

Cutting tax rates can lead to more revenue

The decision by Astra Zeneca to put a major new investment into Ireland where they charge 15% business tax compared to our new rate of 25% shows just how stupid our high tax policy is. Instead of getting 15% of a good stream of profits over many years alongside income tax and VAT on all the well paid ,jobs they bring, the UK has settled not to have any of it. 25% of nothing is nothing.

The same folly is evident in the North Sea. In a rush to get a bit more revenue this year with high and erratic windfall taxes, the government has delayed or lost important investments in new gas and oil fields. Instead of generating more well paid jobs and plenty of tax revenue on the output over the next decade or two, we opt to import and to pay huge taxes away to foreign governments on all the imports. Just one of the fields not currently going ahead would generate a gross £25bn over its life, with a lot of that passing directly to the Treasury in taxes.

Ireland makes my case perfectly. With a much lower rate of business tax than us Ireland enjoys a much higher proportion of its revenues from business tax because so many businesses go there to set up an HQ and to invest in plants and offices. Ireland has a much higher per capita national income than us thanks to all the foreign investors congregating there to create jobs and spend money. The UK should copy them with a 15% tax rate as Jeremy Hunt himself proposed last summer. We too would get more revenue and have higher per capita average incomes. Enthusiasts for the EU are always urging us to align more with our Irish neighbours. This would be a great way of doing just that.

When Margaret Thatcher and her Chancellors cut higher rate income tax from 83% to 60% and then to 40% the amount of income tax paid by the better off rose in cash terms, rose in real terms, and rose as a proportion of total income tax. What's not to like for all involved? When George Osborne drove UK corporation tax down gradually to 19%, the take from company tax went up, not down. So why do OBR and Treasury models tell Ministers any cut in tax rates will lead to a reduction in tax revenue we cannot afford? History and modern experience suggests otherwise.