How do we raise more tax revenue?

Some of you will be pleased and others unhappy to learn that today's question is one of the most common in the modern media and even amongst some MPs.

There are two easy answers. The best way to get more tax revenue is to grow the economy.
The best way to get more money from companies and the rich is to lower the rates of tax they pay.

As I have often argued, cutting the Corporation Tax rate from 28% in 2010 to 19% today has taken place against a background of a substantial increase in company tax revenue. We collected 55% more last year at 19% than they did at 28% in 2009-10. Some say this is the Laffer effect – lower rates lead to more tax. Some say it is a coincidence. No-one can say cutting the rates has led to a decline in tax revenue in the way Treasury models and others suggest.

Cutting the top rate of Income tax from 50% to 45% has also led to an increase in revenue from the higher paid. In the early 2010s we collected £2bn less in self assessed income tax with a top rate of 50% than the government collected at 40% before. Revenue rose by 15% with a cut in the rate to 45%. When in the 1980s the then Conservative government cut the rate from 83% to 40% in two steps, there was a surge in extra money from the better off. They paid more in cash terms, they paid more in real terms, and they paid a bigger proportion of the Income Tax total.

The reason all this works? Entrepreneurs, rich savers and companies are footloose. They only need come, or only need stay, if tax rates are competitive. They need only invest and spend in places where the rates make sense to them. When the UK had 83% tax there was a Brain drain. Many talented people from pop stars to businessmen went abroad to avoid the tax rates.

Capital Gains tax collected 23% less than forecast when the rate was hiked to 28% from 18%. There was a loss of revenue in 2012-13 and 2013-14 with the higher rate, contrary to Treasury model predictions.

So to raise more revenue we need to change the Treasury model to make it more accurate, by accepting that some taxes are at rates above their revenue maximising levels.

The Treasury have a very poor forecasting record on revenues. Remember they had to hike their forecast for 2016-17 tax receipts by £10.5bn between the November forecast and the March forecast in the year in question!