

Corporation tax - the race to the bottom is on

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Vanessa Houlder of the FT made an interesting comment at the seminar we [both spoke at earlier this week](#). She noted George Osborne's [unexpected corporation tax cut of an additional 1%](#) in the budget (at a cost of nearly £1 billion a year) and the claims he made about it, which were, for the record, taken straight from the budget speech, [as follows](#):

The headline rate of corporation tax remains the most visible sign of how competitive our country is.

We've already cut the rate from 28% to 26%.

This April it is due to fall again to 25%.

I can announce today a further cut of one percent — to be implemented right away.

From next month, Britain will have a corporation tax rate of just 24%.

And we will continue with the two further cuts planned next year and the year after.

So that by 2014, Britain will have a 22% rate of corporation tax.

The biggest sustained reduction in business tax rates for a generation.

A headline rate that is not just lower than our competitors, but dramatically lower.

18% lower than the US.

16% lower than Japan.

12% below France and 8% below Germany.

An advertisement for investment and jobs in Britain.

And a rate that puts our country within sight of a 20% rate of business tax that would

align basic rate income tax, the small companies rate and the corporation tax rate.

As she noted, when you get into such an open race then it is virtually inevitable that at least someone will respond. We know that's likely. [Obama has already announced that the US is likely to cut corporation tax rates](#) - 25% is now inked in for many corporations, and [there is speculation](#) Japan may still do so soon. It is therefore only time before Osborne announces yet more cuts in UK rates - with his 20% target in mind.

But he won't stop there. Way back in 2005 Chris Wales, then an adviser to Gordon Brown and an ex-Andersens partner, with £5 million of FTSE money to play with helped set up the Oxford Centre for Business Taxation. As Accountancy Age [reported at the time](#):

Based at the Saïd Business school and backed by £5m-worth of funding from the influential Hundred Group of Finance Directors, the centre has been set the goal of using academic weight, alongside HM Revenue & Customs and business expertise and assistance, to achieve a more competitive tax system for British businesses.

But that wasn't the whole goal. Wales told me personally that 15% corporation tax was the aim. It still is. Bar 2009-10 the UK corporation tax take has been between £40 and £50 bn a year [for the last six years](#). But rates have been in the high 20%s at least in that era.

Osborne gave away £1 billion extra in the budget.

He's going to give away much more if we do go to 15%, as I am sure is the goal. Who is going to pay for that? It will take more than a biut of VAT on a pasty, but it makes little odds: the burden will shift from capital and its owners to the ordinary people of this country. And that's deeply regressive. Just as, no doubt Wales (whose associations with the Labour Party always profoundly baffled me) and the 100 Group plus their deeply right wing friends in Oxford have always wanted, no doubt.