# Magic money trees

The parties that might form a coalition behind Mr Corbyn if enough people voted that way are good at offering to spend lots of other people's money. There is a rivalry between Labour, the Greens, the Lib Dems and the SNP to see who can offer most for popular causes. They are much weaker when it comes to explaining how all this extra money would be paid for.

The favourite method they propose is to put the rate of Corporation Tax back up to 26% from the current 19%. They think this will bring in extra revenue. It has the political advantage of not directly involving voters in paying more, though of course the extent to which companies did pay it would be passed on to customers. They need to study what has happened to revenues in countries that have gone for higher corporation tax rates. The USA is puzzling over large untaxed profits sitting offshore and debating how far to lower their rate to be able to tax that money. They also need to study what has happened to the revenues in the UK since we cut the rates.It looks as if you need to cut the rate to get more tax from business, not put it up.

In 2010 when the Coalition took over the Corporation Tax rate in the UK was 28%. Total onshore Corporation Tax brought in just £30.9bn in the year 2009-10. This year with the rate down to 19%, the forecast is for £52.7bn from this source. It is true there has been an output and profits recovery since the bad days of 2009-10. It is also true that a lower Corporation Tax rate was designed to speed that very recovery, which has been stronger than on the continent over that time period partly because of the tax changes.

In the March 2017 budget the government had to up its forecast of Corporation Tax revenue for 2016-17 by £7.4bn compared to its November forecast just four months earlier! The Treasury's combined pessimism about the growth of the UK economy and the impact of lower tax rates on revenue had misled them badly. They claimed the increase was mainly to do with a timing difference in payments. Yet if you compare the March 2016 Budget book with the March 2017 budget book, they have had to raise their forecasts substantially for several years. Their total CT forecast for 2017-18 is £8bn higher than a year ago, and their 2018-19 forecast is more than £9bn up. This looks like having the wrong model for what happens to this tax when you cut the rate. Going back to the previous March removes any distortion caused by their Brexit worries, as in March 2016 they assumed the UK would stay in the EU.

I do not think there is an easy option to raise billions by taking the UK Corporation Tax rate back up to 26%.You could end up with less and a bigger black hole in the nation's budgets. Large companies are footloose in where they employ people, provide services and make things. They have clever lawyers and accountants working for them to comply with the various global tax authorities around the world by taking advantage of lower tax rates where possible. Even the USA has not proved tough enough to force the profits back onshore.

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