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Policy paper

Corporation Tax rise cancellation – factsheet

Published 23 September 2022



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- Under the previous government's plans, the rate of Corporation Tax was to increase from 19% to 25% from April 2023 for firms making more than £250,000 profit, around 10% of actively trading companies.
- Companies making between £50,000 and £250,000 would also face a rise in Corporation Tax, with the rate increasing incrementally from 19% to 25% depending on how much profit a firm was making. For the remaining 70% of actively trading companies, those who make profits of £50,000 or less, Corporation Tax was to remain at 19%.
- The government has now cancelled this planned increase. Rather than rising to 25% from April 2023, the rate will remain at 19% for all firms, regardless of the amount of profit made.
- At 19% the UK Corporation Tax rate is significantly lower than the rest of the G7 and the lowest in the G20.

How does cutting Corporation Tax help grow the economy and raise living standards?

- Competitive business taxes are important to growing the economy as they can incentivise investment and enterprise. The government wants to grow the economy by creating the conditions for businesses to thrive, which will create jobs and increase investment in the UK.
- Large businesses employ over 10 million workers and the government wants to support them to deliver the growth needed to boost living standards across the UK.
- The UK's internationally competitive corporate tax system can boost business investment which drives up productivity and powers economic growth. This can result in lower prices for consumers, higher wages for employees, more jobs created as businesses grow and higher living standards in the UK.
- The Government believes that robust growth is vital to funding vital public services in the UK and keeping taxes low for working families across the UK, so that people keep more of what they earn.

What's the evidence that cutting Corporation Tax can boost growth?

There is a range of academic evidence which suggests that cutting Corporation Tax can boost investment and growth by providing immediate support to businesses in short-term, and increasing business investment, productivity, and growth in medium-term to long-term. The strength of this relationship can be difficult to measure and is dependent on different macroeconomic factors, for example economic uncertainty or regulatory environments, with different studies suggesting different levels of impact.

1. Cloyne et al. (National Bureau of Economic Research, 2022) – analysed the effects of temporary changes in US tax rates and found a corporate income tax cut leads to a sustained increase in GDP and productivity, with peak effects between five and eight years.
2. Madsen, Minniti and Venturini (National Institute of Economic and Social Research, 2021) – looking into the effects of taxes on investment using data for 21 countries, this research found corporate taxes reduce investment in tangible assets and R&D; a 1 percentage point increase in Corporation Tax rate was found to lead to a 1.5 percentage point reduction in the investment rate.
3. HMRC CGE modelling (2013) – assessed the effects of reducing the main Corporation Tax rate by 8 percentage points from 28% to 20% and found a boost to investment of 2.5-4.5% and 0.6-0.8% in GDP in the long term.
4. Djankov et al. (National Bureau of Economic Research, 2008) – explored the effects of corporate income tax rates and found that corporate taxes are negatively correlated with growth with a 10% increase in the effective Corporation Tax rate found to reduce the investment-to-GDP ratio by 2 percentage points.

What else is being done to drive investment and growth?

- The Annual Investment Allowance threshold has been permanently set at £1 million, rather than reverting to £200,000. This is a 100% capital allowance for qualifying expenditure on plant and machinery up to a specified annual limit and covers the investment needs of 99% of the UK's businesses.
- To improve the ability of small British companies to raise money and attract talent to grow and succeed, the government is expanding the Seed Enterprise Investment Scheme (SEIS) to help more UK start-ups raise higher levels of finance. This package will help over 2,000 start-up companies access finance.

- The government is also expanding the availability and generosity of the Company Share Option Plan (CSOP) scheme. As a result, hundreds more companies are expected to benefit from the CSOP scheme each year.
- Investment Zones will drive growth and unlock housing across the UK through lowering taxes and liberalising planning frameworks to encourage rapid development and business investment.

Background on the UK Corporation Tax rate

- Since 2010 successive cuts were made to the main rate of Corporation Tax reducing it from 28% in 2010 to 19% in April 2017. This has resulted in the UK having a Corporation Tax rate which is significantly lower than the rest of the G7 and the lowest in the G20.
- When the rate increase was announced the OBR noted in their Economic and Fiscal outlook that Corporation Tax receipts would increase as a share of GDP to the highest they have been since 1989-90 (3.2%).
- The cancellation of the rate increase will save companies £18.7 billion per year by 2026/27 and c. £67.5 billion over the scorecard.
- Maintaining the rate of Corporation Tax at 19% keeps the UK's current international competitiveness relative to other major economies. According to OECD 2022 [figures \(https://gbr01.safelinks.protection.outlook.com/?url=https%3A%2F%2Fstats.oecd.org%2FIndex.aspx%3FDataSetCode%3DTABLE_I11&data=05%7C01%7CSian.Ellidge%40hmtreasury.gov.uk%7C05a2ca20821f4c74e20308da9ce20007%7Ced1644c505e049e6bc39fcf7ac51c18c%7C0%7C0%7C637994791720303115%7CUnknown%7CTWFpbGZsb3d8eyJWl%7CjoiMC4wLjAwMDAiLCJQI%7CjoiV2luMzliLCJBTiI%7C6lk1haWwiLCJXVCi6Mn0%3D%7C3000%7C%7C%7C&sdata=%2Bf%2FXqzW9D9I67U5iK1Eobf6js8vXWgFPvoYeyfJVBAQ%3D&reserved=0\)](https://gbr01.safelinks.protection.outlook.com/?url=https%3A%2F%2Fstats.oecd.org%2FIndex.aspx%3FDataSetCode%3DTABLE_I11&data=05%7C01%7CSian.Ellidge%40hmtreasury.gov.uk%7C05a2ca20821f4c74e20308da9ce20007%7Ced1644c505e049e6bc39fcf7ac51c18c%7C0%7C0%7C637994791720303115%7CUnknown%7CTWFpbGZsb3d8eyJWl%7CjoiMC4wLjAwMDAiLCJQI%7CjoiV2luMzliLCJBTiI%7C6lk1haWwiLCJXVCi6Mn0%3D%7C3000%7C%7C%7C&sdata=%2Bf%2FXqzW9D9I67U5iK1Eobf6js8vXWgFPvoYeyfJVBAQ%3D&reserved=0) at 19% the UK's rate of Corporation Tax will remain significantly lower than G7 counterparts. Over 6 percentage points lower than France (25.8%) and the US (25.8%). Other G7 countries: Canada 26.2, Italy 27.8, Japan 29.7, Germany 29.8. Based on the latest available OECD figures (2021/22) 19% is also the lowest in the G20 with Russia and Saudi Arabia the closest to the UK on 20%.



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