Global Counsel

British business: political piggy bank?

Blog post by Head of UK Leo Ringer, 21 June 2018

In October 2016, UK Chancellor Phillip Hammond was reportedly considering slashing the UK's Corporation Tax rate to 10%, as part of creating a low-tax post-Brexit UK economy. Tonight, he will warn us that "everyone will need to pay more" to fund Britain's future. In particular, figures from across the political spectrum are eyeing corporation tax increases as a way to fund signature political commitments. British business risks going from economic arrow tip to political piggy bank in twenty short months.

Labour leader Jeremy Corbyn's position is clear: businesses will have to contribute around £40bn more over five years to meet his expansive fiscal agenda, accounting for around 80% of his total tax rises. The importance of this revenue to funding Labour's spending commitments makes it an immovable part of the party's policy platform. Tax rises could also be enacted swiftly, through an emergency Budget and implementing legislation in the months after an election.

It is also electorally attractive: while polling suggests that the majority of young people do not support the idea of paying more taxes to fund public services themselves (unlike older voters), putting the burden on business allows Corbyn to deliver the best of both worlds for his core demographic. There will be many within the Labour leadership who believe that the louder the cries from business, the greater the electoral appeal of the policy.

The Conservative position is less clear, and shifting. Number 10 may have briefed over the weekend about the end of austerity, but that is not the Chancellor's view. A scheduled extra cut in the headline Corporation Tax rate to 17% in April 2020 is now in doubt as he looks for ways to back-fill Theresa May's NHS funding commitment. Suddenly, 19% looks the more likely rate from 2020 – almost double the 10% floated in late 2016. That would give Phillip Hammond around an extra £2.5bn per year to play with versus a rate of 17% - not pocket change, but far from the £20.5bn annual hole created by the NHS pledge.

Committing to cut the corporation tax rate has been a talisman for the political class demonstrating its "commitment" to the UK's economic competitiveness. Stepping off the downward escalator would be as significant as a political signal to the business community as it would be a fiscal challenge. It creates the risk that businesses become the piggy bank of choice as politicians attempt to outbid one another's spending commitments.

To what extent can the UK business community avoid this fate? The combination of the national living wage, the apprenticeships levy and a spike in business rates bills are certainly squeezing corporate taxpayers. But stepping back, on current plans, the overall proportion of taxes paid by business, as opposed to households, will be the same in 2022/23 (21.0%) as it was in 2016/17, and lower than a peak in 2019-20 of 22.4%. Even allowing for a 19% corporation tax rate (as opposed to

17 %) would only increase the 2022/23 figure by 0.2%, to 21.2%[1]. This will make it hard for the business community to argue against paying more tax on the basis of its overall share of the tax burden.

Instead, employers should take the chance to create a debate about the future of business taxation more fundamentally. The plight of bricks and mortar businesses and the rise of digital suggests that business rates are unsustainable in the medium term. The substantial losses incurred by tech firms for years, even decades, signals that taxing corporate profits is becoming a niche sport. And the growth of the 'gig economy' and the accompanying debate about labour market taxation underscores a need to rethink how businesses and their staff (employees, workers, or otherwise) each contribute to the exchequer.

All of these changes can be used to question the sustainability of the business tax system in its current form, including the increasingly disproportionate burden it is placing on some types of business. This in turn can provide the basis for a discussion about what needs to change at a structural level to ensure the system remains fit for purpose as the economy evolves. Without this, the debate will continue to focus simply on how much is paid at a headline level. In turn, politicians will continue to regard business taxation as a piggy bank that can be raided with little risk, economic or political.

[1] For the purposes of this analysis, business taxes include: employers' national insurance, corporation tax, business rates, apprenticeship levy, soft drinks levy, diverted profits tax, aggregates levy, climate change levy. This is not perfect. For example, businesses bear some irrecoverable VAT and contribute to other taxes like fuel duty and air passenger duty, but there is no reason to suspect that their proportionate contribution to these taxes, as against households, will change significantly. Additionally, sector-specific banking taxes are excluded to avoid distorting the data for the business community in general.