

DEMOS

**RACE TO
THE TOP:**
A NEW CORPORATE
TAX DEAL FOR THE UK

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MAY 2021

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This project was supported by:



Published by Demos May 2021
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ACKNOWLEDGEMENTS

Above all, we would like to thank the Joffe Trust for their generous funding of this project: without their support, this report would not have been possible. In particular, thanks must go to Alex Jacobs, for his invaluable advice and engagement throughout this process.

While the names of the businesses we interviewed are not included within the report, their contribution to this project cannot be overstated. The willingness of tax directors (and other senior professionals) from some of the largest businesses in the UK to spend time speaking with us has been vital to the success of this research.

Particular thanks is due to members of our advisory group: Richard Collier-Keywood, Ewan Livingston-Docwra, Helen Miller, Sol Picciotto and Edward Troup. While they do not necessarily endorse our recommendations here, they have been an invaluable source of support, advice and expertise throughout the project. We would also like to thank a number of other academics, campaigners, policy makers and tax professionals for taking the time to speak to us individually, along with all the attendees of our policy roundtable.

Finally, we must thank all those at Demos who played a part in our project. Maeve Thompson and Josh Tapper for their support in shaping the narrative of this report and promoting the finished version. Stephanie Lenz for her design brilliance and Maiyora Jeyabraba for her help editing the final report.

As should be clear, many people have played a valuable role in helping put together this final report. We appreciate the contributions of time, hard work and expertise which were provided by all those listed here.

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EXECUTIVE SUMMARY

The UK faces a significant fiscal challenge in the medium to long term, partly due to the costs of Covid, but also due to structural factors, such as our ageing population, that predate the pandemic. In our previous report, *A People's Budget*, the public told us that any attempts to raise taxes on individuals must be accompanied by efforts to raise taxes on businesses too.¹ Otherwise, tax rises on the general population will be deemed unfair and illegitimate by the public.

The government has already pledged to raise the corporation tax rate from 19% to 25% in 2023. In this report, we have investigated whether this increase - and any further increases in revenue raised from corporation tax - will cause significant economic or political problems.

We conclude that they won't, provided that certain accompanying reforms are introduced. We argue for a new corporate tax deal for the UK, underpinned by three elements:

- Element 1: Convergence of corporation tax rate and base in major developed countries.
- Element 2: This convergence to be around higher than existing rates, with revised base rules consistent with productive investment.
- Element 3: This convergence to minimise special reliefs and complexities to the extent possible, with the aim of creating a simpler and more predictable regime.

As set out in Figure 1 below, this approach combines significant benefits for the government - from additional tax revenue - with significant benefits for businesses, by creating a simpler, more predictable tax regime. Crucially, it is also an approach backed by much of business.

Our key finding - based on 20 interviews with tax directors or equivalent at large businesses with UK operations - is that many big businesses are largely accepting of higher rates, for five reasons. Businesses told us that:

1. For the most part the impact of corporation tax rates is on decisions around where to invest as opposed to *whether* to invest. In other words it results from tax competition between countries.
2. This impact is at the margin and is usually only decisive when other factors (such as skill levels) are equal between different countries.
3. The higher rates being planned by the Chancellor are still below equivalent rates in many competitor countries, reducing any potential damage; in any case, an increase is consistent with the international direction of travel.
4. Because corporation tax is a tax on profits, it is generally only paid by businesses which are doing well - interviewees deemed this as fair, and far preferable to other ways of raising money from business.
5. They are increasingly conscious of the need to 'do the right thing', particularly in light of significant government support for businesses throughout the pandemic.

Alongside businesses' acceptance of the need for a new approach, it is also made possible by recent international developments. The Biden administration has put forward a new approach, promoting a plan that would introduce a global minimum corporate tax rate and which includes rules requiring multinationals to pay corporation taxes based on their sales in a particular country. While

¹ Glover, B. and Seaford, C. *A People's Budget: How the Public Would Raise Taxes*. Demos, 2020. Available at <https://demos.co.uk/wpcontent/uploads/2020/09/A-Peoples-Budget-Sept-2020-v5.pdf> [accessed 19/05/2021]

a 15% rate (at the time of going to press there are reports that Biden is dropping his target rate from 21%) would not in itself make much difference to most countries' revenues, it establishes a principle and the rate can rise over time.² Similarly, while haggling between countries about the formula for allocating profits is only natural, this shouldn't be allowed to block the opportunity created by Biden's move nor disrupt the impetus it has given to the OECD's existing Base Erosion and Profit Shifting (BEPS) process. It suggests a new direction of travel amongst major economies towards a higher take from corporation tax.

We believe this presents a timely opportunity for the UK to demonstrate what 'Global Britain' means at the forthcoming G7 meeting: taking a leading role in pushing for the adoption of these plans by other countries. This would, of course, require the UK government to first back the principle behind Biden's plans, which, to date, has not happened. It would also present a valuable opportunity to bolster the transatlantic partnership at a time when the UK needs stronger foreign alliances.

To bring about this new approach to corporation tax, we also recommend the government publishes a new corporate tax roadmap which commits to:

- Endorsing and working with Biden's proposals for OECD reform of the international corporate tax system.
- Working with other countries to build on this and move towards a regime with higher than existing rates, and base rules consistent with productive investment.
- Working with other countries to reduce and standardise reliefs.
- In line with this, introducing sunset clauses for existing reliefs, with reliefs converted into grants where justified, and a moratorium on new corporate tax reliefs.

² Williams, A. and Politi, J. US proposes global corporate tax rate of at least 15% in international talks. Financial Times, 2021. Available at <https://www.ft.com/content/d41da77e-93d0-4b96-95c3-98ca3f9a6696> [accessed 24/05/2021]

FIGURE 1

A NEW CORPORATE TAX DEAL FOR THE UK

	What does it mean?	Why is it needed?	Why is it achievable now?
Element 1: Convergence of corporation tax rate and base in major developed countries.	Convergence means corporation tax rates - the headline percentage of profits that a business must pay in tax - and corporation tax base - the rules defining what the rate is applied to - moving closer to each other in major developed countries.	Further convergence would help enable reduced tax competition between similar countries. This creates the space for higher rates in the UK (and other major developed countries).	Many countries are expected to raise their rates, while the Biden administration's push for a global minimum tax rate is gathering real momentum.
Element 2: This convergence to be around higher than existing rates, with base rules consistent with productive investments.	Increasing the corporation tax rate but potentially reducing the base to which this rate is applied - not to be fiscally neutral, but in a way that increases the overall tax take.	A higher rate is needed to meet the overall objective of this report: additional tax revenue to address the UK's fiscal challenges. Adjustment to rules on the base (and enterprise investment schemes) may be needed, if any investment disincentive effects can be identified as a result of a higher headline rate.	Businesses we spoke to were broadly accepting of a higher rate, minimising the risk of political backlash.
Element 3: This convergence to minimise special reliefs and complexities to the extent possible, with the aim of creating a simple and predictable regime.	Transfer pricing rules and special reliefs in the corporate tax code create complexity, which in turn feeds unpredictability. This is partly because of the nature of transfer pricing, and partly because, given the nature of international tax competition, countries compete on the generosity of their special reliefs, requiring tinkering over time. This generates additional complexity and unpredictability. Convergence to minimise special reliefs is required to limit this dynamic.	Businesses repeatedly told us that their biggest gripe with the current corporate tax regime is its complexity and unpredictability. As a result, if the corporation tax rate is to increase, the quid pro quo could be a more predictable and less complex regime in return.	Attempts to superimpose simplicity and predictability have consistently failed because complexity and unpredictability arise from the system's basic design, primarily international tax competition. As outlined under 'Element 1', we now believe there is real scope to reduce international tax competition and move away from (though not eliminate) transfer pricing.

