

Why the UK's biggest companies did not need a 2% tax ra...

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Amongst the few items in last month's budget not, so far, subject to retrospective Tory regret about the incompetence in the thinking behind it was the [2% cut in the large company corporation tax rate](#) introduced for this current financial year. 1% of this had already been scheduled in earlier budgets, add another 1% was added in March.

Perhaps of all the budget measures this though was the most unnecessary and economically incompetent. [As the Observer points out this morning](#), the Ernst & Young Item Club now estimate that Britain's large companies are sitting on a cash pile that between them that amounts to £750 billion. To put that enormous number in context, it is enough to fund the budget deficit from 2008-09 to 2014-15 inclusive (£761 billion in all on current forecasts). In fact, that of course is how that deficit is being paid for, at least in part. Rather than invest large companies are simply lending their cash to the government. And they have so much excess cash at present that the sum in question amounts to almost 50% of current GDP.

There are two points to make about this. The first is the very obvious vote of no confidence that this represents in George Osborne's economic strategy. Businesses are not investing here because they have no faith in the prospect of economic growth which he said he can deliver, but which they do not believe.

Secondly, and a lot more importantly, when large businesses are sitting on this amount of cash then there is no way on earth that they are short of money to fund any investment that they want to undertake. Far from it, they are awash with the funds needed to invest, but are refusing to undertake it. As a consequence a cut in the corporation tax rate to encourage investment will achieve no such goal. It is not the current tax rate that is stopping big business investing in the UK, it is the lack of confidence big business has in George Osborne that is stopping that.

In that case the consequence of this tax cut is that it will simply add to the cash pile of large companies, [giving them more than £400 million this year to tuck away](#) (page 50), and much bigger sums in years to come, none of which, however, they have any intention of investing at this point of time.

The net consequence of that is disastrous. First, it increase the wealth gap in the UK by giving away a wholly unnecessary tax cut to big business which is largely owned by the top few percent in society. It also denies the government essential revenue that is needed to close the deficit. At the same time it increases the savings gap which we have in our current economy, where the massive growth in net savings since 2008 without any matching increase in investment is one of the major causes of our economic crisis, the rise in unemployment, and the despair that most people face.

It's another massive Osborne error.