Liz’s tax cuts – a simple guide to why lowering rates actually works

This report has been co-published with our affiliated organisation, Brexit Facts4EU.Org.

Proof from the UK and around the globe that lower tax rates encourage growth

Lowering top rates of tax also produces a greater tax-take from the rich

With western economies engulfed in a perfect storm of escalating debt, rising inflation and sluggish growth, we look at the controversial issue of Liz Truss’ tax cut strategy and reveal the facts of how it has been proven to work – many times over.

Not only have tax cuts stimulated growth, they have also resulted in the rich paying a higher share of tax revenues, not lower. Below we cite examples from the UK and around the world.

The following has been adapted from a longer article written in our News bulletin which draws on the work of other organisations. (Also available from our News bulletin page)

The CIBUK.Org layman's guide to a low tax, high growth economy

For policy makers in the UK the evidence is compelling. Tax cuts increase revenue and the highest payers pay a higher percentage of the total take.

Summary

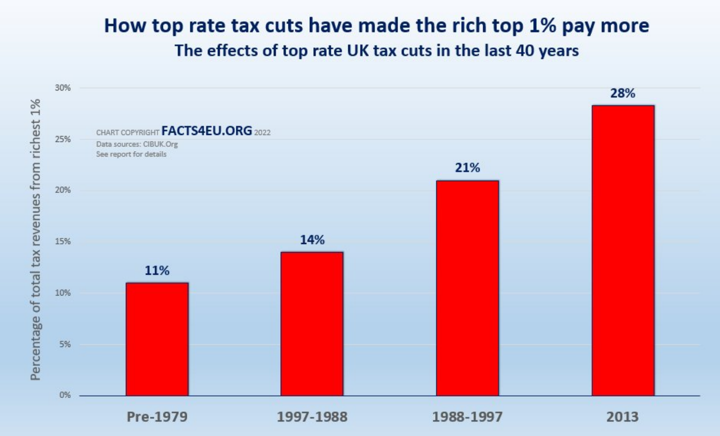
Delivering a low tax, high growth economy

1. Evidence from the United Kingdom that tax cuts work

1979 – 1988 : Chancellor Geoffrey Howe cut the top rate from 83% to 60%. Before the cut, the top 1% of UK taxpayers paid only 11% of the total income tax take. By 1988 they were paying 14% of income tax revenue.

1988 – 1997 : Nigel Lawson cut top rates from 60% to 40% and receipts rose further. By 1997 the top 1% of earners paid a huge 21% of the total tax bill.

2013 : Chancellor Osborne cut the additional rate of income from 50% to 45%. In the subsequent year £8bn more revenue was raised. The top 1% of taxpayers now pay 30% of income tax.



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When adding in National Insurance contributions – which we should as they are effectively an additional tax on income – **the top 1% were paying 34% of the the total income tax reveneue of the UK government by 2018**. More than one-third of the total tax-take.

2. Evidence from the United States

1921 – 1951 : The top rate of US income tax was raised to 71% during WWI with dire economic results and was later cut to 25% by Presidents Coolidge and Harding. As a result, revenues nearly doubled. The share of tax paid by those earning over $100k rose from 28% in 1921 to 51% in 1925.

1963 – 1968 : President Kennedy's 1963 tax cuts reduced taxes at all levels, cutting the top rate from 91% to 70%. Total income tax revenue increased from $68.8 bn in 1964 to $95.7 bn in 1968. The share of tax paid by those earning over $50k went up from 12% in 1963 to 15% in 1966.

1981 – 1986 : President Reagan cut the top rate of US income tax from 70% to 50% in 1981 and cut the top rate again to 28% in 1986. The share paid by the top 10% of taxpayers increased from 48.0% in 1981 to 57.2% in 1988.

The opposite is also true.

1990 – 1991 : President George HW Bush raised the top marginal income tax rate to 31% in 1990. Tax receipts fell as a % of GDP and in 1991 after the tax increase richer taxpayers paid $6.5 billion LESS than they had in 1990.

2003 – 2007 : These were later reversed by his son George W. Bush. In 2003 he reduced the highest rate of income tax from 39.6% to 35% and the dividend tax from 39.6% to 15%. From 2004 to 2007 federal tax receipts increased by $785 billion with the bulk of that coming from the better off.

3. Evidence from around the world

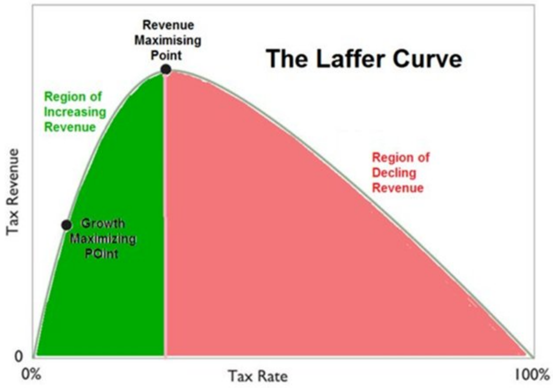
Below are just a few extra examples from across the globe, proving that the ‘Laffer Curve’ works.

Canada 1981 – 1992 : When the top federal tax rate in Canada was cut from 45% in 1981 to 29% in 1990, the share of tax receipts paid by the top 10% of taxpayers grew from 29% in 1981 to 45% in 1992.

India 1984 – 1985 : India in 1984 reduced its top income rate from 65% to 50%. As a result, tax revenue in the 1985 fiscal year rose by 20% over 1984.

Sweden 2016 : Sweden increased income tax for high-earners by 3% to 60% in 2016. The affected group reduced their earnings and less revenue was raised.

Care to know the history behind the 'Laffer Curve'?



It's worth recalling the now famous dinner which took place at the Two Continents Restaurant in Washington in December 1974 at which the US economist Arthur Laffer drew his famous curve on a napkin to illustrate the economic phenomenon which now bears his name.

© Arthur Laffer – click to enlarge

His thesis was the trade-off between tax rates and tax revenues – something of major importance in the UK right now. Put simply, it challenges the assumption that if tax rates are lowered, revenues will be lowered by the amount of the decrease in the rate. According to Laffer, the reverse is true.

US economist Arthur Laffer

“The economic effect recognizes the positive impact that lower tax rates have on work, output, and employment – and thereby the tax base – by providing incentives to increase these activities.

“Raising tax rates has the opposite and negative economic effect by penalizing participation in the taxed activities. The arithmetic effect always works in the opposite direction from the economic effect.”

For the original version of this article, click here : https://facts4eu.org/news/2022_oct_low_tax_high_growth