My Telegraph article on Corporation tax

The government rightly tells us it wants to promote growth in the March budget. To do so it will need plenty of investment from companies already here, and new commitments from companies attracted to the UK by the opportunities. To do that it is going to need competitive business tax rates. It should not be putting Corporation tax up by 31% in April just when it needs a boost from the business sector. It needs to get companies to put in a wide range of additional capacity in everything from energy to food. Without that taming inflation is more difficult. It is also the way to level up and to create the extra better paid jobs we want.

The aim of taxation should be to raise the tax you need to pay the bills with the least damage. All taxes do some damage. Governments use taxes to discourage people from doing things like smoking, excessive drinking, and polluting . When they turn to taxing jobs and investment they need to be careful. Do it too much and you put too many off doing the good things of working and serving the customers better. You can end up with less revenue, not more, as well as with an unhappy country.

It is best to tax the rich and profitable, as they have a lot more money to tax. Rich people and big companies also have many more options than the rest of us. They can switch their business, their residence and their investments to somewhere else if a given country puts the tax rates up too high. The way to get more tax revenue out of well off companies and people is to set rates they will stay to pay. Hike rates too much and you can have an exodus of the money you want to tax. High rates of income tax under Labour in the 1970s led to the brain drain as talent went elsewhere, contributing to a bad economic decline. They ended up with insufficient tax for their wider aims and a trip to borrow from the IMF which landed them with spending cuts.

George Osborne knew this when it came to Corporation tax. His steady reductions in rate, eventually down to 19% led to good increases in tax receipts as more businesses came to the UK and more UK businesses ploughed profits back into more UK taxable activity. Meanwhile our neighbour Ireland opted for a much lower rate. At just 12.5% they scooped the investment pool. Ireland now gets four times as much business tax per head than we do. Large corporations have chosen to base substantial activity there to take advantage of the low rate. It has also led to Ireland having a GDP per head more than double the UK's and more than two and half times above the lower figure for the EU.

So why would you want to turn down the offers of world business to come, to create jobs and make money? The reason seems to be strange. It is based on Treasury and OBR accounting and estimating. The OBR is having a difficult time with the numbers. They forecast a deficit of just under £100 bn for this year in the March budget. In the November Financial Statement they put this up by more than three quarters to £177bn. Now just two months on and with only two months left to forecast they are putting it down again by £30bn. Yet it is on these volatile and inaccurate forecasts that the Treasury hangs the judgement they need to put taxes up.

To try to get the forecasts right the OBR has to forecast spending and revenue. Spending should be fairly easy to forecast as there is a complex system of spending control and approval, though of course energy subsidies have introduced a more volatile component. They find forecasting the revenue difficult, as it depends on how fast or slow the growth is. As a general rule when growth is faster the OBR tends to understate the revenues and when it is slower they tend to understate the deficit. It appears that their tax model is not dynamic enough.

There is no magic money tree, but there is a strong behavioural effect on taxes you can legally avoid. The government accepts this is some cases. The whole idea for example of a congestion charge or a carbon tax is to get people to avoid it. They are urged to drive less or burn less fossil fuel. In the case of business profits tax we can see worldwide the turnover and profits gravitate much more to the lower tax rate places ,as with Ireland. The official models do not seem to capture this. The forecast that a big hike in the corporation tax rate will bring in an extra £15bn more by the second year seems unlikely. The absence of tax rate rises in January did not prevent and may well have assisted the unexpected surge in revenues that the OBR did not foresee.

The UK is crying out for so much new investment and business. We are short of electricity grid and cable capacity, short of reliable electricity generation, short of glasshouse and polytunnel market gardening, short of water supply in some places and during dry spells, short of steel capacity, battery production, short of home caught fish, short of domestic timber, short of good safe road capacity and short of much else I could mention. Many of these needs can be met by private sector investment. They often require government leadership of the projects, provision of the licences, and lower stable tax rates that companies can rely on. The UK was doing so well promoting itself up the league table of international tax competitiveness. It would be a tragedy to throw that all away today in the vain and self defeating pursuit of a lower deficit. Higher tax rates will lead to less growth and lower business tax revenues. Follow Ireland. The Chancellor himself when a free man argued just this case.