

## [How to abolish corporation tax for \(nearly\) nothing](#) [1]

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I'm glad to see that the Chancellor intends to close tax loopholes by [simplifying the tax code](#) [3], but this must be accompanied by reductions in the overall level of taxation to offset the extra revenues that loophole closing will create. Otherwise, 'simplification' would simply amount to a tax hike. Together, simplification and general tax reduction would encourage economic activity and be a substantial and revenue-neutral tax cut.

A complicated tax code skews incentives. I've never met a tax cut I didn't like, and money is always more efficiently used in private hands than in government hands. But arbitrary blips in the tax code (for example, relief for importers of angostura bitters) encourage inefficient allocations of capital that do not reflect market demand, removing much of the efficiency that comes from the private ownership of the money. Taking away loophole exemptions would shift resources towards economic activity that better reflects what consumers actually want.

Simplification also reduces businesses' and individuals' accountancy costs. A complex tax system forces people to waste money on navigation of the system, and these resources could be used elsewhere if the code was simplified.

But savings from closing 'loopholes' should not take money out of the economy, they should be revenue neutral. If simplification is not accompanied by a tax cut equal to the extra money brought in, it would amount to a tax hike by the backdoor. The Treasury estimates that the 'tax gap' caused by loopholes is around [£42bn](#) [4]. [According to Wellers Accountants](#) [5], this is £3bn shy of the entire income from corporation tax in 2009/10, or nearly one third of the entire income tax yield in the same period. A significant cut to both taxes could be made at no cost to the Treasury.

Without an equal reduction in the overall tax level, simplification would simply be a tax hike. The benefits from keeping the money would be short-lived and limited. Simplifying the tax code would be enough to both halve corporation tax and reduce the income tax burden by one seventh, which would reap dividends for years to come and be timely in our current economic situation. The Chancellor should seize this opportunity to simplify taxes and radically cut the tax burden. If he does not, he won't get a second chance.

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[3] <http://www.telegraph.co.uk/news/newstopics/politics/conservative/georgeosborne/8118719/George-Osborne-set-to-close-tax-loopholes.html>

[4] <http://www.bbc.co.uk/news/business-11342237>

[5] <http://www.wellersaccountants.co.uk/tax/2010/11-rates-and-allowances/governments-tax-yield-and-spend>

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