

# Given that large companies are paying less tax the time...

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The news that large companies are enjoying a steady decline in their real rates of tax, [revealed by the FT](#), comes as no great surprise. As I [have commented this morning](#):

*The fact is that despite all the efforts to end international tax abuse by multinational corporations a Faustian pact has been made between these entities and governments, including that of the UK. As a result whilst measures have supposedly been taken to tackle abuse, tax rates have come down rapidly.*

In this context the Labour Party promise to 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 makes sense. 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.

It's time for the debate on corporation tax to move to rates.

And it's time to talk about using an [Alternative Minimum Corporation Tax](#) to support that rate.

The game playing has to end.

*NB: I am aware some do not agree with the suggestions on 100% capital allowances:*

*behaviourally the evidence is that they work for the businesses that are likely to invest, which are the ones that matter.*