INTRODUCTION

The UK faces significant medium to long-term fiscal challenges. In the long term, the ageing population will require significantly higher public spending in the 2030s. In the medium term, particularly in light of Covid-19, there will be strong pressure to invest more in public services. For example, a recent study by the London School of Economics and the Lancet estimates that spending on health and social care must increase by £102bn over the next decade to improve the UK's health.³

Given there is little public appetite for more austerity - particularly after the heroic efforts of public servants during the pandemic - tax rises are expected to fill the gap once the pandemic's immediate economic crisis is over. Indeed, this is already the government's direction of travel, with this year's Budget delivering the biggest tax rises for 28 years.⁴

In light of this, Demos is investigating how taxes should rise as part of a wider programme of work. Last year, we examined how taxes should rise on individuals and made recommendations for personal tax increases.⁵ During this research, the public repeatedly told us that any attempts to raise taxes on individuals must be accompanied by efforts to raise taxes on businesses too.⁶ Otherwise, tax rises on the general population will be deemed unfair and illegitimate by the public.

Given this, we have been investigating how taxes should rise on businesses. This report focuses on corporation tax - one of the areas we outlined in our interviews as being suitable for change. It will be followed by a report examining business rates - another area we outlined as suitable for reform. Our research suggested that attempting to increase revenue from Employers' National Insurance Contributions (the third big type of tax paid by business) would be both damaging and unpopular and so we have not developed any proposals in this area.

The report draws on:

- Desk-based research.
- 20 interviews with tax directors or equivalent at large businesses with UK operations. Interviews were carried out during March and April 2021.
- 10 interviews with NGOs, independent experts and accountancy firms.
- A roundtable with experts and businesses.

The annex provides a detailed analysis of the interviews with tax directors, for those that are interested in seeing the full results. Interviewees are kept anonymous in this report, with quotes attributed to industries alone. These industries are defined in broad terms to protect anonymity - they are as follows:

- Consumer Goods/Retail
- Energy/Resources
- Manufacturing
- Services

³ Anderson, M. et al. The LSE-Lancet Commission on the Future of the NHS. The Lancet, 2021, Available at <https://www.lse.ac.uk/health-policy/research/LSE-Lancet-Commission> [accessed 19/05/2021]

⁴ Inman, P. and Jones, R. Rishi Sunak's £65bn budget tax increases are highest in 28 years. The Guardian, 2021. Available at <https://www.theguardian.com/uk-news/2021/mar/03/rishi-sunak-budget-tax-increases> [accessed 19/05/2021]

⁵ Glover, B. and Seaford, C. A People's Budget: How the Public Would Raise Taxes. Demos, 2020.

⁶ Glover, B. and Seaford, C. A People's Budget: How the Public Would Raise Taxes. Demos, 2020.

A NEW CORPORATE TAX DEAL FOR THE UK

Our proposal has three elements, designed to increase the revenues raised by corporation tax, while minimising any damaging economic and political side effects:

- Element 1: Convergence of corporation tax rate and base in major developed countries.
- Element 2: This convergence to be around higher than existing rates, with base rules consistent with productive investment.
- Element 3: This convergence to minimise special reliefs and complexities to the extent possible, with the aim of creating a simpler and more predictable regime.

In what follows, we set out what each element means, why it is needed, why it hasn't happened in the past, and why it is achievable now. We conclude with a list of recommendations for the UK government.

Element 1 - Convergence of corporation tax rates and base in major developed countries

WHAT IT MEANS

Convergence means corporation tax rates - the headline percentage of profits that a business must pay in tax - move closer to each other in major developed countries. It also means that the rules defining what the rate is applied to, i.e. the corporation tax base, become more closely aligned.

On the former, recent announcements have indicated the direction of travel. The Biden Administration has proposed a rise in US corporation tax to 28%, while also endorsing a global minimum tax for multinational businesses. While the latter was originally mooted as a 21% rate, it now appears that this will be proposed at 15% instead.⁷ While this is somewhat lower than many have called for, it establishes a principle and the rate can rise over time.

These minimum tax proposals are a direct response to the OECD's existing Base Erosion and Profits Shifting (BEPS) 2.0 process: Pillar Two of which proposes a new global minimum tax rate.⁸ As for convergence on the corporation tax base, progress has already been made at the OECD, but further progress will be facilitated by any move away from the traditional transfer pricing basis for profit allocation and towards a formula system, which takes into account where sales are made, as well as where workforce and assets are located.

WHY IT'S NEEDED

While rate and base are unlikely to be entirely equalised, further convergence would mean reduced tax competition between similar economies. Countries would continue to compete, of course, but more on quality - of their workforce, research facilities and so on, perhaps even their tax administration - and less on price alone.

As noted by those we interviewed, businesses usually take investment decisions based upon these

⁷ Williams, A. and Politi, J. US proposes global corporate tax rate of at least 15% in international talks. Financial Times, 2021. Available at <https://www.ft.com/content/d41da77e-93d0-4b96-95c3-98ca3f9a6696> [accessed 24/05/2021]

⁸ OECD. Tax Challenges Arising from Digitalisation - Report on Pillar Two Blueprint. 2020. Available at <https://www.oecd-ilibrary.org/docserver/abb4c3d1-en.pdf?expires=1621005872&id=id&accname=guest&checksum=5CA8DC31F7A3073603DCD81E6BAA2002> [accessed 19/05/2021]

kinds of non-tax factors first, with tax having a role at the margin. Our system, characterised by greater convergence around tax rates, would place even more emphasis on non-tax factors (rather than tax competition), as a way of determining where a company decides to invest:

"I use the example of a factory or you could talk about a Research and Development Centre, you start off with saying, where's R&D, where's the science and the scientists? Where are the institutions? Where is the ecosystem? Where has the ability to get the right infrastructure and connectivity? And you're coming through all of those things before you get to 'and what's the tax bill?'" (Manufacturing)

"So the investment decisions will come down to: 'How close do we need to be to consumers? Does COVID have an impact on what our supply chains need to look like? Where's the right talent? Where's got the right infrastructure? Where's got the right legal system to protect our brands?'. All of the other commercial factors will have a much bigger sway over the investment decisions versus a few percentage points on the corporate tax rate." (Consumer Goods/Retail)

By further reducing competition on the corporation tax rate, the incentive for governments is to compete on other grounds: to strengthen their research and development offering, improve their workforce or enhance their education systems in order to attract investment. This is a more economically efficient and socially productive type of competition. The foundations required for this are already in place, with major economies having moved towards closer tax levels in the past few years:

"I think most multinationals kind of agreed that 19% was unnecessary anyway, and looking around at other countries, there's been more like a conglomeration of corporate tax rates recently, anyway." (Consumer Goods/Retail)

On the other hand, it is clear that historical tax competition has weakened the ability of governments around the world to raise higher revenues. The businesses we interviewed confirmed what is widely known. Tax, while not the main factor driving investment location decisions, is an important influence at the margin:

"Whether it needs to be close to consumers in Italy or somewhere else, it will be where it needs to be based on all of the other more important economic factors first. And then the corporate tax position is interesting, if there's like two or

three options on the table it's at that point that I guess the difference between the corporate tax aspects will be taken into account." (Consumer Goods/Retail)

"The corporate tax rates in those locations are highly relevant to those kind of investment decisions. Not the primary factor, but a reasonable factor in that kind of decision making." (Services)

As a result, there has been a clear incentive for governments to undercut each other, by reducing the rate or narrowing the base to attract investment. Over the past few decades, this had led to, if not a race to the bottom, then at least a race in that direction, with lower corporation tax rates becoming the standard over time. Research by the OECD found that between 2000 and 2018, headline corporation tax rates fell in 76 of the 94 countries surveyed.⁹ Importantly, this trend is strongest amongst richer countries, as "the grouping with the most significant decline has been the OECD (a decline of 8.5 percentage points, from 32.2% in 2000 to 23.7% in 2018)."¹⁰

