

Sean O'Grady gets corporation tax very wrong in the Ind...

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Sean O'Grady in the Independent has delivered another of his [spectacularly wild economic comments](#) in response to [my new report on corporation tax for the TUC](#).

My contentions in that report, all backed by evidence are that:

- a) The UK already has competitive corporation tax rates;
- b) The UK small companies rate of corporation tax that is applicable to more than 90% of companies in the UK is way below average in almost all states like the UK. Half of all private sector employees work for companies like this - a fact O'Grady seems not to know;
- c) There is little evidence that cutting corporation tax increases employment or growth;
- d) What evidence there is is very weak - well over 90% of growth and employment is stimulated by other factors - including (quite probably) the beneficial effect of public spending funded by tax.

O'Grady has none of that. He says:

My verdict is "nice try brothers".

What evidence does he rely on to make this patronising and really rather silly comment? Common sense he says - the common sense that apparently says that if billions are parked in Ireland, Cayman and the BVI we should copy them.

Except that these funds are not parked there at all, even in the case of Ireland (as the case of Google reported in the Sunday Times yesterday shows). They're accounted for there. That's very different indeed. There's no money to be made in Cayman and the BVI and almost none in Ireland - as recent experience has painfully shown. Low tax rates don't induce people to move where they trade or where they employ people: they induce people to move where they record their profits. That's something very different indeed. O'Grady should know that. Like most economic commentators he doesn't

though - or chooses to ignore it.

And as a result he gets spectacularly wrong why the French and Germans make such a fuss over this abuse: it's not that this activity takes their business away: what these tax havens do is take away their tax revenues: the very tax revenues needed to support the infrastructure, training, and private property rights that make those profits possible. That's why they're annoyed, because without that tax the business in question is not sustainable, and they know that because unlike us they aren't plagued by the short term thinking of our major corporations. But again, O'Grady does not get that. So he claims WPP moved for tax but let's be blunt, it didn't: WPP moved where it accounted for tax, which is something very different indeed, and why they could also agree to come back so easily.

So what else does he claim? Well:

Also jobs are not the only factor or valid goal of economic policy; firms that don't use much labour esp. in financial services can contribute to output and growth after all.

It's a perverse argument when all states that relied heavily on growth of this sort have suffered so badly.

And he also argues that:

Although there's a lot of beggar my neighbour and free rider activity associated with incentives (tax breaks, subsidies, planning relaxation) for inward investment between and within countries it does work, again as the Irish experience longer term shows very well, or Docklands in the UK, or Spain in the 1980s, though again it is not the sole factor.

No- actually there's no evidence that any such arrangements have ever generated growth; there's just evidence that they have resulted in beggar my neighbour shifts in the tax burden from companies to individuals.

But then he gets really desperate: he says:

Ask yourself what would happen if we raised corporation tax to 50% or 100%. Would that create jobs? So my verdict is "nice try, brothers".

The answer would be "that's so stupid a suggestion no one would do it - and no one is saying they should". We have to remember a good reason for corporation tax is that it exists to ensure income tax is paid - especially when we cannot (because of the way in which tax havens work) identify a great many of the owners of companies who would escape all tax as a result if there was no corporation tax. So the logic of 100% corporation tax rates would only be relevant if we had 100% income tax rates. We don't. I think it inconceivable we will so the logic of the question is not just bizarre, it's crass and unbecoming of a serious newspaper that it be asked to publish it.

But it is incredible that a tax designed to protect revenue is having its tax base decimated, as my report shows; is having effective tax rates for large companies reduced to well below the basic rate of income tax in this country and below the rate corporate charged to small companies and well below international norms, and all on the basis of the unproven logic that this will result in new jobs in the UK.

Ask a simple question - not what would happen in the absurd scenario of 100% taxes that he quotes - but what happens in the real scenario of 0% taxes we can observe? How many new jobs outside accountants and lawyers offices have low tax rates created in Cayman (population 50,000 or less), BVI (23,000 pop), Jersey (90,000 pop) etc? Almost none is the answer. It's because low tax does not create jobs, new investment, innovation or new skills. There is emphatic evidence of this. These places prove it. Low tax is simply associated with states with low GDP, under achievement or failing government or failing economies (note: Ireland). Look at Africa too. The fact is higher taxes equate with wealth and tax works best when rate differentials at particular levels of income are reduced. All the plan to reduce corporation tax rates in the UK will do is increase rate differentials to the advantage of the owners of large companies, but there is no indication it will create any new jobs, at all.

That's what my report shows.

O'Grady shows a complete lack of understanding of tax havens, accounting, corporate migration and the relationships between tax and wealth generation. Shame on him. We did much better than that.

Or to put it another way: I / the TUC hit the nail on the head and all he could was resort to platitudes and abusive commentary dependent on stereotypes to respond to it in the hope that people would not identify the weaknesses in his thinking, which are legion.

Poor effort O'Grady, I say. Try much harder next time to stick to the facts and seek to present an argument. Until then go to the back of the class.