How to pay for a Green New Deal: Corporate taxes and subsidies

The UK needs a major programme of investment in order to move our economy beyond fossil fuels, improve our public services and tackle the cost-of-living crisis. This is one of five briefings summarising how that investment can be paid for. To read the other briefings, visit greennewdealgroup.org.

1. Ensure all companies pay the tax they owe

HM Revenue & Customs (HMRC) estimates that at least 30 per cent of all tax owing by small companies in the UK is not paid.

The Taxing Wealth Report 2024 suggests tackling this issue by:

- Demanding that all smaller limited liability companies file tax returns each year, which is not the case at present.
- Requiring that UK banks advise HMRC of all companies to whom they supply services each year, how much those companies deposit and what their year-end bank balances are, so that companies not declaring their income can be identified.
- Removing the privilege of limited liability from the directors of companies that do not properly declare their tax liabilities.
- Requiring that Companies House increase its fees so it has the resources to enforce UK company law, to ensure that every company in the UK pays the tax it owes.

The Taxing Wealth Report 2024 estimates that these reforms might raise up to £12 billion a year based on an analysis of HM Revenue & Customs tax gap data.

2. End the oil and gas investment allowance

When Russia's invasion of Ukraine led to skyrocketing gas prices, the government bowed to public pressure and introduced a temporary 'windfall tax' - a 35% Energy Profits Levy, on top of existing corporation tax, meaning oil and gas companies theoretically pay a tax rate of 75% on their profits.

However, the windfall tax was accompanied by a huge 91% investment allowance, meaning that for every £1 oil and gas companies invest, the post-tax cost to them is just 9p. As well as representing a cost to the Treasury, this incentivises oil and gas expansion, worsening the climate crisis and increasing investors' exposure to assets that are likely to collapse in value.

Abolishing this tax break would end this dangerous incentive and help redirect investment elsewhere. It would raise an estimated £6bn a year.

3. Reduce subsidies to private banks

Between 2024 and 2028, the UK government will spend around £34bn a year in income transfers to the banking sector – equivalent to 2.8% of government spending. This level of government spending in other contexts would draw heavy scrutiny, but in this case it goes relatively unnoticed.

These payments have arisen as a result of money created by the Bank of England ('the Bank') to buy government bonds following the 2008 financial crisis and during the Covid crisis as a way to stimulate spending. This new money was added to the balances that commercial banks held with the Bank. These have had interest paid on them at the base rate since 2006. For over a decade, these interest payments were covered by the income the Bank received on the bonds it had purchased. However, now interest rates are much higher, the payments exceed that income, and the Treasury covers the losses. Between December 2021 and August 2023, the Bank transferred £52.6bn to the banking sector.

This additional income for the banks has not been earned through any business decision – it is a windfall resulting from the Bank's decision to increase the base rate. The UK's 'Big Four' banks made a combined £44.2bn in profits in 2023.

These transfers are not inevitable. The European Central Bank recently introduced a system of 'tiered reserves'. This means it pays 0% interest on the level of reserves which banks are legally required to hold, with interest paid at the base rate only on reserves above that level. This would require the UK to set a minimum reserve requirement, i.e. require banks to hold a certain percentage of their liquid assets in central bank reserves, as is already the case in many countries.

The New Economics Foundation has found that a 5% reserve requirement would save the Treasury £7.7bn a year.

Mythbusting

Myth: *If taxes and regulation are used to reduce corporate profits, investment will fall and the economy will suffer.*
Reality: Despite having a rate of corporation tax below the OECD average for the last decade, the UK has the lowest level of private investment in the G7 and among the lowest in the OECD. In a comparison of OECD countries, IPPR has found little to no correlation between corporation tax rate and levels of private investment.

Companies invest where they can see prospects for growth and profit. Tax plays a role in this, but there are numerous other factors including a country's infrastructure, skills base, regulatory environment and the stability of its government and institutions. A decade of austerity in the UK has resulted in a failing healthcare system, crumbling schools, and endless strikes. Multiple changes of government direction in recent years and the lack of a comprehensive industrial strategy have further contributed to low private investment. Investing in a skilled workforce, top-class health, transport and education systems, and cheap green electricity will ultimately make Britain a much more attractive place to invest.

Myth: *Higher costs will be passed on to employees and banks' customers.*
Reality: Views differ widely about how much of the cost of corporation tax is borne by shareholders and how much by employees. However, there is no cast-iron rule here: the outcome is determined by the choices made by individual firms about whether to reduce wages or dividends; by the country's legislative framework (e.g. the minimum wage); and by the strength of organised labour. In the UK context, it's clear that the corporation tax cuts of the 2010s did not increase wages: there has been no sustained UK wage growth in real terms (i.e. taking inflation into account) since 2008.

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