This race to the bottom has created clear incentives for profit shifting. Businesses have been able to capitalise on decreasing corporation tax levels, by shifting their tax affairs to countries where they are required to pay the lowest possible rates. While the OECD's work has made this more difficult in recent years, many interviewees acknowledged that the historic 'race to the bottom' had created financial loopholes for businesses to exploit:

"We're very clear in our tax policy that we only book assets and liabilities, where the people are that generate the assets and liabilities. The days of putting stuff in shell companies to take advantage of lower tax rates are long gone." (Services)

"Yes, in the past, some jurisdictions have been used and vehicles have been set up to avoid tax..." (Services)

Furthermore, it was explained to us that while new maneuvers of this kind were now difficult, the legacy of some old maneuvers remained in place:

"...but we do tax quite a lot of our profits there because we've got brands there. And that goes back to a structure put in place a lot of years ago, which maybe wouldn't have been done today. But now that the IP [intellectual property] is in the [redacted], all of the transactions have to be priced in accordance with the arm's length principle..." (Consumer Goods/Retail)

9 OECD. Corporation Tax Statistics: 1st Edition. 2019. Available at <https://www.oecd.org/tax/tax-policy/corporate-tax-statistics-database-first-edition.pdf>. [accessed 19/05/2021]

10 OECD. Corporation Tax Statistics: 1st Edition. 2019.

By contrast, a process of international rate and base convergence between major developed economies could provide the opportunity to raise the overall take. It might also increase the simplicity and predictability of the tax regime: the need to react to other countries' initiatives with initiatives of one's own, or to introduce new anti-avoidance devices, would be reduced (see Element 3).

WHY IT HASN'T HAPPENED

Tax competition is often in the interests of small developed countries that may benefit more from attracting corporate headquarters than they lose in the deadweight cost of reducing rates. It may also be in the interests of developing countries who use lower tax rates to attract the capital that they can later use to 'compete on quality'. Tax competition - competing on price - is clearly not in the interests of major developed economies: they are far better off competing on quality. As any business person will tell you, you compete successfully by building competitive advantage, rather than simply attempting to undercut your rivals.

However, major economies have continued to compete amongst themselves and have not acted to degrade the ability of small developed countries to undercut them, for example by imposing minimum rates or top-up taxes (even if there is little that can or should be done to counter competition from developing countries).

Some of those we spoke with thought that this was an inevitable and natural state of the world. They believed that any ambition to reduce tax competition was naive. They did not believe there was a significant distinction between major and small developed economies. We disagree.

The 'race to the bottom' has not been a permanent feature of the international tax regime and in any case, countries are perfectly capable of cooperating where it is clearly in their national interest to do so. So the question is: why haven't they done so in this case?

There appear to be several reasons.

First, in recent years the priority has not been increasing the overall tax take, so there has been little need to focus on reducing tax competition. This may even have encouraged the view that tax competition was an integral part of being business friendly. But there were also more politically salient tax issues to address in this period, such as the egregious profit shifting practices which have taken up so much public attention. Indeed, measures to tackle these appear to have resulted in genuine progress:

"Gone are the days where you could shift just a bit of intellectual property, or you could shift a few lawyers, and that would do it. It doesn't work like that anymore. And rightly so." (Services)

"Traditional tax structuring might be putting a financing structure in place where... You've got capital flowing through different countries to pick up tax deductions in different places and deliver multiple deductions... A lot of those structures have been closed down by effective rules introduced either on a unilateral basis or a multilateral basis." (Consumer Goods/Retail)

The lack of pressure to raise the tax take will also have reinforced the view that the loss of sovereignty integral to tax harmonisation was too great a price to pay. This is in contrast to harmonisation of trade policy, for example, or coordination of climate policy. This view will have been reinforced by attempts to harmonise corporate and personal tax regimes - it being generally agreed that the latter should be governed by national democracy, not international negotiation.

This remains a concern. But no-one is proposing a formal cartel, with corporation tax rates set by treaty (except for the global minimum rate, which, at 15%, is very much a floor). It is more a question of a shared understanding of a new direction of travel. There may always be tax competition, but it doesn't constrain you very much if everyone is moving in the same direction - a point which was acknowledged by our interviewees:

"A lot of countries now are like the US... The biggest territories where we tax most of our profits are all going to have about the same tax rate in a couple of years' time." (Consumer Goods/Retail)

In addition, even large countries will continue to hold divergent interests under our scheme, given their different human and physical capital stocks, as well as variance in political attitudes. For example, an advantage in manufacturing may encourage the pursuit of a high allowance regime (a narrower base), while another country's natural advantages in finance may lead to the development of a broader base, but a lower rate. And of course these divergent and competing strategies will be advocated by those industrial interests they benefit - interests which are more or less strong in different countries. This too is a genuine constraint.

But the burden of proof is on those arguing for continuing tax competition and divergent regimes. They must explain why this - as opposed to competing in quality - is genuinely in the national interest. Why do we need to be cheaper - can't we

be better? Otherwise, the suspicion may grow that their argument is merely self-interested, rather than based on the national interest.

Finally, within the European Union, although tax is a delegated issue, European law creates constraints. In particular, small countries with low corporation tax rates (such as Hungary) have been able to take advantage of the Freedom of Establishment rules to counteract potential moves by large countries to levy top up taxes. However, we understand that this issue may be resolved with a European Court judgement shortly.¹¹

WHY THIS IS ACHIEVABLE NOW

As noted in the previous section, the barriers to convergence have not simply been swept away. But their strength has been reduced considerably: the need to raise more revenue, and the Chancellor's and Biden's responses to this, have weakened the assumptions that ensured tax competition was pursued in large countries. Once the prospect of gains (i.e. higher revenues) from a 'truce' become real, the attractions of playing this old game become less obvious. There may not be unanimity at the OECD, but, as with other OECD negotiations, agreement between enough of the largest economies can help to drive an overall settlement:

"I think it's certainly true that if you had a critical mass of large countries doing it, then the rest of the world would have to get on board, because they would be having their pockets picked by the big countries that are doing it..." (Energy/ Resources)

"I think getting anything through Congress is going to be a challenge. But I can see that the Biden administration is signing up to it. I think I can see European jurisdictions signing up to it. Who knows where China will go, they're very quiet and keep playing their cards close to their chest. But I could see something getting agreed." (Services)

It is worth emphasising that our proposal does not require global agreement on convergence. This is because major developed economies are often only competing with other major developed economies for investment, meaning that even if some developing countries do not converge, this poses relatively little risk to destabilising this convergence. Our interviewees regularly highlighted that when 'shopping around' for investment locations, they were often only selecting from a relatively small number of major developed economies. This is because often only these countries had the attributes

they were looking for: a highly skilled workforce, a stable and trusted regulatory environment etc. And these, of course, are the higher value added investments that are most useful to the UK.

This does not mean the war is won, though. The case has still to be made. First, that reduced tax competition can permit an increased tax take without damaging investment incentives. Second, that it will not create a negative reaction from business so strong that it undermines political support. And third, that the arguments against it are contrived and often driven by vested interests.

This report is intended as a contribution to this, primarily in a UK context, but clearly there is a need for comparable discussion in other European countries.

Element 2 - Higher than existing rates, with base rules consistent with productive investment.

WHAT IT MEANS

This element means increasing the corporation tax rate. This is vital for delivering the overall objective of this report: a higher tax take from business to meet the UK's fiscal challenges.

But it may also mean reducing the base to which this rate is applied - not to the point where we reach fiscal neutrality, but in a way that still increases overall revenues (taken to extremes, a high rate and generous allowances can increase incentives to invest to the point where very little is raised, as Dennis Healey found in the 1970s). We are not proposing specific reforms, or a capital allowance regime that looks like this or that - that is beyond the scope of this report and any coherent proposals will require a large amount of detailed work, not least to avoid abuses. We are, however, proposing a direction of travel that can combine increasing the tax take with reducing or even reversing any associated disincentive effects, should those disincentive effects emerge.

