

No windfall taxes

This is the article the Telegraph asked me for on Friday:

I was happy to vote in support of the government opposing Labour's windfall tax plans when they put them to Parliament. Ministers were right to say then that windfall taxes make the UK a less attractive place for business to invest. They introduce a more unpredictable element into planning a long term business investment.

It is particularly strange to single out the production of oil and gas from domestic sources for such a tax. After all surely the government want to cut carbon dioxide output which we do by collecting and using our gas instead of importing foreign gas in LNG tankers from abroad. LNG imports means twice as much carbon dioxide for each unit burned. We already tax producing energy at home at double the rate of other business activities so it has an inbuilt windfall tax for the government. That should be another reason why we want to maximise home production and cut out imports. Why pay all that production tax away to Russia or Qatar when we could have it to pay for the NHS? If we produce more energy here we also have more better paid jobs, a further source of extra tax revenue as the Treasury taxes the salaries and then taxes the spending of those who earn the money. The government should actively be speeding and licencing more North Sea output and new fields to replace imports for green reasons, to raise more revenue and create more good jobs.

There is a wider point of political importance. Conservatives believe that free enterprise and the market place are the right answer for the supply of many of our needs from bread and water to energy and clothes. The private sector innovates, offers great customer service, gets rid of unsuccessful or poor quality ventures and finances itself without recourse to tax revenue. In 2020 the large oil companies lost huge sums as demand for their products collapsed with lockdown. None of us thought the taxpayer should subsidise them. Shareholders took the hit. Two years later those same oil companies are making high profits on oil and gas production in the UK which will smooth the shareholder returns a bit after the bad year. The Treasury will take 40% of those profits. Those same companies like BP that also had big interests in Russia have just lost far more on their Russian write offs than they are making on the North Sea output. BP's first quarter figures were a huge reported loss overall. It's a reminder of what a risky business it is.

I urged the Chancellor to have a second package of measures this spring. I am glad he came to the view that he had not done enough to offset

the recessionary forces unleashed by such a large hit to real incomes. I urged him to give back the extra tax revenue he is collecting on oil, gas and electricity. His Vat receipts on energy bills will rise 50%, his taxes at the petrol and diesel pumps are well up, and his North Sea oil corporate tax is surging. This windfall tax rise should be given back to help people afford the dearer food and energy. I also urged him to give it back by a combination of increased Universal credit to help those hardest hit, and to offer some tax cuts. If he had cut the taxes we pay on domestic energy and at the pumps his measures would have nudged inflation down a bit. The higher inflation goes, the bigger the future costs to the government as they index payments to the new rate. Instead he chose to give it back through one off payments which will not reduce the cost of living at all.

The more of the money he claws back in extra tax payments elsewhere the less impact the givebacks will have on helping growth and avoiding too sharp a slowdown. The Bank of England expected the economy to stall next year before the measures based on the impact of the income squeeze and their own monetary tightening with dearer mortgages. The Chancellor needs to bear down on inflation more whilst at the same time assisting growth. Growth means revenue grows faster and the deficit comes down. Past governments that have caused or allowed recessions have had ballooning deficits as revenue falls and public spending rises in a slump. There needs to be a big investment led boost to the economy as we need more capacity of many kinds – more home produced energy, more home grown food, more home landed fish, more home manufactured technology. This requires low corporate taxes, a stable approach to taxing profits, and government regulatory, procurement and licensing policies which assist capacity building at home. Putting in better first year allowances for making an investment does not offset the damage of higher rates of tax on all the years the investment is working, and does not compensate for the threat of windfall taxes if you are successful. The Chancellor should live his brand as the low tax enthusiast.