

Tax cuts can bring in more revenue

One of the main arguments ahead of the budget is the one about what changes you get in revenue if you put tax rates up and if you cut tax rates. This is especially important and hotly contested over business taxes. UK corporation tax revenues increased as George Osborne cut rates. The Republic of Ireland collects proportionately much more tax from business by having a much lower rate than us and attracting many large businesses to locate more in the Republic. Indeed, in 2022 Ireland collected 24.4% of its total tax revenues from corporation tax with a 12.5% rate. The UK only managed 9% of tax revenues with a 19% rate.

There are also studies showing that if tax free shopping is allowed for visiting foreigners the UK will collect more tax overall, as it will boost taxation on shop profits and shop employee incomes and on the hotels and other facilities the visitors use. UK revenues have been very sensitive to overall economic growth rates. rising more than official forecasts when times are improving, and producing less revenue than expected when growth falls away.

I noticed in the recent Sunday Times survey of economic forecast outturns the official OBR performed relatively badly in the table for 2022, reminding us how difficult it is for Chancellors to make the right policy judgements when the supporting forecasts can be well off.