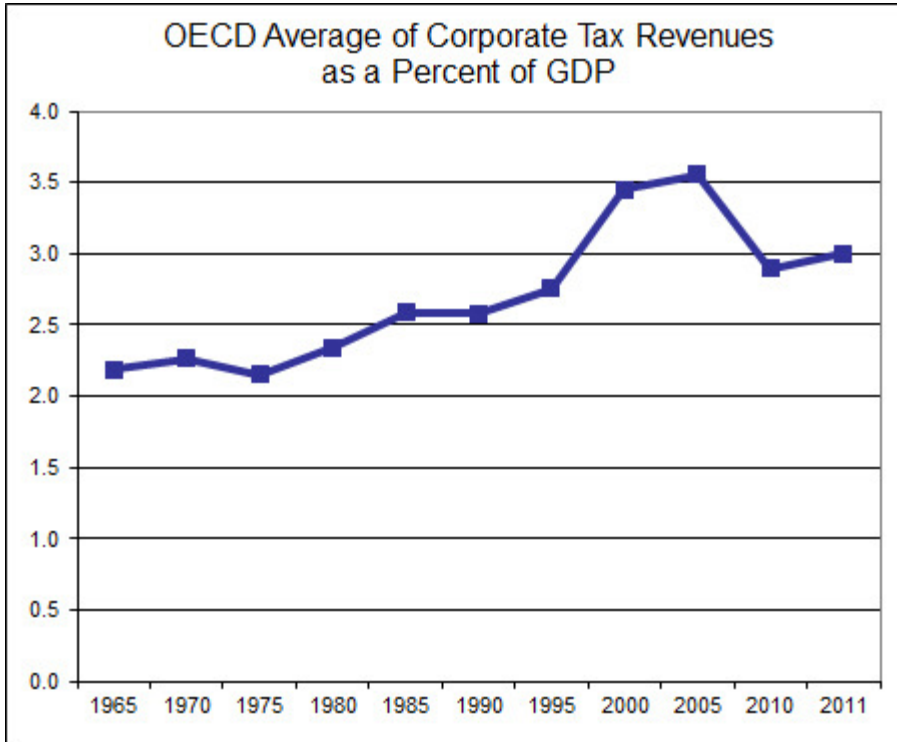
“The first thing to note is that when investment flows through tax havens, it’s not clear that it causes any economic distortions. [Media reports] have made a big thing out of foreign direct investment [FDI] flowing through low-tax Bermuda and the Netherlands, but then ending up funding actual factories built elsewhere.

“Economists worry when taxes distort real investment flows, but that does not seem to be happening here. Indeed, FDI is likely being allocated efficiently across final destination countries in these situations, and the interim trip through low-tax jurisdictions simply shaves off an extra layer of unproductive and distortionary taxes.”

Mr. Mitchell said “an even more obvious reason” to question whether corporate tax avoidance is causing any harm -- even from a pro-government perspective — is that corporate tax revenues have been trending upwards across the developed world.

“The chart below shows that corporate tax revenues as a share of GDP have been rising over the decades, despite the dramatic reductions in statutory tax rates in most countries,” he said. “Revenues dipped in recent years because of the recession, but they are now trending upwards again even though growth is still

very sluggish –Organisation for Economic Cooperation & Development data here.”



“So even if one believes the liberal view that higher government revenues are a good thing, there is no evident harm being done to government budgets from today’s supposed rampant tax avoidance.”

Mr. Mitchell, a senior fellow at the Cato Institute, is a proponent of the flat tax and tax competition, financial privacy and fiscal sovereignty.