This is the same direction of travel indicated in the most recent Budget. It is also the rationale behind enterprise investment schemes encouraging investment by individuals in companies.

This does not have to mean creating a complex array of reliefs designed to stimulate specific forms of investment and we return to this under Element 3. (There have to be rules, of course, perhaps even complex ones about what is and what is not deductible, but that is an entirely separate point).

11 Private interview, European Parliamentary advisor.

Such a programme can usefully be combined with steps to reduce the difference in the effective tax rates applied to different forms of income (i.e. whether taken as salary, self-employed earnings, dividends, or capital gains).

WHY IT'S NEEDED

A higher rate is needed to meet the overall objective of this report: additional tax revenue to help meet the UK's fiscal challenges. Below we outline how our research findings suggest this will be acceptable to business. Adjustments to the rules on the base may be needed - and we emphasise may - to help counter any investment disincentive effects that might arise from a higher headline rate. If there are disincentive effects, it is far more efficient to adjust the base than to fail to increase the rate.

However, we are sceptical about disincentive effects on quoted companies. These companies do not raise significant amounts of capital from individuals. In fact, they generally transfer resources to individuals, distributing a significant proportion of their profits in dividends and share buybacks. For these companies, once tax competition is reduced, incentivising investment means incentivising reinvestment of profits rather than paying it out to shareholders. The rate of corporation tax is irrelevant to this choice because the tax is paid either way - and less is paid on retained earnings or on investment expenditure deemed tax deductible.

In any case, as was pointed out to us, it is not self-evident that companies should be incentivised to retain earnings if they have not been able to identify productive opportunities. Even so, if we do want to incentivise retaining earnings, the way to do this is by increasing the difference in the taxation of retained and distributed profits, that is through base rules, not by holding down rates.

The stance businesses took on the ideal balance between rate and base changes depended, not surprisingly, on the extent to which there was scope for them to benefit from a more generous base regime: the more dependent a business is on capital allowances, the keener it will be to see more generous allowances. Overall however, our interviewees endorsed a higher rate with more generous allowances:

"And I think there is a case to say it would be better to give people allowances that matched more with the cash flow from the investments that they were making, even if that meant the higher overall headline rate." (Manufacturing)

This was well-received by another interviewee, who emphasised that enhancing the system of capital allowances would be beneficial from the perspective

of a firm's Net Present Value (NPV) calculations. This could enable more projects to clear the hurdle rate, further incentivising investment:

"And so, I think from an NPV perspective, reforms in those areas [capital allowances] offset by higher corporation taxes in the future... I would be in support of that, yeah." (Energy/Resources)

A third interviewee also endorsed this idea, but went further in articulating the trade-offs they would be willing to consider. They argued that higher rates would be acceptable, if coupled with higher allowances and a commitment to delivering a more simplified tax system (see Element 3):

"But from a personal point of view, I think it's probably better to have a slightly higher rate with a simplified tax system where there's more generous deductions for investment activities that you actually do want to encourage." (Consumer Goods/Retail)

However one of our interviewees put the contrary view, based on the position of his company:

"From our perspective, we'd be better off scrapping all the expensive incentives for old-school capital investment etc and keeping the rate more 'reasonable.'" (Services)

WHAT ELSE NEEDS TO BE IN PLACE FOR IT TO WORK

The logic just described does not apply to companies that are attempting to attract investment from individuals, for whatever reason. For these companies, a high corporation tax rate could make raising funds more difficult.

Enterprise investment schemes are designed to address this, by allowing an income tax rebate for the investor. These need to be adjusted to ensure no disincentive to invest following higher corporation tax rates, even for those paying basic rate income tax.

And of course Element 1 of our proposal must be adopted to provide the foundation for this second element to work effectively.

WHY IT HASN'T HAPPENED

Just as with reducing tax competition, moving to a new regime has probably not occurred for a simple reason: raising the overall tax take has not been a priority.

There is also a good deal of confusion - possibly deliberately fostered on occasion - between what is needed to incentivise corporate reinvestment and

what is needed to incentivise individual investment, as discussed in the previous section. Empirical studies are presented as proving the damaging effects of rate increases, without unpicking either the impact of base changes or the differences between these two discrete forms of investment spending.

Indeed, in recent years, the UK corporate tax regime has arguably gone in the wrong direction - moving towards a low rate, low allowance regime. It is conceivable that this reflects the influence of service industries (especially financial services) on government decisions, since they benefit more (relative to manufacturing) from this approach. It may also have reflected a desire to have a low headline rate to bolster the UK's business friendly image. But as our (and other) research shows, sophisticated international businesses do not consider rate in isolation from base:

"And I draw a distinction always between the UK and Germany, whereas Germany always gets bad press for a higher rate. But if you're building stuff, if you're investing in fixed capital, the German effective rate is lower because they give much better allowances for people who invest in stuff. Whereas the UK is a bit more service orientated... I think you do a full analysis and you take into account the different rates and bases in there. So I think that as one thing; I don't think the headline rate particularly matters, it's the all-in rate." (Services)

"But, look, the rate is only one thing here, we don't model this just with the rate, the models are more sophisticated than that and they include how we treat capex." (Energy/Resources)

WHY THIS IS ACHIEVABLE NOW

The basic stance just described has now been reversed in the UK. Rishi Sunak has announced a significant increase in the corporation tax rate, to 25% in 2023, combined with the so-called 'super-deduction', designed to incentivise investment in the lead up to this period.

He may well have been encouraged by the global political context. President Biden's plan, both to increase the US's own corporation tax rate to 28% and to promote international convergence through a minimum global tax rate of 15% (in alignment with the OECD's work), has flipped the board on this question.¹² There is now widespread political

recognition that higher business taxes are likely to play a new role: the direction of travel is turning towards a race to the top.

There has been something of a backlash in corporate America to Biden's plans, though notably this appears somewhat more muted than might normally have been expected.¹³ But overall, we believe the UK's proposed changes to corporation tax have been, and will continue to be, largely accepted by business. This is, simply, because they told us this was the case.

Businesses we spoke to before the Budget accepted that corporation tax rates were likely to rise in the future; most of those we interviewed afterwards were broadly accepting of the rises that had been announced, even if they didn't exactly welcome them.

This reflected three different arguments that businesses made about the impact of rises in corporation tax. First, some acknowledged that any rise to 25% was unlikely to have a significant effect on investment decisions made at their companies:

"So a rise to 25%... That isn't going to cause too much alarm and I don't think that would change investment decisions. It might do at the margin, [it would be] very small. I can't believe it'd be a big factor." (Services)

"I think most multinationals kind of agreed that 19% was unnecessary anyway..." (Consumer Goods/Retail)

This argument is linked to the second point made by interviewees. While a rise to 25% may not be ideal, it places the UK in line with the majority of its key international competitors:

"We're US headquartered, so actually 25% is still not out of line with the US, etc... So I don't think the right rate increase would have that impact for us." (Services)

"Yeah, well I think, despite the rise in 2023 to 25%, I think we're still competitive in the UK. China's 25%, a lot of Europe's 30%..." (Consumer Goods/Retail)

Finally, some other interviewees accepted a hike in corporation tax because it is levied on profits, rather than revenues or some other metric. As a consequence, only businesses which are already performing well (i.e. those that are profitable) will be affected by this development:

12 White House. Remarks by President Biden on the American Jobs Plan. 2021. Available at <https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/04/07/remarks-by-president-biden-on-the-american-jobs-plan-2/> [accessed 19/05/2021]; Williams, A. and Politi, J. US proposes global corporate tax rate of at least 15% in international talks. Financial Times, 2021. Available at <https://www.ft.com/content/d41da77e-93d0-4b96-95c3-98ca3f9a6696> [accessed 24/05/2021]

