

Tax reform of the day: make the UK main corporation tax...

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As I [mentioned yesterday](#), in my book 'The Joy of Tax' I argued that tax was the single best instrument available to any government to shape the society for which it was responsible.

And the fact is that any incoming progressive government will face massive social challenges. Leaving aside green issues, the biggest of these will be the income and wealth inequality that is crippling our society and leaving many in poverty. We need tax policies to help tackle these. This is the second in a series on that theme, and suggests higher taxes on income derived from capital.

Make the UK main corporation tax rate 25% with a small company rate 20%

The current UK corporation tax rate is 19%. It is planned to reduce to 17% in 2020. This rate is well below the Organisation for Economic Cooperation and Development and European Union averages, which are both around 25% when broadly equivalent countries are considered. It is also less than the basic income tax rate of 20%. This low tax rate creates a number of perverse incentives. First, it encourages the diversion of any income into a company to save tax. No tax system should undermine itself in this way. Secondly, it encourages increasing wealth inequality as those with wealth can let it accumulate at low tax rates. Third, it reduces the impact of fiscal policy as tax incentives and allowances have limited value. Most importantly though, there is no evidence that the reduction in UK corporation tax rates has encouraged [investment](#) or **job creation, and business appears unenthused by such low rates. A main corporation tax rate at the OECD average does then make sense. If it was thought necessary, a small company rate set at the same rate as the basic rate of income tax would help remove many incentives to tax avoidance.**