

Thoughts on Trump's US corporation tax cut

Published: January 16, 2026, 4:25 pm

The US Treasury Secretary has suggested that the US is going to offer companies the biggest cut in their tax rate in that country's history. The rate will be cut from 35% to 15%. But, as anyone who has some knowledge of tax knows, the tax rate is not the only factor in determining the tax that a company pays. The tax base has an enormous impact as well.

The details of the US tax reform are still vague. We only really know the new headline rate and the fact that there will be a special low rate for profits repatriated from offshore. Five profound messages do, however come from this.

The first is that corporate lobbying, which demanded both these changes, has been rewarded. I think we can be sure less tax will be paid as a result.

Second, the repatriation profit rate proves that offshore tax abuse has provided a permanent reward to the major corporations that have undertaken this activity.

Third, we know that when George W Bush permitted such a low tax on repatriations during his time in office it did not promote investment or growth. It did instead let profits flow to shareholders by way of dividends or share buy backs at low rates. I am sure the same thing will happen this time.

Fourth, whatever anyone thinks about the Laffer curve we know that cuts to rates of around 35% reduce revenue. This has unambiguously happened in the UK. If adjustment is made for the growing number of small companies in the UK corporate tax revenues lag far behind growth in all other taxes because of falling rates. The US will have to learn this lesson the hard way.

Fifth, this means that Trump has either announced a big increase in the US deficit or he has hit those dependent on the US Federal government to cuts. These things are not neutral.

But there are other consequences too.

This encourages tax competition, and that is bad news for the world at large.

And this does not mean US companies will now pay 15% tax. They have not been paying 35% when that has been the rate. A rate around 23% has been more commonplace. There is now no reason to think they will pay 15% either. In fact if the differential remains the rate will be very low.

Finally, do not also think that this move is without ramifications for the UK. The current government has wanted to claim the lowest corporation tax rate in the G7. Expect a cut here then. It's not only in the US then that wealth would be flowing upwards as a result of this decision.