

The UK's International Tax Competitiveness

2024 Update

By Daniel Herring

- The UK ranks 30th out of 38 OECD countries for the competitiveness of its tax system, according to the 2024 edition of the International Tax Competitiveness Index, published annually by the US-based Tax Foundation.
- This is up one place from the UK's most recent ranking. The improvement is thanks to the last government putting full expensing for plant and machinery on a permanent footing in the March 2024 Budget. However, the position is still very concerning, given the UK's need to attract foreign investment.
- Particularly worrying is that the UK ranks only 28th in terms of the competitiveness of its corporate tax regime, up from 29th but down from 20th a decade ago.
- Alarming, Labour's first Budget is likely to further undermine the UK's already poor competitiveness, with Chancellor Rachel Reeves looking at, or being pressured to consider, a range of damaging options, including:
 1. Raising capital gains tax to 33%, 39%, or 45% – which modelling by the Tax Foundation and Centre for Policy Studies shows would drop the UK to 32nd, 33rd or 34th in the overall rankings.
 2. Introducing a wealth tax – which would see the UK fall to 34th.
 3. Raising the higher rate of dividend tax to 45% – which would mean the UK would fall two places overall, to 32nd.
- If the Chancellor were to make all these changes, the combined effect would be to push the UK from 30th to 35th overall. In this scenario, only France, Italy and Columbia would be left with less competitive tax systems than the UK.

Introduction

Each year, the Tax Foundation in Washington publishes its International Tax Competitiveness Index, an annual ranking of how pro-growth the tax systems of 38 OECD economies are. As in previous years, we at the Centre for Policy Studies have worked with the Tax Foundation to produce a detailed breakdown of the UK's competitive position, and the potential impact of various rumoured and reported tax rises.

To determine how pro-growth an economy is, the Index uses over 40 measures to examine the extent to which marginal tax rates and the underlying structure of the tax system promote economic growth. Crucially, the Index does not measure the size of the overall tax burden, merely how effectively it is at collecting revenue, and how much economic damage it inflicts in the process.

In the 2024 edition of the Index, published today, Estonia comes first, followed by Latvia, New Zealand and Switzerland. The UK, however, comes in 30th place. This is one place up from its most recent ranking, and ahead of Italy (37th) and France (36th) – but behind all other G7 countries, including the US (18th) and Japan (25th). The UK also falls behind 18 other European countries.¹

The slight improvement in the UK's ranking was largely thanks to the decision to make full expensing, introduced on a temporary basis in the 2023 Autumn Statement, permanent. This was a policy long championed by the Centre for Policy Studies, whose advocacy was acknowledged by Jeremy Hunt at the despatch box, and by the Tax Foundation.²

However, a range of further tax changes reportedly being considered by Rachel Reeves for inclusion at the upcoming Budget would – according to modelling by the Tax Foundation and Centre for Policy Studies – damage the UK's tax competitiveness very significantly.

UK performance, 2014-2024

The Index is made up of five categories, with 14 subcategories and 42 indicators. The five categories are corporate taxation, individual taxes, consumption taxes, property taxes and cross-border tax rules. The table below shows the UK's ranking for 2024, 2023 and 2014 (the Index's first year).

