

Why Corbyn is right to increase corporation tax

Published: January 13, 2026, 12:46 am

Jeremy Corby has said he will increase corporation tax from its current 19% for all companies to 21% for small companies and 26% for larger companies if Labour wins the election. Let's leave probabilities aside and discuss the merits of this idea.

The logic of both proposals is sound. For small companies the case is that it makes no sense at all to have a corporation tax rate below the basic rate of income tax: all that becomes is a blatant invitation to avoid tax. This abuse is already costing up to £4 billion a year according to the Office for Budget Responsibility: I suspect it may be more when the full national insurance impact is taken into account. In that case the 21% rate is almost certainly too low: I would have gone higher to beat abuse and win back more of the lost billions, which is exactly what is required.

Dealing with larger companies (of which there are vastly fewer) the situation is more complex. First, 26% is not high: it is close to the EU and OECD averages when adjusted for our current low rate.

Second, it's not that long ago we had these rates.

Third, there is no evidence at all that cutting the rate has brought jobs, growth or new corporation tax revenues to the UK (the rise in revenues is very largely because of the rise in the number of small companies and broad based recovery in profits from banking and elsewhere and not because of new inward investment driven by tax).

Fourth, we know that business itself did not lobby for the low corporation tax rates now on offer.

Fifth, we know business says tax is low in its considerations when real business is being relocated as opposed to profits being relocated - which is the type of abusive activity Ireland attracts and which has rendered its national accounting meaningless because so much of its GDP is profits simply flowing through the place leaving almost not a trace bar some fees for bankers, lawyers and accountants on the way.

Sixth, and most important, I argue low tax rates and low capital allowance rates are

counter productive and rarely help anyone but banks. This needs explaining.

Right now, and I summarise, with a corporation tax rate of 19% and a 20% allowance on capital spending a year a large company in the year that spends £100 on capital equipment gets a cash rebate of $£100 \times 19\% \times 20\% = £3.80$ in the year it spends the money. Tory plans to reduce the corporation tax rate to 17% reduce this to £3.40. That, to be candid, provides no incentive for investing at all. This is a tax system for rentiers and bankers. It does nothing at all to encourage any activity in the real economy where people work and value is created.

Now change the tax rate to 26% and offer 100% first year allowances and the allowance is worth £26, or near enough seven times more.

This will encourage investment.

That will create growth.

The investment will increase productivity.

That increases wages.

And growth, again.

And so future tax revenues as a result.

In other words, increasing the corporation tax rate kickstarts the economy in a way that a corporation tax cut can't. And it pays for itself.

So Corbyn has a plan that firstly beats avoidance, second raises revenue, thirdly can encourage investment and fourthly delivers growth. None of those come from the Tory plan.

On this occasion he is onto a winner.

And he's the one talking economic sense.

Give it two years and it will be a Tory plan. But right now they'll just ridicule it. Which will be a loss to us all.

Finally, let's talk education. I may be biased, but UK universities provide us with a real competitive advantage and a massive rate of return in terms of relative skills. Redirecting money to this sector whilst leaving those departing it debt free (or with reduced debt) would create a big economic stimulus.

Corbyn has a policy that is coherent in that case from beginning to end. And it is appropriate I say so.