

Tax cutting governments

As a young man I was Economic Adviser to Prime Minister Thatcher during her middle period. It was good to work with a tax cutting government. We set out to prove that lower rates of tax on income, work and investment generate a larger economy and more tax revenue. We went for growth.

Over the Thatcher years as a whole the standard rate of Income tax was cut from 33% to 25%. The top rate of Income tax was cut from 80% to 40%. The investment income surcharge of 15% was removed completely. These measures led to a large increase in total income tax take. They also led to the richer taxpayers paying more tax in real terms and paying a larger proportion of the total Income tax take. Only a very jealous socialist could legitimately complain. Anyone else was invited to see that lower income tax rates delivered more growth and more money for public services, and led to the rich paying more as a proportion. As we regularly stated, the rich stay and pay, they invest and work more when they keep more of the earnings. Those on lower incomes needed tax breaks to boost their spending power and paid less tax.

It is true we took over from an extreme socialist position under the previous Labour government. Charging 98% tax on the richest people with investment income was a good way to send them offshore. 1970s UK was characterised by the so called brain drain, where everyone from successful entrepreneurs to popular bands and singers based themselves abroad to escape the tax net. Ending the penal rates let them come home, to be joined by others who found the UK attractive again as a place to work and invest. The Thatcher government also cut the main rate of corporation tax substantially and abolished various smaller taxes entirely.

Today I am pleased to hear the current Chancellor praising past glories and expressing enthusiasm for tax cutting agendas. So far he has not cut the Income tax rate, and has set out a substantial rise in the corporation tax rate. He says he will cut the Income Tax rate from 20% to 19%. This is a long way short of taking it down from 33% to 25%. It also has to be seen against the background of the introduction of the social care levy which offsets some of the putative cut in the Income tax rate. The total tax rate rises from 33% when he took office to 36.2% (total tax as a proportion of national income). It will take some bold moves on cutting Income tax and Corporation tax rates to grow the economy enough to get a decent tax cut.