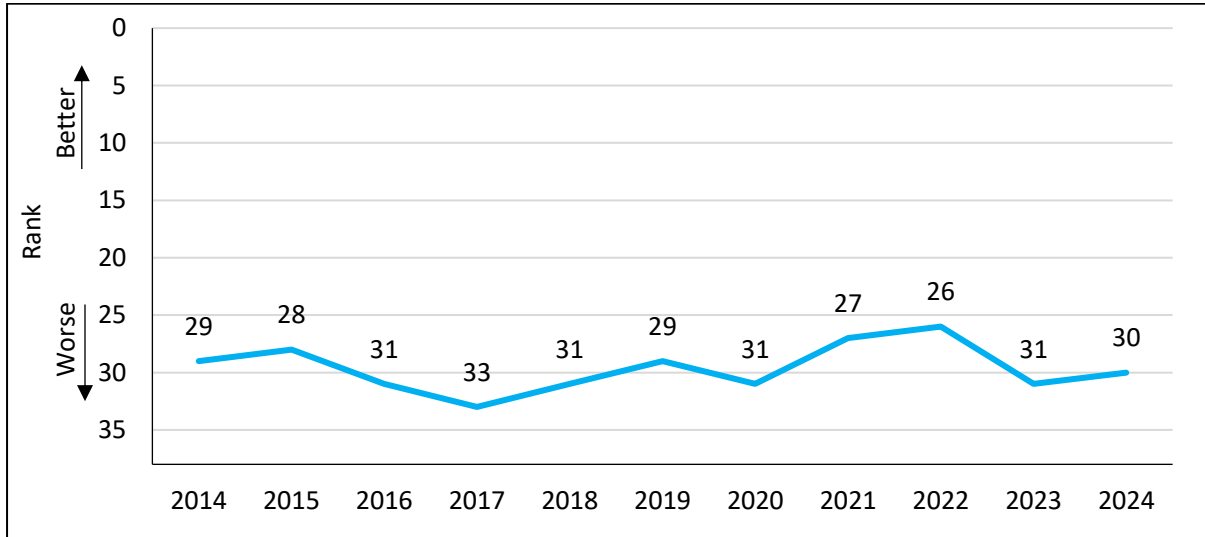
| Year | Overall Rank | Corporate Tax | Individual Taxes | Consumption Taxes | Property Taxes | Cross-Border Tax |
|--------------------------|--------------|---------------|------------------|-------------------|----------------|------------------|
| 2014 | 29 | 20 | 25 | 34 | 34 | 2 |
| 2023* | 31 | 27 | 22 | 34 | 34 | 1 |
| 2024 | 30 | 28 | 21 | 33 | 34 | 2 |
| <i>Change since 2014</i> | -1 | -8 | +4 | +1 | - | - |

* The UK was originally in 30th in the 2023 Index, but slipped to 31st due to a methodological update

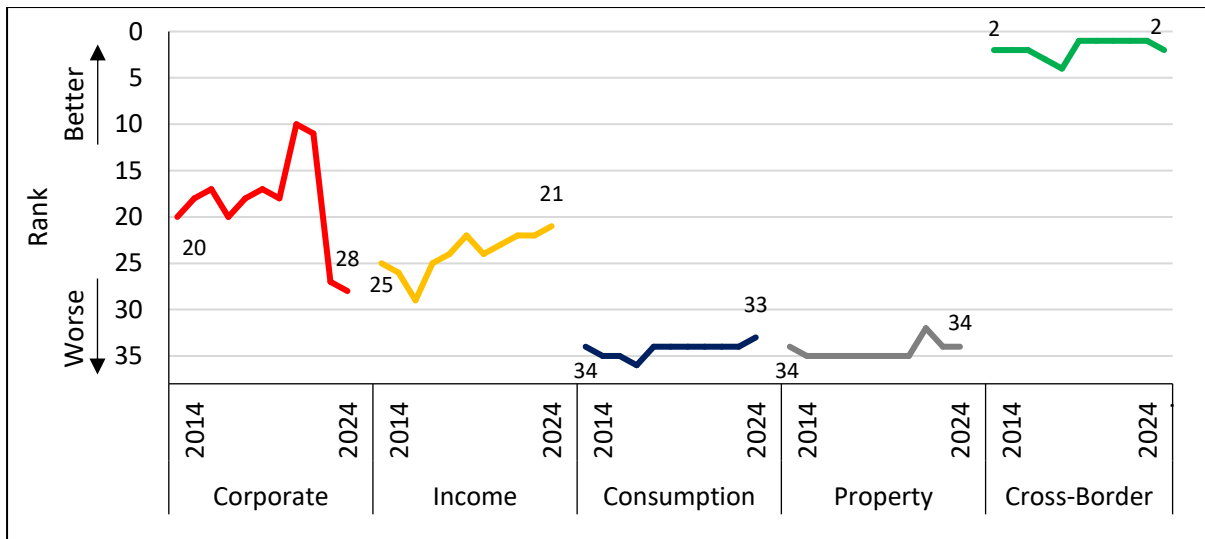
¹ When the methodology of the Index changes, the changes are retroactively applied to previous rankings. So the UK was originally 30th in the 2023 edition of the Index, but slipped to 31st when the rankings were updated

