Reform Scotlandâ€™s corporation tax proposals are ...

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A think tank called Reform Scotland has issued a report this morning entitled ‘Growing Up: A Corporation Tax For Scotland’.

There are things you need to know about Reform Scotland. The first is that it appears to be heavily influenced by the finance sector in Scotland. The second is that it very clearly has close associations with Charlotte Street Partners, which will ring alarm bells with those familiar with Scottish independence politics.

The new report shows both influences, combining the usual economic incoherence of the finance industry when it comes to tax with the type of economic policy for Scotland that those familiar with the Growth Commission might expect. What it suggests is that Scotland should (and I quote in full before discussing quite how inappropriate these policies are):

Create a corporation tax policy designed to encourage the creation of more businesses and which contributes towards a policy environment aimed at growing the number of entrepreneurs and higher earners in Scotland.

Once the tax has been devolved, the opportunity should be taken to design a policy that can attract more entrepreneurs, new businesses and, ultimately, more top rate taxpayers to Scotland.

One scheme that could be considered is to offer a zero rate of corporation tax for new businesses setting up in Scotland for a set period after they begin to earn profits.

Corporation tax is charged on profits (revenue less costs) and many new businesses may not make any profits to begin with, but a zero rate could be offered for a period once profits are being made. Such a policy would have no cost because it is applied only to new businesses setting up in Scotland. However, it is important to recognise that although a business may not pay corporation tax for a period, it contributes in other ways to public revenue, particularly through employment.

Such a policy would send a clear message that Scotland is open and a place to do *business, as well as encouraging innovators to set up here and lay roots for the longer term. Further, policies could be designed to aid particular sectors, as well as to help grow existing businesses.*

I have read the report. It is a very strange document.

First of all it is paranoid about the fact that Scotland has a high level of social security payments, without ever asking why.

Second, it is as paranoid about the lower number of businesses per head of population in Scotland when compared with the rest of the UK without ever asking why England's data is so heavily distorted by the machinations of the finance industry that generates vast quantities of apparent businesses that are just mechanisms for regulatory abuse.

Third, it thinks that government spending is directly financed by tax, when as a matter of fact this is not true as all serious economists now agree.

Fourth, it does not stop for a moment to wonder why Scotland might be so much better off without the income and wealth disparities that now blight so many countries, including England.

Fifth, it thinks that without more higher paid people (presumably in the financial services sector) there will not be the chance for Scotland to progress.

Sixth, it does not note that independence would be the solution to this, since Scotland could then have its own financial services centre and genuine civil service and other such activities, now almost all lost to London.

In summary then, the economic underpinning of the report reflects deeply flawed logic in almost all it says before ever bgetting to the issue of corporation tax.

On that issue the report assumes that because Northern Ireland has devolved corporation tax powers (albeit that it has never used them and cannot until Stormont sits again) so too should Scotland. This is a false comparison. If there was a justification for devolved corporation tax powers to Northern Ireland (and I have argued for a decade that there is not) it was to remove a border with Ireland, constant with the Good Friday Agreement. No such argument applies to Scotland. So the argument fails all logic tests.

Reform Scotland, however, clearly believe that tax at 19% (which is the UK corporation tax rate) is a major impediment to small business development. There is not a shred of evidence to support this. But they want it anyway.

And, what is more, they claim this is ‘costless’ bevcause they say it would only apply to new small businesses. At this point it is reasonable to ask how much they know about tax.

That is because the evidence is that when the whole of the UK offered a 0% starting rate of corporation tax it encouraged a wave of small business incorporation. I stress, these were new business incorporations, they were not new small businesses. The reality is that the vast majority of genuine small businesses not already set up for tax abuse purposes (as so many so called consultancies that disguise the reality of an employment are) are in fact unincorporated. This pays in all sorts of ways for most genuine small enterprises. But if they’re offered a 0% tax rate you can be sure they’ll incorporate in droves. And they’ll be new companies. So they will qualify for the new rate. And they will avoid income tax as a result.

I can’t tell you how much this will cost precisely, because no one knows. I can assure you that there will be a significant cost. It is already thought tax motivated incorporation costs the UK as a whole about £3 billion a year now, meaning £200 million is likely in Scotland. It is reasonable to think a loss considerably in excess of this would result from the Reform Scotland plan.

So what Reform Scotland are actually doing is promoting a giant tax avoidance scheme that will be profoundly costly and will have to be rapidly unwound as the UK scheme from Gordon Brown has to be within a couple of years as it was such a mistake.

I have recommendations for Reform Scotland

First learn about economic realities.

Second learn about how tax really works.

Third do your research.

Fourth, don’t promote tax abuse: it really does not look good.

As proposals go, anywhere, in this election period this has to be one of the worst so far. This so called think tank really does need to think again.