More Tax offsets are not as good as a lower rate

Those who battle Treasury orthodoxy of no tax cuts often end up going for a feeble compromise of allowing more tax offsets, tax free allowances and temporary concessions. These are well intentioned and marginally better than unrelieved high taxes, but they will not provide the big boost to investment we need.

A business looking at an investment is of course worried about the up front costs and cash outflows when making the initial commitment. An investment allowance allowing the business to pay less business tax in the year or two when it is building the new factory can help with that initial cash outlay. What the up front allowance cannot do is to make the figures for the rewards on the investment over the life of the project look much better to justify going ahead in the first place. An investment when our business tax rate is 19% looks a lot better over 25 years than if you have to put a 26% tax rate in. An investment earning £100 m of profits over 25 years will pay £7m or 37% more tax at 26% than at 19%.

Worse still is many company investors will look at where best to place their next factory or office from a list of countries ranked by their headline tax rate. Where the UK at 19% was in a decent place on the table, at 26% it is an also ran. Many lists will not include countries with a rate that high. The company with a possible £100 m of profits will stay and pay £19m but may well not hang around to pay £26m.

The Treasury needs urgently to rethink its policies to attracts and sustain investment in the UK. 26% does not hack it, with or without super allowances at the beginning.