² T. Clougherty & K. Williams, 'Permanent Full Expensing', Centre for Policy Studies (16 November 2023). [Link](#)

UK overall ranking (out of 38)



UK rankings, by category

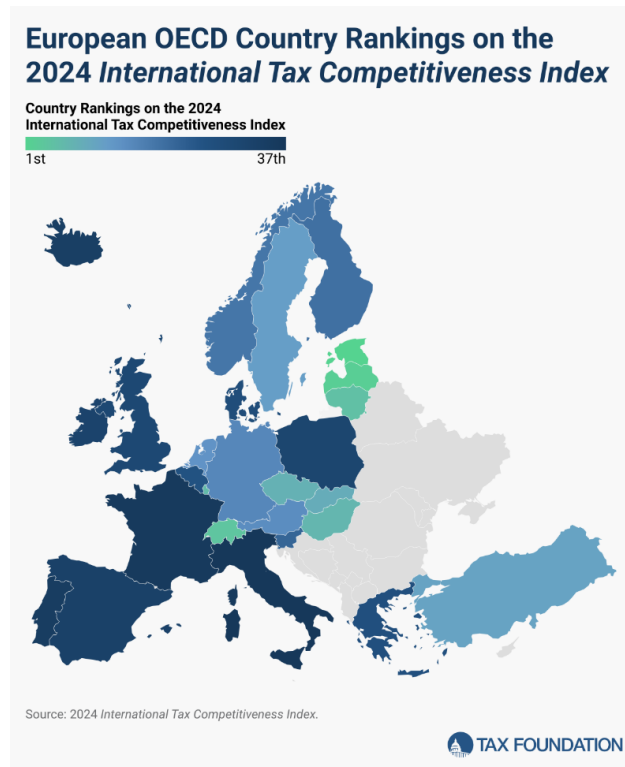


The important thing here, however, is not the precise ranking but the overall picture. And what that shows is that the UK had an uncompetitive and anti-growth tax system in 2014, and it retains the same today.

The UK system does have its strengths, in particular cross-border tax rules, where it is second this year (down from first last year). It has the largest number of tax treaties (131) in the OECD. The UK also allows capital gains and dividends from foreign subsidiaries to be exempt from tax – though Labour could well seek to change this.

However, the UK ranks alarmingly poorly in all other categories. On corporation tax, its score has improved slightly due to putting full expensing of plant and machinery on a permanent footing. However, this has not offset the effect of raising the rate of corporation tax, which was 21% in 2014, before being lowered further to 19%, then increased to 25%. This has meant that the UK has fallen

eight places in terms of the competitiveness of its corporate tax system since 2014, and 18 places since 2021, when its corporation rate was 19% and it had the super-deduction for plant and machinery in place. It is worth noting that if it had kept the tax rate at 19%, we would now have the fourth-lowest corporate tax rate in the OECD, and rank 14th in the corporate tax category and 25th overall.



Consumption and property taxes have seen little change. In consumption taxes, the fundamental problem remains the narrow base of VAT and the high threshold for firms to start paying the tax. The UK has just 48% of potential sales covered by VAT, compared with the OECD average of 58%. Furthermore, the registration threshold (the annual revenue a business needs to surpass before applying for VAT) is very high – £90,000 compared to £35,000 in the rest of the OECD. While this is welcome news for many small businesses, these two features combined do mean the VAT regime is highly distortionary and forgoes significant revenue when compared to other countries.

On property taxes, the UK ranks a lowly 34th, unchanged from a decade ago. This is because the UK has many taxes on property that are distortive, such as an inheritance tax and a financial transactions tax. The UK's property taxes impose the highest burden, measured as a percentage of the capital stock, in the OECD. The UK also taxes not only the land, but also the structures built upon it. This is most notably the case with business rates, which are highly distortive and can increase property taxes paid purely from a business upgrading their premises.

