

**JANUARY 2016**

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**TAX  
INCENTIVES**

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**DEBATING MATTERS**  
**TOPIC  
GUIDES**

**MOTION:**

**“IT IS WRONG  
FOR COUNTRIES  
TO OFFER TAX  
INCENTIVES  
TO ATTRACT  
INVESTMENT”**

# ABOUT DEBATING MATTERS

Debating Matters because ideas matter. This is the premise of the Institute of Ideas Debating Matters Competition for sixth form students which emphasises substance, not just style, and the importance of taking ideas seriously. Debating Matters presents schools with an innovative and engaging approach to debating, where the real-world debates and a challenging format, including panel judges who engage with the students, appeal to students from a wide range of backgrounds, including schools with a long tradition of debating and those with none.

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## KEY TERMS

[Crown dependencies](#)

[Multinational](#)

[Tax competition](#)

[Tax Incentive](#)

[Tax inversion](#)

# INTRODUCTION

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# NOTES

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On the 23rd November American pharmaceutical giant Pfizer announced a deal to buy Irish Botox maker Allergan in a deal worth \$160 million, one of the largest corporate mergers in history [Ref: [Reuters](#)]. Pfizer became the latest of a number of tax ‘inversion’ deals, where a larger company purchases a smaller company in order to relocate its headquarters to a new domicile with a lower corporate tax rate - a practice which has also involved American companies such as Burger King, Liberty Global and Medtronic [Ref: [New Yorker](#)]. Despite the fact that Pfizer were acting within the law, the deal was greeted with derision by the media, who saw the Pfizer-Allergan merger as an example of yet another corporation exploiting tax loop holes in order to maximise profits [Ref: [Guardian](#)]. The scandal ties in to a much larger debate surrounding the efficacy of countries offering competitive tax arrangements in order to attract foreign direct investment; a policy most famously used by countries such as Ireland, Luxembourg and the UK, as well as crown dependencies and overseas territories such as the British Virgin Islands [Ref: [Telegraph](#)]. Opinion is split as to whether tax incentives are wrong both ethically and practically. With opponents arguing that corporations which seek to pay less tax are avoiding their responsibility to contribute to the societies in which they operate, creating an unfair, unethical system which simply does not work. This view is contested by supporters though, who suggest that tax incentives are just a logical component of a globalised free market; and claim that big business is often portrayed unfairly, when in reality it benefits society more than it harms it. Broadly speaking then, what are the ethics of tax incentives – are they a help, or a hindrance?



# THE TAX INCENTIVES DEBATE IN CONTEXT

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## Are tax incentives ethical?

Defined as: “Deduction, exclusion, or exemption from tax liability, offered as an enticement to engage in a specified activity (such as investment in capital goods) for a certain period” [Ref: [Business Dictionary](#)], tax incentives polarize opinion around the world. Critics argue that corporations take advantage of competitive tax rates internationally in order to make more money for their shareholders, whilst still maintaining operations in the country that they are leaving [Ref: [Guardian](#)]. The Guardian newspaper makes the point that while individuals “rarely move in response to tax changes - flighty financial capital does move” to find the most favourable tax arrangements [Ref: [Guardian](#)]. If ‘Taxes are the price we pay for a civilised society’, it could be argued that avoiding paying an appropriate amount, undermines tax as a moral responsibility [Ref: [WikiQuote](#)]. Within this context, many are now of the opinion that tax incentives are fundamentally unfair and unethical, because they mean that countries end up, “depleting the contributions of major corporations and leaving citizens to pick up the tab” [Ref: [Guardian](#)]. In addition, it is claimed that tax competition gives big corporations an unfair advantage over smaller, local companies, because they can use complex offshore tax models to increase revenues, which often leads to the smaller companies going out of business because they cannot compete [Ref: [Guardian](#)]. That said, on the other hand, tax competition is largely supported by classical economic theory. In 1956 Charles Tiebout argued that in a globalised world, it would be logical for people to move to countries with the most efficiently run public services for the least amount of tax possible [Ref: [Journal of Political Economy](#)]. And on a practical level advocates say tax competition is far from unethical, and

is actually evidence of the free market at work; paying less tax allows multinationals to pass savings on to customers, pay higher wages to employees and ultimately invest more in to the societies in which they operate [Ref: [New American](#)]. For example, Pfizer CEO Ian Read, claimed that the Allergen merger will give his company greater ability to invest in America and provide more money for its research and development department [Ref: [PR Week](#)].

