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Tax cut proposals on the horizon [1]

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In a speech in Beijing this week, shadow chancellor George Osborne signalled [3] his intention to announce proposals to slash corporation tax in the New Year. Saying a Tory government would offer a "sustained programme of lower taxation" and promising to reduce the tax burden on companies and individuals in every Budget as chancellor, he pointed to Ireland as an example of the correct response to an "intensely competitive global environment". Ireland's corporation tax is 12.5 percent.

That's all very encouraging stuff, and clearly the Conservatives have been emboldened by the popularity of their inheritance tax plans (only millionaires will pay). And corporation tax is a good place to start, given its importance to the UK economy. Even after the 2007 budget has come into force, Britain's headline rate will be 28 percent ? 8 percent higher than the OECD average. In a globalized economy, that really matters because companies (and people) can easily relocate to lower tax jurisdictions, taking jobs and capital with them. So if the UK wants to remain competitive, lowering corporation tax is a must.

It isn't just a matter of international comparisons though. Corporation tax is inherently a bad thing, and the less of it we have the better. Reducing corporation tax would create stronger incentives for hard work, innovation and enterprise, increase business investment and, ultimately, lead to higher GDP. Indeed, according [4] to the Taxpayers' Alliance's dynamic model for the UK economy, if we cut corporation tax rates to Irish levels by 2016, GDP would be 8.7 percent higher than it otherwise would have been by 2021. Total employment would be boosted by 8.7 percent and disposable income would be 13.5 percent higher. Economic growth would actually deliver a high overall tax rate too, so everyone wins.

Of course, the Irish 12.5 percent may be a little too much to hope for, even at Christmas. But the Conservatives' own Tax Reform Commission, headed by Lord Forsyth, proposed [5] an immediate cut to 25 percent, with the aim of getting to 20 percent over time. That would certainly be better than a lump of coal.

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