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It's the economy, stupid [1]

Written by **Philip Salter** [2] | Sunday 27 January 2008

The competence of this government has been put into question once again over the ongoing capital gains tax fiasco. The latest concession [3] in offering "entrepreneurs? relief" is just another example of how out of touch the government with the business community.
Richard Lambert, director-general of the CBI employers' body, stated that the new relief would "do nothing to help the real business powerhouses of this country":

> *[The] real wealth and job creators of the UK's economy ... will be seriously clobbered. The bottom line is that the reaction of the UK government, in the face of an economic slowdown, has been to slap on a major tax hike of £700m. This will have a damaging effect on job creation, investment and savings at exactly the wrong time in the economic cycle.*

Similarly, David Frost, director-general of the British Chambers of Commerce expressed his dismay that "at a time when the economy is facing a downturn the government is taking yet more money from business".

The most apposite dissection of Brown and Darling comes from Mark Constantine, founder of the Lush chain, in simply pointing out that: "If I ran my business like that, I would get the sack."

All of which is true. Outside the Treasury, we all know that taxes have dynamic effects because they affect incentives. What is less commonly realized, however, is that the greatest dynamic effects are attached to taxes on capital gains and dividends. Raise these taxes and you discourage investment, damaging the economy. Cut them, on the other hand, and you can boost the economy (and ultimately collect more revenue too) ? just what is needed in the midst of an economic slowdown. But what does the government do? It raises the tax by £900 million (now £700 million), in a misguided attempt to fill the Treasury's pockets.

Of course, there's nothing wrong with having a flat tax on capital gains. How about we start with ten percent, and then see if we can beat them down to zero?

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