

No Windfall tax, Chancellor

The Chancellor has said a Windfall tax on domestic oil and gas is on the table. That is the low tax Chancellor. He says if the industry does not get on and invest he will think about it. He should know there is already a large windfall tax in place on UK oil and gas profits. They pay double corporation tax.

The Chancellor has a problem. Investment is lower than we would like. It is lower than many rival economies. It needs to be higher to help boost productivity, the key to rising living standards. There is an additional issue. UK policy in the EU was based on increasing our imports in industry, energy and agriculture leaving us with a large balance of payments deficit. We need plenty of inward investment to meet the bills in foreign currency for all those imports.

The Chancellor has decided to increase the UK corporation tax rate from next year. This is bound to deter more investment and put off some that might have otherwise have come. Ireland choosing a much lower corporation tax rate than ours greatly exceeds us in the amount of foreign investment it attracts, and collects more corporation tax revenue in relation to its GDP than we do. Treasury models and sages say this is impossible. In order to offset the negative effects of higher tax on investment the Chancellor offered super deductions against corporation tax this year to encourage an investment surge. It has helped but it has not been on anything like the scale needed. Many investors look through the super deduction to the higher rates to come and do not like what they see.

The Chancellor promised us he would spend the spring and summer studying what new types of offset or deduction he could offer to try to embed a more favourable tax regime for new investment into his corporation tax proposals from next year. We await those with interest. I can assure him the threat of a Windfall tax is not part of such a package.

The best way to attract more investment is to have low simple and stable rates. The more you change it and the more complex it is the more investors will decide to go elsewhere. Threatening investors who you want to make large long term commitments is a particularly bad idea. That is Labour policy, which I oppose.