

Corporation tax cuts have failed the UK

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The [Guardian reports](#) this morning that:

FTSE 100 companies paid tax equal to 23% of their profits last year, almost a quarter less than in 2010, according to figures from accountants UHY Hacker Young.

Falling corporation tax rates and the use of allowances have driven down the average effective tax rate paid by the UK's biggest firms, the company said, and the rate looks set to drop further as more cuts come into effect.

Clive Gawthorpe, partner at UHY Hacker Young, said FTSE 100 firms had seen tax bills "dwindle".

"However, this is less the result of rampant aggressive tax avoidance and more to do with changes to tax rates and reliefs, as well as profitability coming under pressure in some sectors such as pharmaceuticals."

Go to the Guardian for more on the story, but the key point is the last paragraph. I accept that rampant aggressive tax avoidance has not increased since 2010 and so is unlikely to explain this change. So, it comes down to policy.

In 2010 George Osborne announced that a low rate corporation tax regime aimed at multinational companies would announce that Britain was 'open for business'. He has delivered reforms that have massively reduced tax paid, including by turning a blind eye to all the income UK groups make outside the UK, which has encouraged tax haven usage and transfer pricing abuse. And we see the result: big tax breaks for big business, but not smaller domestic ones.

The policy is massively flawed for three reasons. First, it creates an unlevel playing field for big business which competitively harms UK based and smaller businesses.

Second, it shifts the burden of tax from big business onto small business and individuals; a point I have made here, often.

But most important, thirdly the policy simply has not worked. Large companies have not brought jobs to the UK. Falling corporation tax rates have not boosted real wage rates as those proposing this policy (bizarrely) said it would. And the beneficiaries of this largesse are not investing: they are instead sitting on increasing cash piles gifted to them by the state.

As policy failures go this one is epic. And continuing.