

Funding the Future

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I have [already mentioned](#) the EREP publication '[The Cracks Begin to Show: A Review of the UK Economy in 2015](#)' this morning. This is my piece on tax included in there. The rest is well worth a read:

Taxation naturally lends itself to annual review: much of it is assessed on the basis of annual income. Tax policy is not so neatly delineated: when it comes to policy the issue is usually one of trajectories and their convergence and divergence, plus the odd significant seachange that indicates major changes in direction. The Coalition government established a new direction for UK tax on its election in 2010. The concentration of power in the hands of the Conservative Party in 2015 has accelerated the process of change that was seen over the previous five years.

The post-election 2015 strategy made three things clear. The first is that tax is at the core of whatever might be called the UK's industrial strategy. In 2010 the government declared that 'the UK was open for business' by starting to cut the UK's large company corporation tax rate. In 2015 this downward trajectory continued with announcement of plans for the rate to be cut to 18% - which is less than the basic rate of income tax. Coupled with changes made over the last five years to reduce the scope of UK tax to ensure that no profits arising outside this country need be taxed here, this reinforces what many have felt for a long time, which is that it is the government's plan to turn the UK into a tax haven.

It is doing that by cutting the tax rate. It is also doing that by encouraging international tax competition. This represents the second clear strategy that emerged this year: tax is apparently to now be used to exacerbate economic inequality. In the process the UK government has become deeply antagonistic towards the international process run by the Organisation for Economic Cooperation and Development to tackle what is called 'Base Erosion and Profits Shifting'. Nowhere was this clearer than when in March 2015 the UK created the Diverted Profits Tax (or 'Google Tax') that directly undermines internationally agreed measures. It is also widely thought that the UK is a major opponent to EU plans to create tax harmony. That is unsurprising when it continues to support a range of captive tax havens in the Channel Islands and elsewhere.

This policy of tax competition has, however, taken on a new guise domestically. The

granting of corporation tax setting powers to Northern Ireland and Scotland opens the possibility of a domestic race to the bottom in profits taxation, and the extension of this policy to business rates, that will now be set by local councils with (in most cases) downward-only adjustments allowed, does much the same thing. The intended impact is obvious in all of these policies. The aim is to reduce the tax paid by business and capital and to shift it on to working people. Office for Budget Responsibility forecasts issued in July and November confirm this plan.

Starving HMRC of resources reinforces the likelihood of this outcome, and represents the third clear strategy, which in this case is designed to reinforce the shrinking of the state. First, a shrunken HMRC will not have the resources to challenge businesses on their tax affairs. Second, a tax authority that cannot be accessed because people cannot, quite literally, get through to it is one that has a licence to make mistakes. Thirdly, newly 13 announced plans to 'digitise' personal and small business taxation undermine the personal relationships needed to make tax work and clearly signal an era when small business will be expected to pay its tax bills much sooner, which will suck them of much needed capital whilst also, perversely, encouraging more activity in the shadow economy and so an increasing tax gap that denies the state the resources needed to fund its social programmes. At a time when large companies have personal relationships with HMRC officers a clearer indication of the existence of a tax system in which everyone is very clearly 'not all in it together' could not be given.

Tax, then, has come to the forefront of politics. Jeremy Corbyn made my work on the tax gap part of Corbynomics for that reason, using it to indicate that other options are available in this area. Demands in the EU Parliament for action on tax abuse in December 2015 are a direct challenge to the Commission that seems likely, along with the UK government, to implement as few as possible of the OECD's recommended measures to tackle international tax abuse.

It is said that tax need not be taxing but the reality is that tax does, in very many ways, provide any government with the best opportunity to shape the society for which it is responsible and to which it is accountable. If that is true, then I believe that this government is saying it is on the side of the wealthiest and big business and it has little care for the rest. It's a tough message, and one that has to be challenged before the change it is promoting becomes deeply embedded in an even more divided society in 2016 and beyond.