

Analysis

Inversions, Panama schemes mean the ordinary wage-earner gets stuck paying the taxes: Don Pittis

Even the leanest governments need to get revenue somewhere, so they choose the soft targets

By Don Pittis, [CBC News](#) Posted: Apr 06, 2016 5:00 AM ET Last Updated: Apr 06, 2016 11:24 AM ET

After the Panama Papers were released I spotted this tweet: "Wife calling wants to know why we are the only morons apparently still paying taxes."

It's not just a joke.

- [Panama Papers: Iceland's PM resigns amid protests over offshore tax haven revelations](#)
- [Pfizer-Allergan merger in doubt as new U.S. tax inversion rules proposed](#)

Paying your taxes used to be a moral duty, but primed by growing anti-tax rhetoric, the moral rules have changed. As tax avoidance becomes more respectable and its legal methods more labyrinthine, governments are going after the soft option, ignoring the hard nuts to focus on taxing the average shmoo.

Inversion crackdown

The threat yesterday by U.S. Treasury Secretary Jack Lew to crack down on [tax inversions](#) came as a shot across the bow of a deal by drug giant Pfizer. It wants to merge with another company as a scheme to slash its tax bill by pretending it is actually Irish for tax purposes.

Irish business taxes are 12.5 per cent. In the U.S. they are 35 per cent.

A day later, the [Pfizer-Allergan deal is dead](#) because the Treasury Department's new rules would make trying to exploit that tax loophole not worth the effort. And that's a good thing, the White House says.

Stuck with the tab

"It sticks the rest of us with the tab," said President Barack Obama at a news conference calling on Congress to push through the tax inversion changes.

Despite presidential attention over inversions, plus this week's ruckus over the Panama Papers — which have already claimed at least [one high-profile victim](#) — the world's governments have been paralyzed in their attempts to capture escaping tax revenue.

"While lawmakers have introduced anti-inversion bills, none have been passed," said [one U.S. news report](#) in a line buried at the bottom of a story trumpeting the crackdown, "and the chance that Congress will embark on business tax reform this year is very slim."

The fact is, governments are in an unequal battle. In an earlier era, even the biggest corporate giants were under the power of the one or sometimes two countries where they did most of their business.

Huge and unattached

In the years since, corporations have become huger and less nationally attached. They manufacture or buy parts in many places around the world while being able to run much of their day-to-day operations — telemarketing, billing, IT, administration — anywhere there are computers. National residency becomes a mere formality.

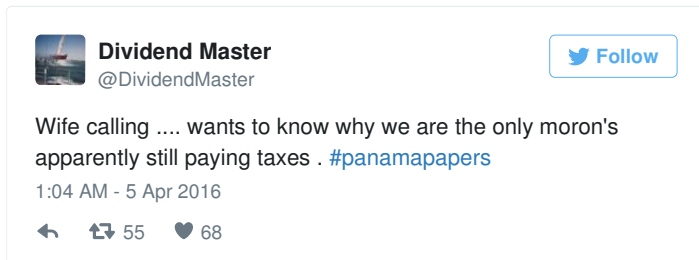
Meanwhile, governments have been intentionally weakening themselves, whether under the [starve-the-beast](#) principle or simply to try to get their budgets under control in an era of shrinking revenue.

While business growth stagnates, finding legal ways to pay lower taxes has been a bumper source of revenue for corporations and rich people. Money in offshore tax havens is estimated in the trillions of dollars.

The staggering power of that kind of money to buy accounting expertise, to lobby governments at home and abroad, to get the best legal help or even to hire the best crooked help, may be literally overwhelming. Governments find themselves unable to pass laws fast enough to close the freshly devised loopholes.

Revenue agency cuts

Tax authorities earning government-level wages are up against the world's priciest talent. In Canada the revenue agency [actually faced staff cuts](#).



It used to be considered slightly shady to skip out on your taxes. Of course, in the world of tax consultants there has always been a view that getting your taxes down using any legal means possible was not only acceptable but ideal. That view is now becoming almost universal.

If you're really rich your tax experts will tell you you're crazy to be a resident of Canada at all. Just live in a nice warm tax shelter six months of the year and fly to Canada when you need to visit the grandkids or do business.

'Folds like a cheap suit'

"If you have enough money to move your funds overseas, you have enough money to retain lawyers and accountants and, rather than fight, because of a lack of resources the revenue agency folds like a cheap suit," said PEI Senator Percy Downe in a CBC interview.

Governments need revenue to go on operating. If corporate tax goes abroad and rich people's taxes go abroad, who is left paying the taxes?

Well, you and me, of course.

Coming down hard on middle-class Canadians is cheap and easy. Income taxes on salaries and pension income, consumption-based sales taxes, property taxes and fees for government services are all hard to escape.

This is one more reason to set aside all the scare talk of frightening away the rich people with high tax rates. More effort should be put into closing the loopholes to make sure they pay their share.

Meantime, governments need to figure out ways of raising wages to make more Canadians middle class. At this rate, soon we'll be the only ones left paying taxes.

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