Again, it is worth noting here that these very low rankings are not due to the *level* of taxes. They are due to the *design* of the tax system. Other countries collect larger amounts, but in a much more pro-growth fashion.

What impact would Labour's plans have?

Rachel Reeves is seeking to raise taxes in order to fill a supposed £22 billion fiscal 'black hole' – in no small part accounted for by Labour's public sector pay settlements – as well as avoid having to cut spending on public services in real terms (and possibly expand it).

The model underpinning the Index is not able to simulate all of the mooted changes Labour might make, but we have looked at how three key changes reportedly under consideration would impact the UK's tax competitiveness.

Capital gains tax

One of the most commonly suggested options for the UK is to raise capital gains tax (CGT). The CPS will shortly be publishing a longer briefing note on this issue, but it is worth saying that, as the Institute for Fiscal Studies and many others have noted (including the Treasury itself), any increase of CGT rates without substantial reform of the capital gains base will be highly damaging.³

It has been widely reported that CGT will rise, but we are still unclear as to what the Chancellor is planning. Recent reporting suggested she was asking Treasury to run scenarios raising CGT to between 33% and 39%, compared to a current main rate of 20%.⁴

The Government has since ruled out the higher end of this spectrum, and rightly so. Raising CGT to 33% would mean the UK would fall from 21st to 28th on the income category of the Index, and 30th to 32nd overall. But raising it to 39% would see the UK fall to 31st in the income category, and 33rd overall. It would also leave us with the third highest rate in the OECD, behind only Chile and Denmark (we currently have the 16th lowest).⁵

The most extreme scenario, advocated by many on the Left, is to argue that Labour should align taxes on capital and income. This would leave us with the highest rate of capital tax in the OECD – scarcely conducive to entrepreneurialism and investment. In the income tax category on the Index, the UK would duly fall from 21st to 33rd, and overall would be four places lower, at 34th.

Furthermore, as the Treasury's own analysis shows, the overall effect of any of these changes on economic outcomes and revenues is deeply uncertain. At best raising CGT will do little to raise the estimated £25 billion that the Chancellor wants to find. At worst, it will lose the Treasury money while harming economic growth and damaging the UK's reputation.

³ S. Adam et al, 'Capital gains tax reform', Institute for Fiscal Studies (6 October 2024). [Link](#)

⁴ A. Isaac, 'Rachel Reeves considers raising capital gains tax to 39%', *The Guardian* (10 October 2024). [Link](#)

⁵ If a country has multiple rates of CGT (like the UK), the Index takes the CGT rate on shares. This modelling has assumed the rate applied to shares rises to the 33%, 39% or 45%. It is possible the Chancellor would keep a lower rate on shares, in which case the effect on the ranking would be different.

Wealth taxes

While Labour figures continue to pour cold water on the idea, Labour allies and outsiders have been vociferous in calling for a wealth tax.⁶ There are a number of reasons why this would be particularly damaging.⁷

Firstly, wealth taxes can be double taxation. They are often levied on the wealth that has already been (or will be) taxed through as income, dividends or capital gains (among others).

Secondly, they are distortive because they do not account for the return an asset generates.⁸ This disincentivises entrepreneurship and biases risky investments, because people do not want to hold assets or invest in businesses that generate low but non-volatile returns.

Thirdly, a wealth tax can lead to wealthy taxpayers leaving the country. For example, Norway saw a major exodus of the wealthy in 2022 due to an increase in wealth taxes.⁹ For high net worth individuals, a wealth tax would add to the list of reasons to leave or stay away from the UK, which includes recent changes to non-dom status, a mooted exit tax, and CGT rises.

Finally, a wealth tax is unlikely to raise significant revenue. Analysis by the Tax Foundation has shown that only Switzerland has been successful at raising significant revenue from a wealth tax. Spain raises just 0.5% of all revenue from a wealth tax, and Norway raises just 1.1%.

