

Higher taxes and the miraculous £6bn more

Several parties are out to show they can deliver more money to public services without hurting most voters. The Lib Dems say they will increase Income Tax by 1p to deliver £6bn more for the NHS and social care. Labour argue for a big hike in the Corporation Tax rate to pay for a wide range of extra public spending and various expensive renationalisations. These views are based on two common fallacies in UK debate.

The first fallacy is an extra few billion will make all the difference. The truth is all parties in government do increase the spending on the NHS, social care and other priorities every year, and all wish to see these services properly funded. Since the Conservative led coalition entered government, total public spending has risen by 20% from £669 bn to £802 bn. Health spending has gone up more, by 23%, from £96bn to £117bn. The Conservative government has promised another £8bn to the NHS and £2bn more to social care, and will doubtless review the figures regularly to see if they are enough or need increasing if re-elected to government. Just adding £6bn as a one off will not suddenly transform the NHS, I doubt there is a thought through budget of how to spend that money and what improvements it would buy. The extra pound has no magical powers not shared with the pounds already being spent.

The second fallacy is the idea of painless tax rises. 1p on Income tax rates sounds modest. That is a 5% increase in the standard rate, a 2.5% increase in the 40% rate and a 2.2% increase in the 45% rate. It means hundreds of pounds extra for most earners. That is money which families cannot then spend on their priorities.

The proposal for a big rise in Corporation Tax might well backfire. Having a low rate by international standards is one of the ways the UK attracts substantial inward investment, building a strong presence by many dynamic international companies here. Over the period when the reductions in rate have been put in, our revenue from Corporation Tax has gone up. Why wouldn't we lose some revenue if we push the tax rate up, especially at a time when the USA is planning a major move the other way. I have no wish to be a soft touch for big business, but it does seem we are finding the right levels of Corporation Tax to get them to pay more.

In 2009-10 the Corporation Tax rate was 28% and the tax take was £36bn/ £6.4 bn of that came from North Sea oil. This year the rate is 19% and the estimate is for £46bn of tax revenue with no revenue from North Sea oil. The take has gone up in recent years despite a major reduction in North Sea volumes of output. So by cutting the rate from 28% to 19 we have gained 28% more revenue, or an impressive 55% if you adjust for the ending of North Sea taxable output.

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