13 Trentmann, N. What CEOs, CFOs are Saying About the Prospects of Higher Taxes. Wall Street Journal, 2021. Available at <https://www.wsj.com/articles/what-ceos-cfos-are-saying-about-the-prospects-of-higher-taxes-11618510341> [accessed 19/05/2021]

“So I guess, I still think it’s pretty minimal to be fair, and I certainly think I would rather have taxes on profit anyway than equivalent taxes on business rates or [redacted] or NICs because you’ve to make a profit [to pay it].” (Energy/Resources)

In any case, many large businesses recognise the need to ‘do the right thing’ (as they put it to us) and wish to be perceived as doing so. They understand the impact of Covid on public finances and the economy at large, and are willing to pay slightly more (as the public may well be expected to do too), as we emerge from this crisis:

“Now, obviously, in the context of the COVID pandemic, and the havoc that that’s wrought on public finances, people understand that there’s some... That to pay for [it] is needed.” (Energy/Resources)

“In a COVID time, coming out [of it], we were not going to be going down to 17%, that was reversed. And 19% was never really going to be sustainable. So I think we’re accepting... The corporates will accept it.” (Consumer Goods/Retail)

Another interviewee linked this to a wider principle of business legitimacy. They argued that paying tax is a recognition of the social contract made between a company and the country they reside in. In this context, helping cover the cost of Covid reflects the relationship which big businesses feel towards the societies they are based in:

“We are in the business where we need a lot of approval from different societies. So paying tax is not really a problem for us, we see that we need to contribute to the society and the society is contributing to us...” (Energy/Resources)

A similar point was made by one other business. They agreed that businesses should pay their fair share, but also implied that corporation tax was an especially appropriate means for doing so, as companies which have become more profitable and successful throughout Covid-19 would end up contributing more to the economic recovery from it:

“But yeah, in terms of other taxes, I think business probably should pay its fair share and in terms of somebody’s going to have to pay more, business should step up to the plate. It feels like it’s fairer for profitable businesses to do that than for loss making businesses to do that. The businesses that have got big windfalls, like online delivery companies and things like that...” (Energy/Resources)

We were told by NGOs that this kind of benign

stance is often combined with aggressive lobbying on the detail in the hope of achieving specific concessions. One of the merits of a big, bold change of direction - as laid out in this report - is that lobbying against it becomes all too visible and therefore may be more difficult to sustain (we return to this in Element 3).

In any case, this change of direction is not simply about raising more. If combined with measures to incentivise productive investment in capital goods and the jobs that go with them, it can be linked to a positive political narrative: more jobs and better public services. In addition, Element 3 offers the prospect of a more predictable and perhaps simpler system, which, we were assured by businesses, would be worth paying for through higher rates.

Element 3 - Minimisation of special reliefs and complexities to create a simple and predictable regime.

WHAT IT MEANS

Simplicity and predictability are obviously desirable, but you cannot simply tinker around to make the system simpler or more predictable. These desirable features are actually made possible, or not, as a result of the system’s basic design, of the elements that exist within that regime. Attempts to superimpose simplicity have consistently failed for exactly this reason: when taken individually, every new and more complex measure can be justified.

More precisely, simplicity can arise from three possible features of an international regime:

1. Less tax competition, and therefore fewer initiatives and counter-initiatives as well as fewer anti-avoidance mechanisms (Element One).
2. Moving towards a formula agreed between countries for allocating taxable profits between countries, away from arm’s length transfer pricing and the inevitably different interpretations of what this means by different countries (movement in this direction is potentially part of the package being agreed at the OECD).
3. Governments avoiding the temptation to use corporation tax to incentivise particular behaviours or kinds of investment (as opposed to designing a system that reduces the disincentive effects of corporation tax).

None of these by themselves create predictability or simplicity. As has been pointed out to us, the formula system already used in the US has led to unending litigation and complexity. Sometimes complexity is

justified by complexities in the economy. Our point is that these three features create an opportunity for greater predictability and less complexity than exists now. If these are our objectives, and we argue that they should be, then they should influence decisions made by the UK and others when negotiating the new regime, and when adopting domestic reforms to the tax code.

WHY IT'S NEEDED

Again and again, the businesses we interviewed emphasised the complexity of the existing international corporate tax system. Highly qualified people spend seemingly endless hours trying to understand the constant supply of new and complicated tax legislation being produced by governments:

"I think it's become so complex and also so prescriptive in some ways, that I think they could go back to a much easier, less complex set of legislation." (Services)

"We've already got diverted profits tax and ORIP [a tax on Offshore Receipts from Intangible Property] and all these complicated things that come out year after year after year, that are arbitrary, complicated, uncertain, and don't actually raise any money because the way the international framework is set up, just doesn't allow them to." (Energy/Resources)

This complexity also relates to how the corporate tax base is measured. One interviewee suggested that there is constant uncertainty over the base, as it is continually being altered by new rules:

"It could not be more complicated than it is today. And there's only one way it's going. I say it could not be more complicated, but it is getting more complicated. And then there's no rolling back, there's no retraction, there's no stabilisation of the base. They tinker, tinker, tinker all the time with the base..." (Consumer Goods/Retail)

However, the primary culprit identified by businesses was the transfer pricing system - and the double taxation it sometimes caused. Those we interviewed stressed that attempting to negotiate between different governments (on exactly what should be taxed and where) was the main source of frustration and uncertainty in their businesses' tax affairs.

Indeed, some suggested that they would rather be removed from the process altogether. They discussed an idealised system which would involve simply cutting one cheque to the largest tax authority, who would then have responsibility for dividing this total sum out to governments around the world - in other words an extreme version of the

formula system. While we do not advocate for this extreme version here, it does illustrate the sheer frustration businesses feel at the complexity of the existing system:

"From a corporate standpoint, if every country in the world just said, you know, the total tax bill of companies should be X percent everywhere in the world, and your top PLC tax authority collects X percent from you and divvies up around the world.... I'm out of here, I'm done. We will be completely fine with that." (Manufacturing)

"So we're big fans of having some kind of one-stop shop where you file one tax return with one tax authority and it gets audited by other tax authorities, that's fine. They can do that in the background, and then they just allocate it out. In an ideal world, what I would do is I would just pay one sum of tax over to one tax authority and say, you divvy it up." (Services)

"It's actually something that in my ideal world, in my utopia, I would indeed say pick up the consolidated tax numbers of our company, take the profit, have countries debate how much flows to which country and tax it in that particular country." (Energy/Resources)

This was considered a particular burden for multinational businesses which have economic activities (and thus tax liabilities) in a very large number of countries across the globe:

"My idea - and I said this to NGOs, when OECD started out - take the corporation, times the profit before tax by 30%. I'll hand over that cash to HMRC, and HMRC can divvy it up in accordance with a formula that they agree with all the governments around the world: sales, assets, people, and they do it government to government. I am fed up with, again, doing their job for them, trying to figure out who wants to tax, what across 50/60 countries." (Consumer Goods/Retail)

But there was particular frustration with the UK's tax system too. Some noted that the UK has a particularly unstable and complex tax regime, something which understandably makes investing in this country less attractive to international businesses. One interviewee provided a particularly clear summary of this comparison:

"A massive theme for all of us in the tax profession is just complexity. And I think it's not just complexity, the OECD level, look at the... The UK tax code, I think is the longest anywhere in the world, I think it now outweighs India. And it's just so complex and unnecessarily so." (Services)

This obviously reflects complexity at the level of individual tax instruments too. Several businesses cited the complexity of the UK's capital allowance system and the lack of clarity around what is tax deductible spending:

"It is very complex, the UK regime. In terms of what impacts those capital allowances, it's very overly complex for what it is, [and for what] it should be. And it's very inequitable, as I've touched on." (Consumer Goods/Retail)

"But just overall to simplify [sic]. If you look at the companies' regime, or just standard tax deductions, or accelerated tax deductions. There's always a lot of complexity involved in it and a lot of subjectivity about whether you're in or you're out and you can benefit from things or you can't." (Consumer Goods/Retail)

