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The Apple fiasco shows why corporation tax is an outdated anachronism

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Silicon Valley has always loved the EU, or at least imagined it to be a benign, pro-market force. I was reminded of this recently when I visited the San Francisco Bay Area: many tech executives were baffled by our decision to vote Brexit.

I suspect at least some senior people in Cupertino, Mountain View and Palo Alto are questioning their beliefs today; ironically, the supposedly pro-EU Obama administration itself is angry at the way Brussels is trying to grab a slice of cash piles being kept overseas by US firms.

With the collapse of the TTIP trade deal, a new bout of US-EU tension is on the cards, a development which helps nobody. Once again, it's a case of liberals (in the American sense) being mugged by the grubby reality of Brussels.

A €13bn (£11bn) fine is non-trivial, even for a company sitting on a massive cash pile like Apple; it ought to be clear by now to the company that there are costs as well as advantages to the EU's existence (and why people such as myself believe that for the UK at least the former are greater than the latter).

There are several lessons.

First, corporation tax and the entire way governments collect money from companies is broken. Levying profits in a fair and efficient way is unworkable in a modern, global and digital economy. Time and again, we see how one stream of profits is taxed differently to another, depending on a host of circumstances, corporate structures or endless other factors. Cracking down on "avoidance" – in fact the use of legal loopholes that politicians are entirely to blame for – merely replaces one arbitrary structure with another.

All of these taxes need to be abolished and replaced by an entirely new way of raising money. GDP is generated by capital and labour. Both of these sources of income should be taxed in the same, low and simple way, making sure that each pound of national income generated in the economy is treated in exactly the same way. This would do away with the huge tax-inspired distortions that so cripple our economy.

My own pet scheme – described in "The Single Income Tax, the final Report of the 2020 Tax Commission" which I chaired a few years ago – would be to abolish all existing business taxes and replace them by a new one on cash outflows from all corporate vehicles.

This would be levied at source, like PAYE, at one simple flat rate. It would catch dividend payments, share buybacks and interest, as well as cash transfers. The rate would be the same as an equally flat, simple tax levied on labour income (wages, bonuses and benefits).

For the system to work properly and fully, it would need to be agreed internationally; rules would still have to be found to treat intra-company payments properly and deal with issues such as intellectual capital. But the structure would nevertheless be drastically simpler and cheaper to operate than anything we have today.

Second, we should be pro-tax reform but also pro-tax cuts. Low taxes are good for the economy and good for growth. It is an absurdity that the EU does not see that. Yes, the corporation tax system is broken - but no, that doesn't mean that states should seek to fleece companies, their shareholders and their employees.

The statistical evidence shows that the biggest losers from higher rates of corporation tax are actually employees: low taxes on companies tend to push up productivity and real wages. High corporate taxes have the opposite effect.

Apple's campus in Cork, southern Ireland CREDIT: AFP/GETTY IMAGES

Third, it is clear that the EU no longer believes in tax competition, or in the right of EU member states to set their own rates to attract business. This is not just an anti-democratic outrage which justifies our decision to leave – and one which, once again was pushed through using single market rules – it is also a disastrous development in economic terms. There is now almost zero hope of any real supply-side reform in the EU any time soon.

Last but not least, this decision is bad news for Ireland: its renaissance was in large part due to its low taxes. EU economies will now be perceived as less stable, places where tax deals can be ripped up retroactively. Those panicked firms, especially in finance, that might have been planning to shift some of their operations from London to Ireland and Luxembourg will hopefully think again.

As to Theresa May, she is left with another conundrum: Britain needs as much access to the single market as possible, but the right to determine its own taxes – at least in time – must clearly be added to the list of non-negotiable demands. It's going to be a pretty interesting negotiation.