## Do tax incentives work?

American business magnate Warren Buffett once remarked that: “I have worked with investors for 60 years and I have yet to see anyone... shy away from a sensible investment because of the tax rate on a potential gain” [Ref: [Guardian](#)], which calls into question the need for tax incentives at all. This is because: “Above all, investors want good roads, a healthy and educated workforce, and the rule of law. All of which mean tax.” [Ref: [Guardian](#)] However, despite these misgivings, there are many who maintain that tax incentives do work. They argue that rather than scapegoating big business, governmental bodies should focus on simplifying and lowering tax rates. This is vital due to the fact that economically prosperous countries must be attractive to foreign investors who look for competitive conditions with simple rules and minimal red tape [Ref: [City A.M.](#)]. And as columnist Alex Newman states, “the benefits of tax competition, low taxes, and economic freedom are clear — liberty, prosperity, higher wages, more investment, more jobs, more growth, and a better society.” [Ref: [New American](#)] Advocates also point to success stories. Ireland exceeded tax revenue performance targets in 2015 by €800 million, 80% of



# THE TAX INCENTIVES DEBATE IN CONTEXT CONTINUED

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raised from corporation tax, with many crediting this to moves by a large American multinational to book certain profits in its Irish division that were previously booked offshore [Ref: [Irish Times](#)]. And politically, supporters of tax incentives note that national governments must be free to set their own rates as a matter of sovereignty, and suggest that if governments and organisations such as the EU had their way, taxes would always be set at the highest rates, which would drive business away [Ref: [City A.M.](#)].

offering exemption from corporation tax to companies new to the country [Ref: [Mail & Guardian Africa](#)]. So what are the pros and cons of tax incentives? Is it “always harmful” [Ref: [Guardian](#)] for countries to offer tax incentives to attract investment – and who gains and who loses in such arrangements?

## Tax incentives and the developing world

Favourable tax incentives have become common place in the developing world in recent years, sparking debate about whether it benefits or hinders economic growth in these countries. A damning report published by a group of NGOs claimed that in 2012 tax incentives for six firms, amounted to 59% of Sierra Leone’s government budget [Ref: [Guardian](#)]. It concludes by stating that “tax breaks for investors have done little to help the country’s poorest people, draining resources needed for critical public services.” [Ref: [Guardian](#)] Together with this, tax incentives ranked 11th out of 12 location factors in a United Nations Industrial Development Organization survey of 7000 firms in 19 African countries. And Investor Motivation surveys in Tanzania, Rwanda, Uganda and Burundi, showed that over 90% of investors would still have invested even if tax incentives were not provided [Ref: [OECD](#)]. However, others are more sanguine, and say that without global tax competition, business would have no incentive to invest in new, perhaps poorer countries, and economic development would be stifled as a result [Ref: [Wall Street Journal](#)]. They point to Kenya, which has projected economic growth of between 6-7% over the coming year, whilst



## ESSENTIAL READING

### FOR

[Another big corporation is flagrantly dodging tax. This must be outlawed](#)

Simon Jenkins *Guardian* 24 November 2015

[Tax competition - a threat to economic life as we know it](#)

Peter Dietsch *Open University Press* 14 October 2015

[My journey into the tax justice movement](#)

Dereje Alemayehu *Huffington Post* 13 June 2013

[Heard that countries should 'compete' on tax? Wrong](#)

Ellie Mae O'Hagan & Nicholas Shaxson *Guardian* 18 April 2013

### AGAINST

[Pfizer-Allergan: If corporate taxes cause inversions maybe we should change taxes](#)

Tim Worstall *Forbes* 26 November 2015

[Globalist assault on tax competition rouses opposition](#)

Alex Newman *New American* 13 July 2015

[Tax Competition is good for Europe: Don't let Jean-Claude Juncker muddy the waters](#)

Syed Kamali *City AM* 22 January 2015

[How to stop the inversion perversion](#)

*Economist* 26 July 2014

### IN DEPTH

[Why firms are fleeing](#)

James Surowiecki *New Yorker* 11 January 2016

[The stateless company plays a risky game](#)

John Gapper *Financial Times* 6 January 2016

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## BACKGROUNDEERS

[A stable Executive and corporation tax control is a good start for 2016](#)

Angela McGowan et al *Belfast Gazette* 8 December 2015

[American Big business faces the G20 in a fight for \\$2.1tn in unpaid tax](#)

Simon Bowers *Guardian* 29 November 2015

[The Pfizer-Allergan merger is a disgrace](#)

John Cassidy *New Yorker* 23 November 2015

[Protecting the tax base: why it's important to block tax inversions](#)

Jared Bernstein *Washington Post* 19 November 2015

[Infrastructure projects, tax incentives present sweet opportunities in East Africa's largest economy](#)

Johann Bernard *Mail & Guardian Africa* 11 September 2015

[What's wrong with tax avoidance?](#)

Mark Roney *New Statesman* 20 April 2015

[Havens like Luxembourg turn 'tax competition' into a global race to the bottom](#)

Richard Brooks *Guardian* 5 November 2014

[The other half](#)

