

HMRC now subscribes to La-La Laffer and to the idea tha...

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This budget was notable in that for the first time that I can recall we saw the Treasury subscribe to the Laffer curve.

[As has been shown time and again](#), the chance that this has any impact at the tax rates used in the UK is minimal. The idea that cutting rates can increase tax yields or stimulate economic growth has always been a statement of right wing dogmatic belief for which, like much else in the right wing economic lexicon, has no evidential support. Of course you can supposedly construct maths to support the idea of its existence - but that maths is an abstract from reality critically dependent on the assumptions you make. Unsurprisingly if you assume there is a Laffer effect you can prove there is one. But that doesn't prove there is actually a Laffer curve for any meaningful tax range. It just says you believe there is, which is not the same thing at all.

Now, [at the meeting at the Social Market Foundation I attended this week](#) HMRC director Judith Knott confirmed that HMRC have accepted another key element of right wing tax dogma - which is that companies can't pay tax and only people do. She explicitly questioned as a result why we have a corporation tax.

Well it's an interesting idea. So let's explore it for a moment.

First, imagine there wasn't a Marks & Spencer when you went into a store marked M&S. That's what you're being asked to believe. You're being told M & S and all other companies are just make believe. You're told they're just a bunch of shareholders. Except that's not true. You don't contract with the shareholders. You do contract with M&S. And you do that because there would be no M&S without there being a limited liability company. No one would have taken the risk of creating M&S but for that limited liability. So not only is it not true there is no M&S, the reality is that the company called M&S facilitated something no person would have done. It's real therefore. The claim that company is just an agent for its shareholders is wrong; it's something much more than that, and its limited liability form has an impact far beyond anything that the shareholders would do, so it is an entity in its own right, and not a mere agent. That

makes it taxable in its own right. It has profits all of its own, not due to anyone else that should be taxed - and the existence of retained reserves in almost all companies is sure indication of that fact. Denying this - as Judith Knott did - is simply an excuse not to tax a form of capital that has been captured by the management of these companies for their own gain.

Second, no one knows who a company represents. Most of the time a company has no idea who owns it. Some people own the shares in companies for fractions of seconds. How would we attribute profit to them to be taxed? Others hold their shares through other companies. How far do we have to go to find a person? Others record their ownership in tax havens to seek to avoid or evade tax. Why should we encourage them to do so? And how do we tax ownership where no person can be identified as having ownership rights - as in a discretionary trust? The argument that only people are taxed is simple to roll out - and impossible to apply. Knott should know that and yet she offered this glib explanation when there is in fact one excellent reason why we must tax companies - which is that they are by far the cheapest and most effective agent to tax to ensure that their owners, whoever, wherever and whatever they might be, are taxed to at least some degree on the income they derive from the company.

Knott would, presumably, rather lose the income to tax havens or tax avoidance: that's the only reasonable interpretation of her adopting this trite argument that looks good on a blackboard at the Oxford Centre for Business Taxation and whose real world application is to encourage tax abuse, the shifting of the tax burden from capital to labour and from rich to poor and which will mightily increase the income and wealth gaps; all of them aims I am sure Oxford's Centre is delighted to share. You would not consistently fail to point out the flaws in the argument if you didn't believe in those consequences that have to flow from promoting it if that was not the case.

But it's worrying we're now hearing it from H M Revenue & Customs too. Anyone would think they were beginning not to want to tax Osborne's mates.