Even the Research and Development Expenditure Credit (RDEC) scheme - which was generally described as a highly effective incentive by those we spoke to - is vulnerable to this complaint. One business emphasised the confusion around whether digital R&D spending, which is critical to the future development of the UK's economy, can be included within this credit:

"So there's been a consultation about cloud computing and ensuring that the R&D credits captured all that sort of thing... Now, I can't remember what the words are at the top of the R&D credit regime [are], but I think it's hard to say that that type of expenditure qualifies. But actually, if you think about the world that we're in, that probably ought to qualify. This is exactly the sort of thing that we want to get companies and society as a whole to do more of." (Energy/Resources)

A related concern was that while the UK's tax system is complex, it is also extremely volatile. Businesses reported that the constant changes to tax regulations led to considerable uncertainty and created unnecessary administrative burdens:

"I think one thing that can drive a lot of uncertainty and also a lot of work, is around when rates fluctuate wildly and things are announced and then rode back on." (Services)

Crucially, interviewees identified this as another area in which the UK's tax system is inferior to that of its international counterparts and competitors:

"If we think about the recent changes to the 25%, and the overall history over the past 5-10 years, it must be one of the most... The UK must be one of the most volatile [countries] on tax rate." (Energy/Resources)

"I think the UK chops and changes. More than other countries." (Manufacturing)

Thus, there are two problems: (1) complexity and (2) unpredictability/volatility. So if the corporation tax take is going to go up (as we have outlined), the quid pro quo could be a more predictable and less complex regime in return. In any case, this is hardly a sacrifice for the tax authorities. While on occasion, they may have to forego the opportunity to raise more revenue through specific instruments, this will be relatively rare given the features of the system set out in the previous section. The net benefits of a simpler and more predictable regime - fewer avoidance opportunities and an attractive investment regime - are likely to outweigh the costs.

In addition, a simpler and more predictable regime is also more democratic. Almost no-one, other than practitioners and a few academics and commentators, really understand the international tax regime or what is going on at the OECD. This is bad in itself, but it has two further negative consequences: (1) that there can be a disconnect between the public stance of companies and the detailed lobbying that they engage in (bad for citizens) and (2) there is an atmosphere of distrust between the public and politicians on the one hand and business on the other (bad for business). As in many areas of policy, most people will never understand the detail, but that does not mean that the principles cannot be clear. As in many areas of policy, some experts will dismiss attempts to reduce things to their essentials, but that does not mean we should abandon those attempts.

So, whether that be in the transition to net zero emissions or in R&D, the principle is neutrality. The advantages of were set out clearly by one business we interviewed:

"And that's why I strongly do believe that the more neutral the system (in that we wouldn't create incentives through the tax system), that would make it perhaps easier and more simple and somewhat more that we could understand what the outcome is." (Energy/Resources)

WHY IT HASN'T HAPPENED

Simplicity and predictability have sometimes been attempted as an overlay on the existing system but this approach is bound to fail (as already mentioned): the complexities are built into the system, and change is the result of this complexity, as well as tax competition.

However there is also a temptation, sometimes increased by industry lobbying, to use corporation tax measures to achieve specific policy objectives. The R&D tax credit (to the extent it isn't simply a

response to tax competition) is an example of such a measure, and accelerated allowances for investment in carbon neutrality would also be an example.

These are effectively grants, but proposals for reliefs do not receive the same level of scrutiny within government as proposals for grants. In addition, whereas grants are normally for defined periods, these concessions are often 'until further notice' and quickly get locked into the system, sometimes continuing well beyond their useful life. So they proliferate, adding to complexity within an already complicated system.

There are reasons for this use of the tax system of course. For example, we were told that small businesses in particular prefer tax reliefs to grants:

"When we claim capital allowances it's just an entry on the tax return and then that just reduces your overall corporation tax. Whereas when we do R&D tax credits, it's got to be a credit against the corporation tax paid and then it's a refund back of tax paid (etc) we've got to account for and it's all quite complicated I imagine for smaller companies." (Services)

This reflects a number of different advantages. Reliefs are easier to secure (with the application process wrapped up into the tax process) but they are also psychologically preferable: a grant is a handout, whereas a tax relief is being allowed to keep your own money. This may help to explain why the tax system is used in the way it currently is.

Addressing this is difficult since it is likely to create losers (i.e. previous beneficiaries of abolished reliefs), who will inevitably shout more loudly than those who gain from simplification. The latter are widely dispersed and are in any case gaining far less than losers are losing.

WHY THIS IS ACHIEVABLE NOW

Features 1 and 2 listed at the beginning of this section (less tax competition and at least a partial move towards a formula for allocating profits between countries, agreed by those countries) are now real prospects given the Biden initiative. We have already discussed tax competition. The details of Biden's proposal, especially that taxation of multinationals should take into account sales levels in different countries, may well favour US corporations when compared with other proposals on the table,

but the fact is they give impetus to a move towards greater use of formulae.

These only create an opportunity - but the Biden administration has advocated taking this opportunity. Its recent presentation to others in the OECD process stated that: "simplification is highly desirable" and emphasised the need to "stabilise the architecture".¹⁴ The UK can choose to support and even accelerate this direction of travel if it wishes, even if it quite legitimately continues to negotiate the details within this framework in ways that are to its national advantage.

Reducing the number of reliefs (and resisting calls for new ones) - the third feature - will not be easy. However it is possible. Sunset clauses can be introduced for existing reliefs, giving business time to adjust, and where cost benefit analysis justifies it, grants can be introduced to replace them. As with other forms of business support (and indeed individual support), the process needs to be properly designed: politicians will need to make improving the interface between business and the government bureaucracy a priority.

The point is there is a prize for doing this. Businesses we interviewed were extremely clear: simplification is an important priority for them. They are open to paying more in corporation tax to help fund the recovery from Covid-19, and more so if simplification and predictability is a part of this deal:

"You would rather have a slightly higher tax rate with certainty and waste less money on getting advice and paying people to work out what your tax is. You would much rather have that than lower tax rates with complexity and uncertainty and having to bear for long periods of time the risk." (Energy/Resources)

"And if we could see less going on waste and inefficiency and layers of bureaucracy and so on, we'd be supportive of increased taxes, if that was a genuine cause and effect." (Services)

"If everything else is equal then of course the tax rates will play a role, but the tax rate of a country is never alone in deciding where the operation will be unless it's a very mobile operation. But the predictability may be a big thing." (Energy/Resources)

A commitment - as well as actions - to reduce complexity in the tax system would make it far easier to raise corporation taxes in a way that minimises the backlash from the leading businesses based in the UK.

¹⁴ Williams, A. and Politi, J. US proposes global corporate tax rate of at least 15% in international talks. Financial Times, 2021. Available at <https://www.ft.com/content/d41da77e-93d0-4b96-95c3-98ca3f9a6696> [accessed 24/05/2021]

RECOMMENDATIONS

In this report we have proposed a new corporate tax regime for the UK, underpinned by three elements:

- Element 1: Convergence of corporation tax rate and base in major developed countries.
- Element 2: This convergence to be around higher than existing rates, with base rules consistent with productive investments.
- Element 3: This convergence to minimise special reliefs and complexities to the extent possible, with the aim of creating a simpler and more predictable regime.

Our primary recommendation is that the government should publish a new corporate tax roadmap that commits to:

- **Endorsing and working with Biden's proposals for OECD reform of the international corporate tax system.**

As we have seen throughout this report, the Biden administration has put forward a new approach, promoting a plan that would introduce a global minimum corporate tax rate and a move towards a formula system, including rules requiring multinationals to pay corporation taxes partly based on their sales in a particular country. This clearly helps to make Element 1 of our proposal possible, and is why the UK government should join France, Germany and others in backing Biden's proposals, even while continuing to negotiate the details.¹⁵

Working with other countries to build on this and move towards a regime with higher than existing rates, and base rules consistent with productive investment.

