

Andrew Bonfield  
Chairman: The 100 Group Tax Committee  
**c/o National Grid Plc**  
1-3 The Strand  
London  
WC2N 5EH  
Direct dial: 0207 004 3033  
E-mail: [andrew.bonfield@ngrid.com](mailto:andrew.bonfield@ngrid.com)



## **Tax Committee**

By email: [economicaffairs@parliament.uk](mailto:economicaffairs@parliament.uk)

The Clerk to the Economic Affairs Committee  
House of Lords  
LONDON SW1A 0PW

30 April 2013

Dear Sir

### **Lords Economic Affairs Committee to investigate reforming corporate taxation – a call for evidence**

We welcome the opportunity to contribute to the call for evidence by Government in the assessment of the approach to taxing corporations in a global economy.

#### **Who we are**

The 100 Group represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the FTSE 100, collectively employing over 7% of the UK workforce and in 2012, paid or generated, taxes equivalent to 14% of total UK Government receipts. Our overall aim is to promote the competitiveness of the UK for UK businesses, particularly in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance.

#### **Our views**

In recent years significant progress has been made in creating a competitive UK tax environment. We believe a robust and competitive regime is now in place, providing a solid platform with which the UK can move forward.

However, this progress is being undermined by an almost exclusive focus on corporation tax, creating uncertainty in people's minds at a time when the focus should be on investment and growth. Business needs certainty, stability and predictability. Constant change and lack of clarity in tax law is not helpful and will be a competitive disadvantage. The UK needs to remain open for business and attract investment, and corporation tax is only a small percentage of the economic benefit gained of companies investing in the UK.

In a recent survey undertaken on behalf of The 100 Group, in 2012, our member companies contributed £77.1bn in taxes for the year. This contribution has remained broadly level with 2011 at £77.2bn. Total taxes borne were £24.8bn, representing a 19% increase in total taxes borne since the survey began in 2005.

In 2012 for every £1 in corporation tax paid, 100 Group members paid £2 in other taxes (there being a total of 24 different taxes borne by members in the year). In 2005 when the survey was first completed, this ratio was 1:1. This shows clearly how the policy of successive governments to move away from profit taxes to more stable property and people taxes has worked, enabling the Treasury to have more certainty over the total tax revenues

they expect to receive each year. We remain concerned, however, that there is significant complexity in the tax system, and the fact there are 24 taxes borne by our members only serves to highlight this fact. We strongly believe stability in the tax code and consideration of some simplification is needed over the next few years.

Business has fundamentally changed over the past decade, with significant expansion in the digital economy. We acknowledge that change to the tax system may be required to reflect this but do not believe wholesale change is required. Any changes must be coordinated internationally in order to avoid double taxation. The UK should continue to work with the OECD project on BEPS and any future review of the tax system needs a wider focus than just corporation tax because all taxes are important (e.g. business rates). Business looks at the total tax they bear. We further recognise the importance of recent studies by the OECD and tax discussion focus areas (for example, the G8), appreciating there is appetite for change. Ultimately, we believe that any reform or proposed reform should be undertaken at a truly international level, such that it does not create anti-competitiveness within the UK environment.

In our view, in order to have an effective and efficient tax system, all taxes should be considered together, and any tax system amendments have to be looked at coherently and in the round.

In the Appendix to this letter we have sought to answer those questions raised in the inquiry which we believe are relevant to our members. We would welcome the opportunity to further engage on these topics as we believe it is in all our interests to ensure that any reform applicable to business taxes should continue to give businesses confidence in the tax regime of the United Kingdom and to allow a competitive environment for them to operate in.

Yours faithfully



**Andrew Bonfield**  
Chairman

*The 100 Group Tax Committee*



## **Appendix: The 100 Group views on the Economic Affairs Committee inquiry questions**

- 1) Is there a good rationale for the existing system of taxing corporate profits? What proportion of total tax receipts should come from corporation tax? Who bears the burden of corporation tax?**

The current system of corporation tax has evolved over time with the benefit of a great deal of experience. While it is not perfect it appears to be better than any of the alternatives. Any change is likely to be distortive so it would be preferable for business if reform is thoughtful and incremental. Any reform must be fully integrated with international tax developments if double taxation is to be avoided.

All in society is affected by corporation tax's reach: customers, shareholders, employees and pensioners to name but a few. The incidence of corporate tax needs to be examined further. There are some who call for taxes on companies to be increased but if the predominant burden falls on the work force, or reduces the capital available for investment, this would be counterproductive.

- 2) How vulnerable are UK corporation tax revenues to a recession, or tax avoidance activity? To what extent has corporation tax become a voluntary tax?**

Evidence of avoidance in most corporate activity is not always reliable and avoidance is not something which we believe is a commonplace in corporates. We have demonstrated our agreement with recent Government's stance on abusive tax avoidance and support the steps being taken, including the introduction of a general anti-abuse rule (to which we submitted a detailed response to HMRC on 14 September 2012).