For all of these reasons, a wealth tax is a bad idea. Dan Neidle, a tax specialist and Labour Party member, has summarised it well: 'Annual wealth taxes have failed in almost every country in which they've been tried. They've raised derisory amounts and had adverse effects.'¹⁰

If it introduced a wealth tax on all or selected assets, the UK would join just seven other countries with a net wealth or partial wealth tax (Switzerland, Colombia, Spain, Norway, Belgium, France and Italy). Implementing a partial or net wealth tax would see it drop to 34th in the Tax Foundation's overall ranking.

One alternative that has been proposed in the UK is a one-off tax on wealth already accumulated.¹¹ This is supposed to have no effect on behaviour, as wealthy individuals cannot avoid a past tax liability and there will be no future liability. However, the major problem is credibility: would anyone believe this is a one-off? Or would the government be tempted to extend it, as the previous government did with the Energy Profits Levy on North Sea oil producers, which now looks as though it will never be abolished?

⁶ See for example: RMT, 'RMT calls on Labour to relax fiscal rules and to introduce wealth tax', (9 September 2024). [Link](#)

⁷ C. Enache, 'The High Cost of Wealth Taxes', Tax Foundation (26 June 2024). [Link](#)

⁸ OECD, 'The Role and Design of Net Wealth Taxes in the OECD', (12 April 2018). [Link](#)

⁹ R. Neate, 'Super-rich abandoning Norway at record rate as wealth tax rises slightly', The Guardian (10 April 2023). [Link](#)

¹⁰ C. Barrett, 'Dan Neidle: 'A UK wealth tax wouldn't work'', *Financial Times* (3 September 2024). [Link](#)

¹¹ A. Advani, E. Chamberlain & A. Summers, 'A wealth tax for the UK', Wealth Tax Commission (9 December 2020). [Link](#)

Dividend taxes

One tax increase that Rachel Reeves has been careful not to rule out is raising the rate of dividend tax.¹² If she aligned the top rate of dividend tax with income tax (from 39.35% to 45%) this would mean the UK would fall three places in the income category (21st to 24th) and two places overall, to 32nd.

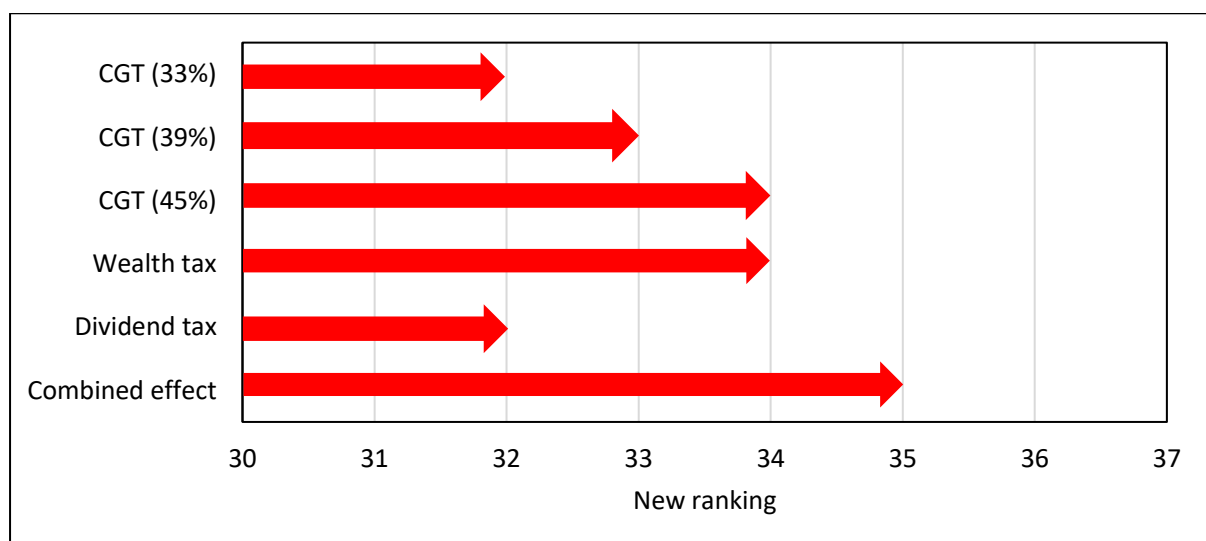
It is important to note that aligning tax rates would not solve the problem of double taxation of corporate income. Currently, if a company makes £100 profit, it is taxed at the corporate rate of 25%. If it distributes the remaining £75, those paying the top marginal rate of 39.35% are left with just £45 after dividend tax. In effect, that is a 55% tax rate on the original £100 income. Raising the top marginal dividend rate to 45% would leave the dividend recipient with merely £41 after tax – an effective tax burden of 59%. This change is highly distortive and is the opposite of what should be done.