To deliver Element 2 of our proposal, the UK should maintain its plans to increase corporation tax rates and in due course consider increasing them further. If necessary it should adjust rules on the base and for enterprise investment schemes to ensure there are no investment disincentive effects.

- **Working with other countries to reduce and standardise reliefs.**

If Element 3 of our proposal is to be delivered, the UK must work with other countries to reduce and standardise reliefs. This is because much of the complexity and change in the UK's tax code results from competition with other countries. A competitor country introduces a new relief, the UK then responds with a new or more generous relief, driving additional complexity and/or unpredictability for business.

To reduce this dynamic, the UK must play a leading role in encouraging other countries to reduce and align their systems of corporate tax reliefs. Given the new impetus to global coordination on corporate tax matters given by the Biden administration's plans, this is now a very real possibility.

- **In line with this, introducing sunset clauses for existing reliefs, with reliefs converted into grants where justified, and a moratorium on new corporate tax reliefs.**

Alongside work at the international level, to deliver Element 3, the government should also begin to reduce complexity in the UK's domestic tax code. Sunset clauses can be introduced for existing reliefs, giving business time to adjust, and where cost benefit analysis justifies it, grants can be introduced to replace them. As with other forms of business support (and indeed individual support), the process needs to be properly designed: politicians will need to make improving the interface between business and the government bureaucracy a priority.

We recognise this will be difficult to achieve, in part because it is likely to create losers (i.e. previous beneficiaries of abolished reliefs), who will inevitably shout more loudly than those who gain from simplification. Addressing this is difficult when the latter are widely dispersed and are in any case gaining far less than losers are losing.

However, the prize is large: businesses told us time and time again of the benefits from a simpler, more predictable tax regime. Given this, delivering on this will make the introduction of higher rates, and in turn a higher tax take (the overall objective of this report), easier to sell to businesses.

¹⁵ Delfs, A. and Horobin, W. France, Germany Support U.S. 21% Tax Plan for Corporations. Bloomberg, 2021. Available at <https://www.bloomberg.com/news/articles/2021-04-27/france-germany-support-u-s-21-tax-plan-for-corporations> [accessed 19/05/2021]

ANNEX: INTERVIEW ANALYSIS

This annex provides a more detailed analysis of the findings relating to corporation tax from the 20 interviews we conducted with tax directors or equivalent at large companies with UK operations. These interviews were conducted in March and April 2021. Interviewees are identified only by the relevant industry their business is part of, while any identifying information within quoted material is redacted.

Summary

INVESTMENT

Businesses were clear that tax was a factor in determining where investments take place, though only the primary factor at the margins. Instead, non-tax factors were much more likely to drive investment decisions, with tax comparisons acting as a tie-break between similar opportunities. Businesses provided a mixed response when asked whether higher corporation tax rates would create meaningful investment disincentive effects, though (as noted below) there was some willingness to accept higher corporation tax rates given the context of the pandemic.

There was strong support for the Research and Development Expenditure Credit or RDEC, which rewards companies for research and development spending in the UK. However, there were some concerns that tech-based R&D was insufficiently rewarded. There was little support for the corporate tax system to be used to incentivise green investment, as this was often viewed as the wrong lever to achieve this policy objective.

CONVERGENCE AND COMPLEXITY

Businesses were generally supportive of the OECD's Base Erosion and Profit Shifting (BEPS) process. However, many were concerned that divergent national interests would prevent agreement being reached. Interviewees further stated that the most egregious forms of profit shifting, which have incited public anger in previous years, were no longer commonplace, due to political pressure and OECD action.

Businesses were explicit that the international tax system is characterised by too much complexity, as is the tax system in the UK. Interviewees noted their desire for stability and predictability around corporation tax levels, especially for firms with very long-term investments. Finally, there was widespread criticism of HMRC, with businesses suggesting that other countries' tax authorities were much more efficient and easy to work with.

TAXES AND BUSINESS PRIORITIES

Businesses often accepted the need for higher corporation tax, in light of the economic impact of Covid-19 and were usually comfortable with the Chancellor's new 25% rate. By contrast, interviewees were strongly opposed to raising NICs, arguing that this could disincentive employment and is often impossible for businesses to pass onto their customers.

Businesses signalled that they would be more supportive of higher corporation tax rates if progress could be made on delivering a simpler tax system with more generous capital allowances. By contrast, hypothecation of business taxes was not considered an attractive option: businesses were sceptical of the economic logic and political feasibility of this idea.

Detailed findings

INVESTMENT

Tax as Investment Driver

The businesses we interviewed recognised that corporate tax regimes play some role in determining which country they invest in. For some this was about comparing with other potential countries, for others due to their internal financial appraisal schemes:

“But to get to the UK in the first place, you have to then compare tax regimes. And I think that comes to the fore quite a bit. Because you could go in the States, you could go to Switzerland, you could go to the UK, you could go to Singapore, Chinese are offering credits and access, etc. So lots of places with good environments and good infrastructure and good academics and tax. So tax does count for something.” (Consumer Goods/Retail)

“So I would say we have a pretty ruthless financial appraisal system, which says that investments have to make returns and the returns are based on post tax returns.” (Services)

This included an assessment of how generous a particular country's tax regime might be in supporting R&D, or capital investment more broadly. The UK was considered good on the former, but - notwithstanding the newly announced super-deduction - generally less so on the latter:

“The first is that the UK is not particularly competitive in terms of capital allowances with our peers. I think we need to, we need to improve that regime anyway, not necessarily to attract [redacted] investment but more broadly, as a UK citizen, I think we would attract more investment if we were more competitive on that front.” (Energy/Resources)

“So I know, because we are very conscious of research and development tax credit in our footprint around the world, that the UK on paper is the best, so it is the best place to employ people here to develop our IP.” (Services)

Some interviewees described how tax becomes a more significant factor if the rate is high, perhaps unsurprisingly:

“Tax is only one of the matters that are assessed. And, of course, the higher the tax rate, the more important it becomes. So in some of our jurisdictions, because of the nature of our business, [redacted] tax rates are very, very, very, very high, well above 50% tax rates... and so tax becomes a big driver when the tax rates are so high.” (Energy/Resources)

Tax also appeared a more significant factor if the business in question is particularly mobile:

“If we were Amazon and we were UK-based we might move our head office if the rate gets too high and say, as Amazon do, that the mind of management and the value of the intellectual property in that business doesn't sit in the UK, it's offshore. So where you can move an asset and the asset is more intangible, the higher the rate the more risk you have of forcing businesses away...” (Consumer Goods/Retail)

“And there's certain types of businesses that actually are quite mobile, so whether you want to have a location for senior management as your sort of head office or do you want to have somewhere to manage all of your intellectual properties. So there's certain functions like that, that actually the tax rate disproportionately has an impact on.” (Services)

This was also the case for R&D spending. One interviewee emphasised that tax reliefs for this kind of investment were vital to keep them in the UK, given the mobility of this side of their business:

“And as you say, because we have big links with universities around the world, we're perfectly capable of moving stuff around. So I think... my phrase is, it [the allowance for R&D] anchors us here and it keeps our centre of gravity in the UK.” (Services)

However, while businesses do make comparisons between the corporation tax level in different jurisdictions, this does not mean looking at tax levels in every country in the world when deciding where to invest. Instead, interviewees drew comparisons between tax levels in a number of advanced economies when taking investment decisions:

“So a few years ago we made a big investment decision about where to build a [redacted]. And we had to make a choice between London and Amsterdam, New York, and it had to be those big developed jurisdictions, because we needed places where we could source that kind of talent... But it would be a factor in that sort of overall cost equation that we'd be looking at. So, yes, it would have some bearing on those kind of investment decisions.” (Services)

