

How lower taxes could help economic growth

Three recent posts have shown how the government has used higher taxes to stop or reduce activities that it does not approve, with considerable success. These policies have slowed the economy a bit as a result.

Given that the government knows how to do this, wouldn't it be a good idea if it did more the other way, identifying how cutting taxes might stimulate more activity?

It does recognise that taxing work too much is a bad idea, and has been cutting the tax on work by removing more people from Income Tax altogether and raising the tax free allowance generally. This has been a helpful background to boosting employment, which has been rising steadily as Income Tax has been reduced by this method. The more that can be done to reduce the tax on work the better, as all political parties claim to believe that work is a good thing. If you want more work in any given country you need to ensure the tax rates on work are internationally competitive. The UK needs to revisit its rates in the light of the sweeping US tax cuts.

There are other examples where taxes have been raised on behaviour which the government says it favours. Most of these relate to entrepreneurship and saving. The government says it wants people to save so they have money for their old age and for any adverse event that may befall them. It says it wants to encourage more people to set up their own businesses and to venture their money to help establish and expand other people's businesses.

If this is the case then why has the government hiked Stamp Duties? Why does it persist with a 28% Capital Gains Tax rate on property? Why has it cut pension tax reliefs?

Stamp Duties and Capital Gains tax are taxes people do not have to pay. They are easily avoided by doing nothing. Those in the fortunate position of having made past successful investments can sit on them. Those who aspire to own investments can be put off by the transaction taxes. People keep properties that may be too big for them or are no longer in the best place for them as they do not wish to pay the CGT on sale or the Stamp Duty on buying something more suitable. As we have seen Buy to let investment in new homes or conversions to provide more rented accommodation for others has been hit hard by higher taxes.

The government could and should do more to promote savings and enterprise. The best and most energetic can flourish, but we need a tax system which makes it easier for everyone, so the more marginal projects find cash and support.