Claire Melamed *Aeon* 24 September 2014

[Tax evasion: the main cause of global poverty](#)

Bella Mosselmanns *Huffington Post* 28 February 2014

[Google, Amazon, Starbucks: The rise of tax shaming](#)

Vanessa Barford & Gerry Holt *BBC News Magazine* 21 May 2013

[Avoiding tax may be legal, but can it ever be ethical?](#)

Phillipa Foster Back *Guardian* 23 April 2013

[Tax competition and the myth of the 'race to the bottom'](#)

Vera Troeger *Chatham House* 4 February 2013

[Tax incentives and exemptions not necessary to attract investment](#)

Yolande Vamusse *Institute of Development Studies* 20 December 2012

[Influencing factors for foreign direct investment: Ireland's low corporate tax rate](#)

Niamh Sheerin *Huffington Post* 7 November 2011

[Tax havens at the heart of the EU](#)

David Franks *Telegraph* 17 November 2010

[A pure theory of local expenditures](#)

Charles M. Tiebout *JSTOR* October 1956

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## ORGANISATIONS

[OECD](#)



## IN THE NEWS

[Hilary Clinton targets corporate inversion with new 'exit tax' plan](#)

*Guardian* 7 December 2015

[Pfizer to buy Allergan in \\$160 billion deal](#)

*Reuters* 24 November 2015

[Here's how much Pfizer could save in taxes after Allergen merger](#)

*Time Magazine* 23 November 2015

[Pfizer CEO Ian Read says Allergan deal will result in more US investment](#)

*PR Week* 23 November 2015

[How the Northern Powerhouse could boost SMEs](#)

*City AM* 9 November 2015

[Tax surge from multinationals 'not a one-off](#)

*Irish Times* 4 November 2015

[Tax Justice Network Financial secrecy index](#)

*Financial Secrecy Index* 2 November 2015

[EU committee pushing to remove tax competition](#)

*Accountancy Age* 28 October 2015

[Big businesses should agree to renounce aggressive tax planning, says HMRC](#)

*Guardian* 23 July 2015

[French economy minister: The UK can't succeed outside the EU](#)

*New Statesman* 18 November 2014

[Sierra Leone tax breaks put foreign investment ahead of poor, say NGOs](#)

*Guardian* 15 April 2014

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## AUDIO/VISUAL

[Pfizer finally gets what it wants: lower taxes](#)

*Wall Street Journal* 24 November 2015

[The moral purpose of tax](#)

Moral Maze *BBC Radio 4* 8 November 2014

[Tax avoidance](#)

Moral Maze *BBC Radio 4* 24 March 2012





## ADVICE FOR DEBATING MATTERS



### FOR STUDENTS

#### READ EVERYTHING .....

In the Topic Guide and in the news - not just your side of the argument either.

#### STATISTICS ARE GOOD BUT.....

Your opponents will have their own too. They'll support your points but they aren't a substitute for them.

#### BE BOLD

Get straight to the point but don't rush into things: make sure you aren't falling back on earlier assertions because interpreting a debate too narrowly might show a lack of understanding or confidence.

#### DON'T BACK DOWN

Try to take your case to its logical conclusion before trying to seem 'balanced' - your ability to challenge fundamental principles will be rewarded - even if you personally disagree with your arguments.

#### DON'T PANIC

Never assume you've lost because every question is an opportunity to explain what you know. Don't try to answer every question but don't avoid the tough ones either.

### FOR TEACHERS

Hoping to start a debating club? Looking for ways to give your debaters more experience? Debating Matters have a wide range of resources to help develop a culture of debate in your school and many more Topic Guides like this one to bring out the best in your students. For these and details of how to enter a team for the Debating Matters Competition visit our website, [www.debatingmatters.com](http://www.debatingmatters.com)

### FOR JUDGES

Judges are asked to consider whether students have been brave enough to address the difficult questions asked of them. Clever semantics might demonstrate an acrobatic mind but are also likely to hinder a serious discussion by changing the terms and parameters of the debate itself.

Whilst a team might demonstrate considerable knowledge and familiarity with the topic, evading difficult issues and failing to address the main substance of the debate misses the point of the competition. Judges are therefore encouraged to consider how far students have gone in defending their side of the motion, to what extent students have taken up the more challenging parts of the debate and how far the teams were able to respond to and challenge their opponents.

As one judge remarked *'These are not debates won simply by the rather technical rules of schools competitive debating. The challenge is to dig in to the real issues.'* This assessment seems to grasp the point and is worth bearing in mind when sitting on a judging panel.



**“WORLD REQUIRES  
THE CAPACITY  
TO MARSHALL  
CHALLENGING IDEAS  
AND ARGUMENTS”**

**LORD BOATENG, FORMER BRITISH HIGH  
COMMISSIONER TO SOUTH AFRICA**