Instead, the government should be looking to lower the dividend tax rate. The best long-term reform would be to give all taxpayers a tax credit to offset the 25% tax already paid. In the short term, a simpler reform would be to exempt lower income earners completely, and simply levy the difference between the corporate tax rate (25%) and higher tax rate (45%), which would be a dividend tax of 20%.¹³ But if there is no appetite for lowering dividend taxes in the current fiscal environment, it would be better to do no harm and leave this tax alone.

Combined effect

If all of these changes were implemented together, the combined effect would be the UK falling even further down the Index, from 30th to 35th overall (assuming the lowest CGT rise of 33%).

Summary of changes to overall ranking



¹² C. Cheung, 'Dividend tax rises could be on the cards, warns investment platform', *Financial Times* (10 September 2024). [Link](#)

¹³ T. Clougherty et al, 'A Framework for the Future: Reforming the UK Tax System' Centre for Policy Studies and Tax Foundation (25 October 2020). [Link](#)

The challenge for Labour

We have not modelled the full scale of the potential tax changes Labour may implement. However, there is rising concern that other potential tax measures being mooted by the Government could further undermine the UK's competitiveness. These might include extending the scope of inheritance tax or changing the treatment of carried interest. The Chancellor is also considering increasing employer national insurance, a clear breach of Labour's campaign promise not to raise taxes on working people, given that its incidence falls overwhelmingly on wages, driving up the cost of labour.

In short, there is a real danger that we could end up with the least competitive and most anti-growth tax system in the OECD.

If Labour wants economic growth, it needs to be serious about fundamental tax reform. This is not just about cutting taxes. The UK's ranking shows that the way we raise tax is damaging incentives, getting in the way of innovation and undercutting productivity. We need to raise more money from less damaging taxes, and to use those funds to abolish or reform more harmful ones. These reforms can be revenue-neutral, although there will be winners and losers in the short term. But to not use this budget to put the tax system on more pro-growth footing would be a wasted opportunity. Courage and vision are needed – the alternative is stagnation.

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Appendix 1: Tax Competitiveness Index Rankings