The effective working of the system is Government's responsibility and it is their decision that should determine whether it provides tax incentive to promote further economic activity.

- 3) How does corporation tax affect decisions by firms to incorporate, where to locate, how much to invest, how to finance activities and where to record profits?**

Corporation tax is just one, and not the most important element, of the overall decision making process of where in the world companies wish to invest. There are a vast amount of other considerations that vary from industry to industry and which factors are most important will depend on the facts and circumstances of every business: there is no one-size fits all approach. Generally, corporation tax would be a consideration where other factors leave an investment decision finely balanced.

- 4) Is there a need to reform the UK base for corporation tax? If so, how? For example, should the preferential tax treatment of debt over equity be removed? Should reforms encourage more capital investment, particularly in UK infrastructure?**

There has been significant progress on reform of the UK Tax system (e.g. CFCs and Patent Box). We do not believe there is a need for major reform of the UK tax base and would strongly recommend that, if any reform is proposed, this is taken on a universal basis in order to protect the competitiveness of the UK environment. Tax relief for

legitimate financing costs should be allowed in the same way as any other business costs.

- 5) Is the taxation of companies too narrowly focused on a complex definition of profits? Could a tax based on a broader measure of economic activity less susceptible to manipulation help to ensure that the burden is spread more fairly across the corporate sector? What would be the consequences of shifting the corporate tax base from profit to sales/turnover?**

There are detailed rules that determine the computation of taxation. We believe that companies comply with these rules. Proposals to alter the tax base are a major overhaul to the system and require a considerable amount of focus and care to ensure that the UK remained competitive. It should be recognised that the UK's proportionate recognition of related turnover in the international arena within multinational companies is relatively small. We currently have VAT which is structured in this way.

- 6) Should the taxation of SMEs be reformed? Are schemes such as the Enterprise Investment Scheme successful in leveraging additional investment in the UK and do they represent good value for money?**

No specific comment to make.

- 7) Is there a need to reform the basis of the international allocation of multinational profits between countries? If so, should this be based on the existing conventions, as recently suggested by the OECD, or is there a need for more fundamental reform? What other feasible alternatives are there, consistent with international law?**

This has already been considered and addressed elsewhere in this letter. The UK should continue to support the work of the OECD on BEPS. There are aspects of digital business in the 21<sup>st</sup> century which do challenge the existing international tax principles and practices. Action should be multilateral and should avoid double taxation.

- 8) What scope is there for the UK Government to act alone in addressing concerns about the taxation of international business?**

This has already been considered and addressed elsewhere in this letter. We believe that there is not much scope for unilateral action because this would most likely result in double taxation and deterioration in the competitiveness of UK businesses.

- 9) Is there a meaningful distinction between "harmful" and "fair" tax competition? Where will future competition lead the UK corporation tax?**

"Harmful" and "fair" are subjective. It is for Government to decide what is acceptable and unacceptable. We would encourage international alignment in any proposed reform.

- 10) Is there a problem in the UK that foreign companies are able to gain a competitive advantage through greater tax avoidance opportunities?**



Being representative of diverse and multinational businesses, we believe in Government making the UK tax environment a competitive level playing field for domestic and multinational companies. Effective transfer pricing legislation and taxation of digital businesses is essential if this is to be achieved.

**11) How successful is the HMRC in dealing with large international business?**

There is clear evidence to support that HMRC have adopted a leading position in dealing with international businesses. We are supportive of HMRC's risk based approach which means that resources are appropriately allocated.

**12) Has the use of aggressive tax avoidance schemes increased or decreased over the last decade? Why? How successful has the DOTAS scheme been? Should promoters of tax avoidance scheme be named and shamed?**

We believe the use of aggressive tax avoidance schemes has decreased over the last decade and the DOTAS scheme has been a factor in this.

**13) Is there a need for greater transparency by multinational companies in declaring taxes paid in different countries?**

The members of The 100 Group are already committed to tax transparency and they co-operate fully with the tax authorities in the jurisdictions in which they operate.

We are opposed to any additional disclosure that does not have clear and logical purpose.

We believe that one of the ways transparency can be improved is by helping developing countries ensure that they collect the appropriate taxes by supporting them to build the administrative capacity within their tax collection regimes. The 100 Group is actively engaging a number of different organisations to see how we can best help build that capability.

We also believe that the best way for countries to have the appropriate transparency is for them to adopt laws and regulations that prescribe the level of disclosure in their national accounts, as this is a policy matter over which states retain sovereignty. Business has a supporting role to play (e.g. capacity building), but inter-governmental dialogue and supra-national organisations including the OECD, World Bank and EBRD, should be taking the lead on this issue. Transparency standards need to be developed, applied and enforced on a global basis to avoid the risk of regulatory arbitrage which will almost certainly disadvantage UK and EU companies.

