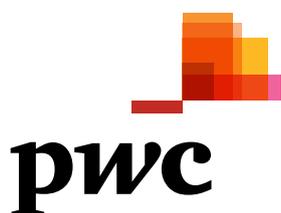


October 2014 A group of senior business figures met to debate the future of UK tax, and present their conclusions to Government.

Paying for Tomorrow: The future of UK tax



***Business
Jury delivers
its verdicts to
Government
on UK tax
reform***



Foreword

Our Paying for Tomorrow campaign is important to me personally as well as to PwC. There's been a lot of focus on what's wrong with the tax system – I'm keen we channel some of this energy into working out how we can build a better one. It's about taking a strategic look at what sort of tax regime the nation needs, and requires a proper debate across all groups of tax payers. Like our recent Citizens' Jury, the business jury is an important part of the campaign. UK business bears around £164bn in tax each year, and its tax and wider economic contribution extends far further through jobs and investment. We need to ensure that economic footprint can be sustained.

UK business is diverse, and we heard from a great cross section with some strong views. I'd like to thank all those who joined our jury for their valuable contribution to the debate.

Kevin Nicholson
Head of tax, PwC



Executive Summary

A group of 14 senior business figures has set out recommendations on how the UK tax system should be reformed. From tiny start-ups to huge multinationals, the jury was a diverse group from different spheres of industry that might rarely come together in this way.

Objectives

Facilitated by presenter Katie Derham, the Business Jury spent four hours debating tax policy before presenting conclusions to David Gauke, Financial Secretary to the Treasury, and Indra Morris, Director General, Tax & Welfare, HM Treasury. There were two main areas of focus: balancing fairness with revenue raising; and the tension between tax reliefs and simplicity. The idea was to identify:

- Cornerstones of tax policy that should be kept sacrosanct
- Recommendations for long term reform, focused on the big picture

Governments must be clearer, bolder, and more specific about the objectives of tax changes and policies.

Key outcomes

- Governments must be clearer, bolder, and more specific about the objectives of tax changes and policies. Businesses are more likely to support policies they understand, which have a clear road map, and when governments can be better held to account.
- A longer term approach to tax policy, divorced from short term politics, will improve stability and growth. Recent corporate tax reforms are viewed as a rare but very successful example of long-term reform, supported by successive governments.
- Tax policy needs to be more focused: there are too many tax reliefs and exemptions. While some reliefs are highly effective, many fail to deliver. Overall reliefs need to be more targeted, aimed at a specific purpose and for a specific time:
 - Sunset clauses should be introduced, which put a ‘sell-by’ date on new legislation, at which point it can be renewed or scrapped.
 - There should be smarter use of behavioural taxes – such as rewarding employers who encourage workers to be healthy.
 - Innovation is an area that does warrant more, or at least more widely accessible, incentives. There should also be more support for specific regions.
- An internationally competitive tax system is a good thing – but more needs to be done to ensure and show it will bring sustainable revenues.
- NIC should be aligned with income tax – it’s an out of date concept and is complicated for employers and employees to understand and administer. Other ways must be found to reduce complexity, such as simplifying VAT. The tax system has too many “lumps and bumps”.
- More needs to be done to educate people on how the tax system works and the inherent trade-offs. At the same time governments need to be more honest about tax revenues required and how they are raised and spent.
- Better collaboration is needed between business and with HMRC – businesses large and small need help navigating the system. Problems with seemingly basic issues can hold business back and impact resources and costs.

The Jurors

Geoff Baker , CEO	International Celebrity Networks Ltd
Caroline Ball , Group Tax Director	Kingfisher plc
John Buchanan , Head of Tax	Imperial Tobacco Group plc
Duncan Cheatle , CEO	Prelude
Steve Crosby , Global Head of Tax	Standard Chartered
Melissa Geiger , Global Head of Tax	GlaxoSmithKline plc
Lesley Greenlees , Head of Tax	Aggreko plc
Paul Hodgkinson , Executive Chairman	Simons Group Ltd
Paul Morton , Head of Group Tax	Reed Elsevier plc
Martin Salisbury , Head of Tax	Mitie Group plc
Carla Stent	Non-Executive Director and Consultant
Derek Steptoe , Worldwide Compensation and Benefits Director	WPP plc
Phil Turner , Head of Tax	Ladbrokes plc
Tina Webster , Head of Tax	Berkeley Group Holdings plc

The discussion in detail

A competitive agenda

The jury was overwhelmingly positive about the Government's commitment to deliver a competitive tax system – both the policy itself and adherence to the plan.

“The Government has pursued the most competitive tax system in the G20 – we should stick with it”

The package of corporate tax reforms, and in particular the reduction in the corporation tax rate over the past five years, was seen as a strong advantage for UK companies, helping them grow and create jobs.

*“The Government has succeeded”
“It's been very helpful for us”*

The certainty created by two successive governments pursuing a clear road map for reform was felt to be as important as the policies themselves, allowing businesses to plan ahead.

Jurors were adamant that **certainty and stability should be hallmarks of the tax system.**

“Any change should be announced gradually and implemented gradually”

Competitive, but complex

While the jury supported tax competitiveness, there were a number of challenges and concerns. Some jurors questioned whether the overall burden of tax on companies is still too high.

“It's a drag on costs and are we getting value out of what we contribute?”

One juror wondered if competitiveness is a short-term solution; while it might attract overseas businesses, would they bring tax revenues in the longer term.

“It's like the UK has ‘get rich quick’ culture, and being seen as steady is less attractive ... ultimately we have to raise a certain amount and if it's not coming from corporate tax, something else has to make up the difference.”