| Country | Overall Rank | Corporate Tax | Individual Taxes | Consumption Taxes | Property Taxes | Cross-Border Tax |
|-----------------|--------------|---------------|------------------|-------------------|----------------|------------------|
| Estonia | 1 | 2 | 2 | 18 | 1 | 9 |
| Latvia | 2 | 1 | 3 | 21 | 5 | 7 |
| New Zealand | 3 | 30 | 6 | 2 | 8 | 17 |
| Switzerland | 4 | 10 | 8 | 3 | 36 | 1 |
| Lithuania | 5 | 3 | 10 | 27 | 7 | 16 |
| Luxembourg | 6 | 22 | 23 | 6 | 14 | 5 |
| Hungary | 7 | 4 | 5 | 36 | 23 | 3 |
| Czech Republic | 8 | 8 | 4 | 32 | 6 | 11 |
| Slovak Republic | 9 | 15 | 1 | 28 | 2 | 26 |
| Israel | 10 | 11 | 29 | 10 | 10 | 10 |
| Turkey | 11 | 21 | 7 | 16 | 22 | 6 |
| Sweden | 12 | 6 | 18 | 23 | 9 | 12 |
| Australia | 13 | 32 | 15 | 9 | 4 | 33 |
| Netherlands | 14 | 23 | 30 | 17 | 21 | 4 |
| Austria | 15 | 19 | 25 | 14 | 16 | 15 |
| Germany | 16 | 31 | 35 | 13 | 12 | 8 |
| Canada | 17 | 26 | 31 | 8 | 25 | 19 |
| United States | 18 | 20 | 17 | 4 | 28 | 35 |
| Norway | 19 | 13 | 28 | 25 | 15 | 14 |
| Finland | 20 | 7 | 27 | 24 | 19 | 22 |
| Costa Rica | 21 | 35 | 32 | 7 | 11 | 28 |
| Slovenia | 22 | 9 | 12 | 30 | 24 | 20 |
| Mexico | 23 | 27 | 19 | 12 | 3 | 36 |
| Korea | 24 | 25 | 38 | 1 | 32 | 30 |
| Japan | 25 | 34 | 34 | 5 | 26 | 29 |
| Belgium | 26 | 18 | 13 | 26 | 29 | 24 |
| Greece | 27 | 17 | 9 | 34 | 27 | 21 |
| Denmark | 28 | 14 | 36 | 20 | 17 | 32 |
| Chile | 29 | 36 | 24 | 11 | 13 | 38 |
| United Kingdom | 30 | 28 | 21 | 33 | 34 | 2 |
| Poland | 31 | 12 | 11 | 37 | 30 | 23 |
| Ireland | 32 | 5 | 37 | 35 | 18 | 34 |
| Spain | 33 | 29 | 22 | 19 | 37 | 18 |
| Iceland | 34 | 16 | 20 | 29 | 33 | 27 |
| Portugal | 35 | 37 | 26 | 22 | 20 | 31 |
| France | 36 | 33 | 33 | 31 | 31 | 13 |
| Italy | 37 | 24 | 16 | 38 | 38 | 25 |
| Colombia | 38 | 38 | 14 | 15 | 35 | 37 |

Appendix 2: Categories, Subcategories and Variables

| Category | Subcategory | Variable |
|--|---|---|
| Corporate Score | Corporate Rate | Top Marginal Corporate Tax Rate |
| | Cost Recovery | Loss Carryback (Number of Years) |
| | | Loss Carryforward (Number of Years) |
| | | Machinery |
| | | Industrial Buildings |
| | | Intangibles |
| | | Inventory (Best Available) |
| | | Allowance for Corporate Equity (Rate and Base) |
| | Tax Incentives and Complexity | Patent Box |
| | | Implied Tax Subsidy Rates on R&D Expenditures |
| | | Digital Services Tax |
| | | Corporate Complexity (Number of separate rates or alternative minimum taxes) |
| | | Corporate Complexity (Surtax on corporate income) |
| Corporate Complexity (Share of revenue collected on income from non-standard income taxes) | | |
| Income Score | Ordinary Income Taxes and Payroll Taxes | Top Personal Income Tax Rate |
| | | Top Income Tax Rate Threshold |
| | | Ratio of Marginal to Average Tax Wedge |
| | Income Tax Complexity | Income Tax Complexity (Surtax on personal income) |
| | | Income Tax Complexity (Share of revenue collected through non-standard social security and payroll taxes) |
| | Capital Gains/Dividends | Top Marginal Capital Gains Tax Rate |
| Top Marginal Dividends Tax Rate | | |
| Consumption Score | Consumption Tax Rate | VAT/Sales Tax Rate |
| | | VAT/Sales Tax Threshold |
| | | VAT/Sales Tax Base as a Percent of Total Consumption |
| Property Score | Real Property Taxes | Real Property or Land Tax |
| | | Real Property Taxes as % of Capital Stock |
| | Wealth/Estate Taxes | Wealth Tax |
| | | Estate/Inheritance Tax |
| | Capital/Transaction Taxes | Transfer Taxes |
| | | Asset Taxes |
| | | Capital Duties |
| Financial Transaction Tax | | |
| Cross-Border Score | Participation Exemption | Dividend Exemption |
| | | Capital Gains Exemption |
| | | Country Limitations |
| | Withholding Taxes | Dividend Withholding Tax |
| | | Interest Withholding Tax |
| | | Royalties Withholding Tax |
| | Tax Treaties | Number of Tax Treaties |
| | International Regulations | Controlled Foreign Corporation Rules |
| | | Interest Deduction Limitations |
| Minimum Tax | | |