

Corporation tax cuts do not stimulate growth

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The TUC [has launched a new report I have written on corporation tax](#) this morning. As the report says, it:

- * Reviews the history of UK corporation tax, the history of UK mainstream corporation tax rates and the history of UK small company corporation tax rates.
- * Compares movements in UK corporation tax rates with those of a sample set of data drawn from more than 60 other countries.
- * Notes the history of corporation tax yields in the UK in isolation and in comparison to other main taxes, and then reviews forecast trends in these yields.
- * Describes, using examples, the proposed changes in UK corporation tax and the impact they might have on the tax base.
- * Speculates on the impact of the proposed changes on tax yield.
- * Reviews data on the relationship between corporation tax and growth in GDP and average employment rates in the EU15 states and selected other locations.

As a result of this work the report suggests that:

- * There is no current competitive pressure to undertake these tax reforms;
- * The consequence of those reforms will be declining corporation tax yields at a time when increased revenues are needed to reduce the deficit;
- * Large companies will see a disproportionate decline in their tax charges when compared to small companies, creating an unfair competitive advantage for large companies. This will hinder internal tax competitiveness in the UK;
- * There is a significant prospect of there being outflows of profit from the UK as a result of proposed changes in the UK corporate tax base;
- * There will be some disadvantages for developing countries as a result of the proposed changes in the UK's corporate tax base that will harm their prospects of collecting the taxes legitimately due to them.

- * There is little prospect of significant growth resulting from these changes in corporation tax;
- * Consequently these tax cuts represent a poor use of government resources at a time when these are exceptionally scarce.

Evidence is, of course, suggested to support each conclusion.

Why do this now? I suggest it's appropriate for several reasons. First the Finance Bill is currently making progress through the Commons. Opposition to its tax cuts for big business is still possible.

Second, there is a large body of opinion that says tax cuts stimulate growth. I can reproduce that result, but only by including tax haven states. The UK is not a tax haven state so the comparison is simply misleading. I presume no one wants to copy the Irish debacle and no one thinks the UK could behave as Luxembourg has.

Third, squeals that the UK has uncompetitive taxes are heard often but analysis does not support this view.

Fourthly, the fact that massive effective tax cuts are being given to big business (but not small business) now is an issue that has hardly been noted as yet.

Lastly, the UK has to accept that its actions have unforeseen consequences. The abandonment of our residence based principles of tax and controlled foreign company regulation will have serious consequences for some developing countries.

These are issues that need to be on the political agenda and without reports of this sort they won't be.

I am well aware opponents will protest. That's not the point: what I show is that I too can pick data and show that links between tax rates and employment and growth are weak: data in my case selected to ensure that the samples were similar to the UK. Such data cannot prove causal relationships at the end of the day, but it can say associations between data are weak. The relationships I found between tax rates, growth and employment were very weak; well under 10% of all variation in growth and employment could be explained by tax rates. In that case the suggestion is simple: to change tax rates is a very poor way to stimulate the economy.

As ever, the Conservatives are backing the wrong economic policy.

But the error of judgement does, undoubtedly suit their friends in big business.