Looking at that ‘something else’, and the balance between different types of taxes, some jurors suggested the VAT base could be broadened (with measures in place to prevent this penalising those on lower incomes).

While some viewed this with caution, there was widespread agreement that VAT could be simplified, echoing findings from our Citizens' Jury.

Likewise, employment tax is hugely complex, full of “silly anomalies” that can create “lumps and bumps”. Aligning NIC with income tax would make life easier for employers, easing the administrative load. Australia was singled out in the discussion as having a more straightforward labour tax regime – proving that a simpler system is possible.

Competitive but fair?

In other areas, jurors pointed out that the tax system is out of step with the modern economy. This is creating inequities across different industries. For example, some argued that traditional bricks and mortar businesses (eg in retail) face a disproportionate tax burden, with business rates in desperate need of fundamental reform.

It was also noted that particular tax policies are not always consistent with the drive for competitiveness, with some industries facing an uneven playing field with international counterparts.

“Fairness? – I’m not sure we have it”

The UK’s favourable treatment of debt was also questioned by a few jurors.

“It’s not sustainable” “it can create perverse incentives or outcomes”.

Although others argued that any change would disadvantage those businesses that had undertaken transactions under the existing rules, and could undermine the competitiveness of the UK tax regime.

Clarity and support

Fairness is also an issue when it comes to accessing advice on how the tax system works. While large businesses can afford help, jurors pointed out that many smaller businesses can’t.

“They’re having to find their own way through, which is confusing.”

The jury felt that HMRC had a greater role to play in supporting businesses with **accessible and clear advice**. This would improve transparency in the tax system – which should be a two way street, not just about businesses providing extra information. In the absence of enough support, smaller businesses’ resources are being unnecessarily tied up, which causes a drag on growth and a heavy administrative burden.

A suitable case for education

Moreover, the jury felt that governments must do a better job of explaining to all tax payers how the tax system works. Better understanding of the trade-offs across business and personal tax would help the debate on who’s paying their fair share.

There also needs to be **more transparency on what taxes are used for**. The general perception that National Insurance Contributions contribute to pensions and the NHS was seen to highlight the problem.

Political short-termism

The reluctance of governments to align NIC with income tax was put down to politics driving policy. There was a consensus that political expediency is at odds with the desirable longer-term aims of consistency and stability.

“Taking the politics out of tax is difficult but should not be impossible.”

The corporate tax reforms were held up as a rare example of **cross-party support for a long-term goal**.

Clear, bold and focused

Having those long term goals clearly defined is crucial. There was huge appetite for **greater clarity on the purpose of tax policies**. The government should take and articulate clear and bold positions about what policies were intended to achieve, be it driving employment in a particular region, or to encourage investment in certain industries. If governments are more upfront and specific, people are more likely to buy into the policies.

“Is Patent Box about encouraging big companies to innovate or innovation more generally?”

Many jurors wanted to see **policy focused on a few key areas**.

“The UK needs to decide what it wants to be good at: pick say three industries and three countries to target trade – we can’t be master of everything”

UK cities that have latched on to one main sector were seeing the benefits – and more could be done to support the regions by linking tax policy with broader support.

A minority felt that policy shouldn’t be too focused, as should aim to support the whole of UK business.

Overall, in a view that closely echoed the Citizens’ Jury, business jurors agreed that supporting a fair and balanced tax system means ensuring that taxpayers (both companies and individuals) understand the reasons for policies and what they are intended to achieve.

This in turn would mean governments can be better held to account on whether policies are working.

Incentives, and reliefs

Many incentives and reliefs are either so **hard to access, too complex or don’t go far enough** to be of real benefit. Some jurors felt a large swathe could be cleared away with no one really noticing.

The Patent Box legislation, that applies a lower rate of corporation tax on profits from patented innovations, was seen as one of the most successful incentives, driving investment and jobs in the UK. Many felt it should be widened to cover other forms of productive innovation, not just patented intellectual property.

Smarter use of incentives

Some jurors argued that the ultimate goal of particular incentives needed to be better thought through. For example, whether it is to encourage a particular activity like innovation or jobs related to innovation.

“If employment is the desired outcome, why not target incentives to specific types of innovative employment?”

Others questioned whether there could be more incentives for employers who encourage certain behaviours, such as healthy lifestyles among employees – which might save on public spending in the longer term.

Only through **clear objectives**, can policies be judged to be working well or not.

Disincentives to grow

Unless well thought through, incentives will have unintended consequences – for example, one juror described how the lifetime ceiling for entrepreneurs relief “forces a focus on that figure which acts as disincentive for building a larger business, or a series of businesses”.

Others on the jury thought the tax system seemed skewed to the interests of smaller, start-up businesses on one hand, and the very largest on the other. Those in the middle could easily be overlooked but were “a hugely important part of the overall economy.”

Spring clean

There was widespread agreement that a **spring clean of reliefs and incentives is needed**, getting rid of those that don't deliver, to create a simpler and more predictable system. However, most acknowledged that this would be difficult to achieve given the tension between political expediency and need for longer term planning for a sustainable system.

Where reliefs and incentives are introduced they should be carefully targeted and clear in their aim. **Sunset clauses**, which act as a sell-by date on new legislation, should be introduced to help prevent a backlog of ineffective reliefs. These clauses needn't affect stability if the timeframe is clear at the outset.



Main messages

- *Businesses are more likely to support policies when they understand the specific objectives – straplines aren't enough*
- *Certainty and stability are crucial for businesses to plan and grow. This needs to be reflected in tax policy.*

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Design Services 28821 (010/14).