TAX BRIEFING NOTE
CORPORATION TAX

JANUARY 2023

What is it?

Corporation tax is levied on the profits of companies. It was introduced in 1965 and replaced the practice of taxing companies on their income as if they were real people.

The main rate was initially 40 per cent before rising to 52 per cent. After many years of stability, the rate was steadily cut between 1982 and 1991 to 33 per cent. Another rate-cutting period began in 2008 when it was reduced from 30 to 28 per cent. It is now 19 per cent and is scheduled to rise to 25 per cent in April 2023. A small companies rate (for those with profits under £300,000) set between one and two fifths lower than the main rate existed until 2015, when the main rate fell to match the small companies rate of 20 per cent. Along with the increase in the main rate to 25 per cent, a small companies rate of 19 per cent will be reintroduced in 2023 for those with profits of up to £50,000. A tapered rate for profits between £50,000 and £250,000 will also be put in place.

What's the problem with it?

Complexity

The explosion of tax complexity in recent decades owes much to the conceptual difficulties with trying to accurately attribute and therefore tax value creation in an increasingly globalised and information-driven economy. When corporate profits arose largely from the manufacture, distribution and retail of goods, usually in the same country, allocating them was relatively simple. But the well-publicised tax affairs of Starbucks UK with coffee grown in Africa, bought in Switzerland, roasted in the Netherlands and sold under a royalty to the US company illustrates how ill-suited corporation tax is to a modern, globalised economy. Few of these stages have tradable prices, hence the need for complex 'transfer pricing' rules to determine the pricing to transfer value between linked companies. The system is riddled with rules designed to patch up fundamental flaws like this.

Efficiency

Profit is a measure of how efficiently a company operates. The value its operations provide to shareholders, measured in sales less the value consumed in costs, not only provides investors with income but also serves as a measure of efficiency and waste. Taxing profits weakens this measure and weakens the incentive for investors to manage companies well.

Investment

The difference between taxing profits and taxing distributions is investment. As the long-term source of growth, investment is the last thing the tax system should target.

What should be done?

1. Abolish corporation tax and tax distributed income instead (see *The Single Income Tax*).[1]
2. In the meantime, cut corporation tax to 10 per cent while raising dividend tax rates.

[1] Heath et al, *The Single Income Tax*, 2020 Tax Commission, 2012.