Corporate tax cuts in UK save big business billions of pounds

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Tax cuts being implemented by Theresa May's Conservative government will save big business billions of pounds, as austerity measures continue to pauperise millions of workers. Corporation tax will be slashed from its current figure of 19 percent to a 17 percent rate effective from April 2020.

HM Revenue and Customs (HMRC) estimates that the planned cut to 17 percent would mean a revenue shortfall of £5.8 billion in the year 2020-21 and £6.2 billion the following year. The estimated 1 percent rise in corporation tax would produce £2.8 billion to £3.1 billion a year for government revenues, so a 2 percent cut in the tax would mean a loss of around £6 billion a year to the public purse.

The proposed cut in corporation tax to 17 percent was first announced in 2016. According to Adam Corlett of the Resolution Foundation, it was initially estimated a 2 percent reduction in corporation tax would mean a reduction in revenue of around £2.5 billion, but the new HMRC analysis shows it will be double that.

Corporation tax brings in around £60 billion a year in revenue for the government. According to analysis by the Institute for Fiscal Studies, previous cuts in corporation tax led to a reduction of around £16.5 billion a year in revenue, between 2010 and 2016.

At 19 percent, the corporation tax rate is already the lowest among the G7 leading economies. Its reduction to 17 percent would bring it into line with corporation tax rates in countries such as Singapore (17 percent), Taiwan (17 percent) and Switzerland (17.77 percent).

The rate of corporation tax has been steadily reduced over four decades. Set at 52 percent when Thatcher came to power in 1979 it was down to 34 percent when she was forced out of office in 1991. Over the decade from 2008's global financial crash, the rate fell by nearly a further 10 percent. By 2008, the rate had fallen to 28 percent and then to a record low of 24 percent in 2010 under Tory Chancellor George Osborne. The following year, Osborne boasted that his latest budget laid the basis to establish Britain as the "most competitive tax system in the G20."

UK Prime Minister Theresa May confirmed her government's intention to reduce corporation tax to 17 percent when speaking in New York in September last year.

Commenting on May's speech Liz Nelson, director of the advocacy group Tax Justice Network, said, "Corporate tax cuts carry multiple and diverse costs that hurt national welfare, and cause immense leakage: a large portion of corporate tax cuts flow to foreign shareholders. Nor do corporate tax cuts generally attract much useful investment either. They tend to attract unproductive activity and profit shifting, avoidance nonsense: the least useful stuff."

Many multinational companies arrange their affairs to severely minimize the amount they pay in corporate tax. A *Daily Mirror* article January 31 showed how Internet retailer Amazon paid just £62 million in corporation tax in the UK over a 20-year period. This was on revenues of £7 billion earned in the UK over that period. This means a less than 1 percent rate of tax. It noted this amount for the 20-year period was less than major UK retailers such as Marks and Spencer pay in a year.

The *Mirror* noted that "for most of Amazon's 20 years here, the money it gets from its millions of UK customers has gone directly to low-tax Luxembourg. Under pressure, the company voluntarily altered its structure in 2015. Since then, its retail sales are still going first to Luxembourg, then return to an offshoot here, on which any profits are taxed. Amazon refused to reveal how much corporation tax this business has paid. However, it said Amazon EU Sarl, the company's European arm, paid £48 million in corporation tax across five countries, of which only one was the UK."

The coffee chain giant Starbucks similarly paid just £5.9 million tax in the UK on a turnover of £213 million for the year ending October 2017, an effective tax rate of only 2.8 percent.

This is the new normal among corporations. In 2016/17, HMRC (tax department) calculated, "The estimated total tax gap for Corporation Tax was £3.5 billion in 2016-17 (£3.4 billion in 2015-16). This equates to 10.6 percent of the overall tax gap in 2016-17." The tax gap is the difference between total taxes owed to the government and the amount received.

In 2016, four of the top 10 companies listed on the Financial Times Stock Exchange paid no corporation tax at all. A quarter of FTSE companies avoided taxation by locating subsidiaries to tax havens recognised by the UK. This increases to 98 percent of such companies if a stricter US definition is applied.

A briefing paper, "Public Good or Private Wealth," released in January this year by the international development body Oxfam, highlights the global impact of tax regimes favouring the rich.

Oxfam notes, "There is a growing consensus that the wealth of individuals and corporations is not being adequately taxed, and instead taxes are falling disproportionately on working people. For every dollar of tax revenue, on average just 4 cents are made up of revenue from wealth taxes." This has occurred at time when the wealth of the super-rich has grown to a record level.

The briefing continues: "In rich countries, the average top rate of personal income tax fell from 62 percent in 1970 to 38 percent in 2013. In developing countries the average top rate of personal income tax is 28 percent. In some countries like Brazil and the UK, the poorest 10 percent are now paying a higher proportion of their incomes in tax than the richest 10 percent. … The super-rich are hiding $7.6 trillion from the tax authorities. Corporates also hide large amounts offshore. Together this deprives developing countries of $170 billion a year."

HMRC recently released figures on the amount of tax relief awarded. While in theory tax relief is supposed to provide help to struggling households or encourage economic growth, an analysis of the figures shows the richest people benefitting most from such relief. The cost of tax relief to government revenues was a record £164 billion last year.

Analysis by the Resolution Foundation noted that "these reliefs, which amount to significantly more than the entire health budget [£125 billion in 2017/18], are the equivalent of almost £6,000 per household in the country. But these reliefs do not benefit all households equally. … While some reliefs benefit almost all families, others see very large gains going to very small numbers of people. The Foundation notes that the average individual gain from agricultural or business property reliefs on Inheritance Tax was around £270,000, while the average gain from Entrepreneurs' Relief was £50,000."

Commenting on the figures, Robert Palmer of the Tax Justice Network said, "Many of these reliefs are simply giveaways to companies and the wealthy. HMRC rarely looks at whether they are good value for money and are actually doing what they are meant to."

What is described in these reports is a staggering transfer of wealth from those at the bottom to those at the top at an accelerating pace.

These giveaways to big business would continue were a Labour government under Jeremy Corbyn to come to power. In its 2017 general election manifesto Labour called on "large corporations to pay a little more while still keeping UK corporation tax among the lowest of the major economies."