

The UK Treasury needs to wake up to the power of those US tax cuts

I read in the papers that the Treasury is busy scrambling around to find more taxes they can put up. If they stopped giving away so much of our money to the EU and stopped trying to find ways to carry on giving away our money to the EU they would not need to worry about where to find the cash. If they fully embraced the idea that lower tax rates often lead to higher revenues we could make more economic progress.

This week the Republicans at last rose to the challenge of tax cutting. They announced a blockbuster package. If it or something like it passes it will increase US growth materially, it will be a boost to the whole world economy, and it will suck business into the USA from higher tax regimes elsewhere.

The Bill includes slashing the Corporation tax rate from 35% to 20%, and to just 12% as a one off to get large US corporations to repatriate profits they have been holding offshore to avoid high rates. It gives a big boost to the average earner by cutting bands of Income tax from 7 to 4, and lowering the tax take on all but the richest. It is costed as providing a \$1.5 trillion stimulus over ten years. In practice I suspect the proposals will collect rather more revenue than the conventional official models predict, but it will certainly be stimulatory in its impact.

We do not need at the same time a budget in the UK looking for new ways to tax small business with extra VAT or National Insurance. We can live without a tax attack on the self employed. We do not need further tax attacks on homeowners. We need to match the US approach and show some enthusiasm for lower tax rates. We need a more dynamic economy, collecting more revenue, which comes from fewer, simpler and lower tax rates.

So much of the UK economic establishment is dominated by endlessly repeating the arguments of the Brexit referendum for no good reason. Instead they need to talk about tax cuts and tax reform, appropriate deficit levels and Central Bank policy. There is a danger the UK will be left behind by the boldness of the US approach. If they carry this package or something like it it will have an electrifying effect on the US economy.