

Letter: Economies need to look at taxing growth differently

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Your Big Read by Ian Smith, Sam Fleming and Emily Herbert on the global economy and how countries such as the US, France and the UK now spend more on debt servicing than defence describes clearly and comprehensively the world's sovereign debt burden and the resulting \$2tn interest bill that governments and their citizens must now shoulder ("The world's \$2tn interest bill", [September 8](#)).

The conclusion is that neither austerity nor ever-higher borrowing costs offer an exit; only faster growth does. Beyond a hoped-for boost to productivity from AI, the tax system is one of the few levers left, yet public finances plainly cannot absorb tax cuts on existing levels of GDP.

A possible way out is therefore not to reduce current taxes, but to tax additional growth differently. Under such a "marginal tax" approach, a much lower rate would apply only to a company's incremental profits — those earned over and above the previous fiscal year, or the average of the past three years.

Where the headline corporate rate is 35 per cent, for example, the increment might be taxed at 10 per cent. Each government could set its own benchmark above which the reduced rate applies. Existing revenues are untouched; only the new growth is taxed more lightly.

The same logic can be applied surgically to employment. If a company increases its total payroll by, say, €1mn, a tax credit could be granted against that additional cost alone, calibrated to remain below the extra employment taxes the state collects on it. Current payroll revenues would be unaffected.

The side benefits — aside from generating incremental growth — are considerable. Lower rates on incremental profits give companies a reason to declare more of them, shrinking the shadow economies that persist in several countries. Linking the relief to pay rises tied to AI and digital reskilling rewards the productivity those skills generate.

And it can encourage people to work more, as Germany is already doing by allowing pensioners who stay in work to earn up to €2,000 a month tax-free (clearly a marginal tax application).

Debt-to-GDP ratios cannot be tackled by spending cuts alone, which are often politically impossible. Solutions exist for those willing to think outside the box, and taxing growth differently is one of them.

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