Comments on CReAM response to critique of the Fiscal Effects of Immigration to the UK

Issue 1: Corporate tax revenues:

The methodology used for dealing with tax paid by corporations is to attribute it to individuals on the theoretical basis that they ultimately own the shares in these companies either directly or indirectly – for example having built up an investment in them through pensions contributions over years.

However, the paper then attributes these tax payments to individuals on a per capita actual basis, so everyone is treated as contributing the same, whether UK national, long-term migrant, or recent migrant. So the fiscal contribution of any group is simply determined by its share of the resident population. This does not seem to be sound, as it treats even a recent migrant as having the same investment in UK companies as soon as they arrive as a lifelong resident does.

Further, as there is no suggestion that the pro rata allocation is restricted to people in employment, it also appears that the same fiscal contribution will be attributed to any partner accompanying the migrating worker, and also to any child they might have. This adds up to over £1,000 for a couple with one child. But in fact on arrival it must be that many migrants own no shares at all either directly or indirectly in UK companies. Even if they do start to invest, it cannot be right to presume that this investment immediately accrues in the same amount as held by a resident

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since birth and then increases directly in proportion to the number of children they have, as they have them.

Using the CreAM methodology, it appears that recent EEA migrants and their families will have been treated as contributing over £3 billion in corporate taxation during the period, and by 2011 at a rate of over £500 million a year. It also appears that this fiscal contribution through corporate taxes will be deemed to increase with every new migrant arrival and new child born.

millions	Total population	Recent EEA migrants number	Corporate tax receipts 2001/2 on £	Recent EEA share pro rata £	Assumed % overseas share ownership (deducted)	Corrected recent EEA share pro rata £
2001	58.40	0.11	32,041	58	0.34	39
2002	58.91	0.16	29,268	78	0.357	55
2003	59.44	0.21	28,077	97	0.359	65
2004	60.10	0.30	33,573	168	0.361	90
2005	60.02	0.47	41,829	327	0.363	167
2006	61.77	0.66	44,308	472	0.38	276
2007	62.66	0.97	46,383	718	0.4	411
2008	63.52	1.07	43,077	726	0.4075	463
2009	64.16	1.14	35,805	636	0.415	448
2010	65.20	1.46	42,121	945	0.425	462
2011	65.84	1.56	42,151	1,001	0.434	566
Totals			418,663	5,225		3,042

(Population data: CReAM paper. Share ownership: ONS. Tax data: HMRC)

CReAM say "we do not believe other assumptions are more justified or better grounded". While direct or indirect share ownership might be a reasonable proxy for attributing the fiscal revenues from corporate taxes to individuals, and perhaps the usual way of doing so, it cannot be a correct methodology in the specific context of the likely differences in ownership between lifelong residents and the most recent arrivals. It certainly is hard to see on this issue what

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CReAM means in its response by 'we have at all points leaned towards conclusions that understate immigrants' contributions'.

The amounts involved are significant, as amounting to a sixth of the net fiscal contribution assessed as having been made by the group over the period, increasing to a third of the net fiscal contribution in 2011 and on an upward trend as illustrated below in figure 1.

Estimated Corporate taxes contribution attributed to recent EEA migrants
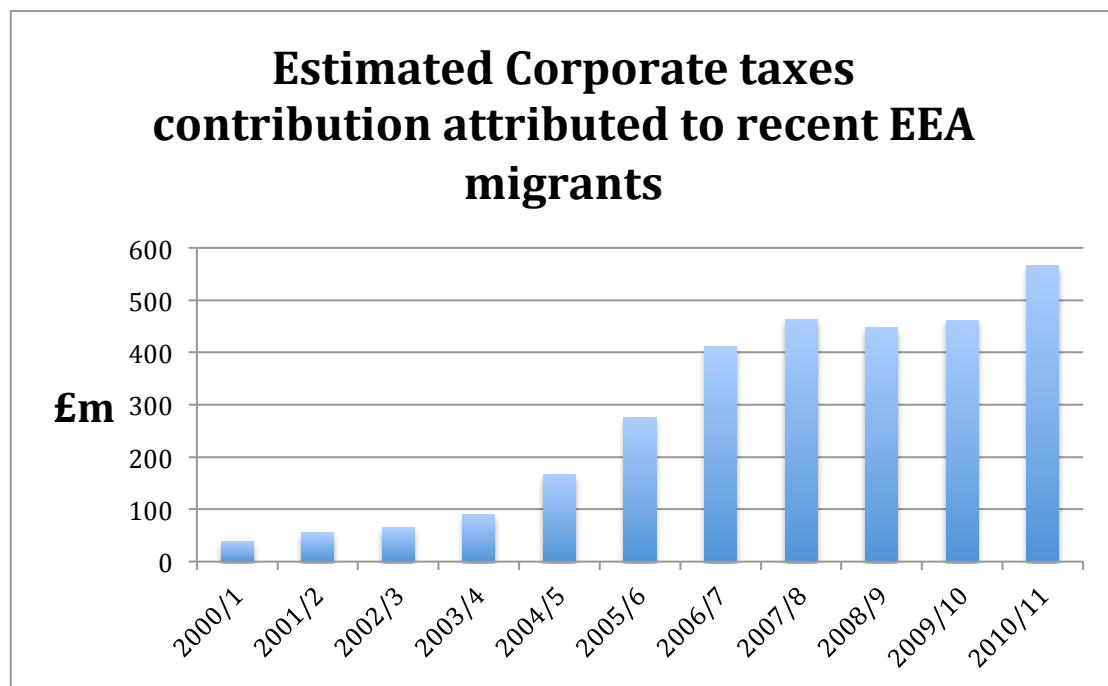
Conclusion: while the methodology might be reasonable in principle for attributing corporate taxes to individuals within a stable population, in the context of assessing the fiscal contribution of recent arrivals it is common-sense that some account should be taken of whether they are in fact likely to have the same stake in share ownership of UK plc as people who have been here all their lives. The result of not doing so is likely to be a significant over-estimation of fiscal contribution by recent EEA migrants.