“Some of the investment decisions, you have a choice as to: do you invest in the UK? Do you do it in the US? Do you do it in Sweden? Do you do it in Europe? Do you do in Japan, etc. And the comparative position of a UK investment versus somewhere else in the world will change because you've got a higher tax burden in the UK than we had yesterday...” (Manufacturing)

"Yeah, well I think, despite the rise in 2023 to 25%, I think we're still competitive in the UK. China's 25%, a lot of Europe's 30%..." (Consumer Goods/Retail)

In addition, some interviewees suggested that tax was growing in significance as a factor, within particular businesses:

"And I think tax is increasingly coming into play on that side... All of those metrics that I feed into more broadly from a tax perspective are now being taken into account more and more at the investment decision phase, how can the tax profile be taken into account when we're making an investment, if that makes sense?" (Energy/Resources)

"What we've become more and more conscious of as a [redacted] is actually the post-tax position of everything we do. Believe it or not 5 years ago, maybe tax wasn't really considered the way it is now, it was always profit before tax. So the tax charge gets considerably more attention at board level or the committee level [now]." (Services)

Overall however, there was a general recognition that, while corporate tax regimes do play a part, it is rarely the primary factor in deciding where investment takes place:

"We look at the commercials first, we'd look at where we think we need the right people, which jurisdictions, and then the tax is a cost from doing that. I don't think the tax drives where we do our business." (Services)

"I think tax rates will be a factor in the business case, but they're not going to be I think the driver ultimately." (Consumer Goods/Retail)

"Whether it needs to be close to consumers in Italy or somewhere else, it will be where it needs to be based on all of the other more important economic factors first. And then the corporate tax position is interesting, if there's like two or three options on the table it's at that point that I guess the difference between the corporate tax aspects will be taken into account." (Consumer Goods/Retail)

"The corporate tax rates in those locations are highly relevant to those kinds of investment decisions. Not the primary factor, but a reasonable factor in that kind of decision making." (Services)

Non-Tax Factors as Investment Drivers

There was near-consensus from our interviewees that investment decisions were primarily driven by non-tax related factors, especially those relating to the

talent and capabilities of the workforce based within a country:

"I think because it's all about people, the number one consideration always is talent, where can you find people with the right skills." (Services)

"It's the talent of the people that are available in the London pool is why I think people set it up here. So I don't think putting a bit more on an NIC or corporate tax, or one or the other, would make too much of a difference because I think if you're talking about international organisations, they still see London is not overly expensive compared to other countries." (Services)

Sometimes this also included longstanding relationships between a company and educational institutions:

"We've rarely decided that we're going to demolish a lab in country X and move it to country Y because there's a 2 year R&D incentive. The long-term investment and capabilities and the links that you have to have with the education system. All of those things don't just pop out of the air, in our business, that may be different from other businesses." (Energy/Resources)

Another non-tax factor cited by businesses was the regulatory environment within a particular country:

"...we looked at all the classic places and Ireland was obviously on that list, and Ireland is less than half the tax rate of France, Germany, wherever. And we went to Germany, right... But it's the development of that country, the regulatory control that our clients want to see.... They have to be dealing with a highly regulated [firm] and therefore what clients would want to see trumped [paying] a third of what we're paying now." (Services)

"But there's infrastructure, environment, there's regulatory environment. The tax environment is part of that, it's certainly a factor." (Consumer Goods/Retail)

Other businesses explained their decision making process in greater detail, explaining that a bundle of non-tax factors drive where they decide to make investments. Beyond the factors considered above, these also often included the quality of a country's infrastructure, relationship to existing supply chains and relevant research institutions:

"So the investment decisions will come down to: 'How close do we need to be to consumers? Does COVID have an impact on what our supply chains need to look like? Where's the right

talent? Where's got the right infrastructure? Where's got the right legal system to protect our brands?'. All of the other commercial factors will have a much bigger sway over the investment decisions versus a few percentage points on the corporate tax rate." (Consumer Goods/Retail)

"I use the example of a factory, or you could talk about a Research and Development Centre, you start off with saying: 'Where's R&D? Where's the science and the scientists? Where are the institutions? Where is the ecosystem? Where are the ability to get the right infrastructure and connectivity?' And you're coming through all of those things before you get to: 'And what's the tax bill?'... So tax, it has its place, but for those sort of decisions, it's quite a long way down the pecking order." (Manufacturing)

In part, the salience of non-tax factors reflected changes in the international tax environment more broadly. Interviewees stated that there is now less scope to shift assets into tax havens, as this would require actually moving resources to those countries, rather than just on paper (as routinely occurred in the past, see Profit Shifting/Transfer Pricing):

"...and people are less keen to go to Dublin than they are to go to London or Amsterdam. But that's really what it's about from our perspective, it's where can you find the talent? And so, you could do all sorts of clever tax planning in principle, in Ireland. But actually these days, tax planning relies on having the right significant people in the right places anyway." (Services)

"Yes, in the past, some jurisdictions have been used and vehicles have been set up to avoid tax..." (Services)

"So when you put your R&D somewhere else... You're talking about moving the people, but the ownership of the technology intangibles is in the UK, in our case, related to our UK R&D." (Consumer Goods/Retail)

Investment Disincentive Effects

Some interviewees suggested that increasing the amount of corporation tax paid by businesses could be problematic, as it would disincentivise investment activity:

"I think that there is a lot of evidence that says that the effective tax rate, so accounting for both the rate and the base, do[es] have a strong influence on both domestic investment and foreign direct investment, and this is evidence that goes back many, many years." (Services)

"And therefore, I think what it would derive, it might reduce the rate we invest in our network, it might slow down that. Because it's the same point that we're still being evaluated against our peers by our investors... I think when you look at investors, they look at what is the return that you've generated on your capital?." (Services)

However, this purported effect is almost non-existent for some businesses, who suggested that changes in corporation tax levels would be unlikely to affect their investment decisions:

"So taxes will feature in the relative ranking of different options that we might have available. But having made the decision that we want to be active in the UK market, because we think it's an attractive one from a strategic perspective, then we're not going to suddenly pull out because there's been a change in the rate of corporate income tax." (Energy/Resources)

"It might, at the margins in terms of whether we invest in a project or not, a new project we haven't started yet... [Though] in our industry we don't have a choice, we do them anyway, so we were digging in [redacted]. We can't do that, in a country where there isn't [redacted] around." (Energy/Resources)

But for some businesses it is clear that changes in corporation tax do have a greater capability to affect investment decisions, especially for companies owned by private-equity investors:

"In our new ownership, I suspect, and this is only my view, my view is that it will have a significant impact. Because, a 5%/6% increase in corporation tax means less cash to invest in capital investment products... So our new owner is, yeah, private equity based, yeah." (Consumer Goods/Retail)

Green Investments

The businesses we interviewed indicated that they were already pushing forward with green investments in their businesses, something that reflected the major public commitments they had made to achieving net-zero. As a result, interviewees often felt that greater tax incentives to 'go green' would have little impact on business decisions:

"But I think the biggest incentive from our perspective is that we have committed to do it, we've already publicly committed... So I'm not sure that huge incentives will influence our behaviour to do that [make those investments], but they might [for] other businesses who are less sustainably minded all round." (Energy/Resources)

“As an organisation, we’ve already seen that as important and therefore we’ve made various commitments for net-zero. So we’ve already been nudged by our consciences...” (Services)

These public commitments are likely to result from different influences within different types of business, as stressed by one interviewee:

“So those are the two obvious forces [pushing for sustainability]: the investors on the listed side and from the branded retail perspective, on the private side.” (Services)

There was some support for utilising the corporation tax system to support the push to net-zero among our interviewees. However, they generally suggested that this would be most effective at increasing the speed of change, rather than determining whether green investments actually take place:

“But it definitely eases the way and facilitates a path for them to meet those commitments, and what it could affect is the date by which they achieve that commitment.” (Services)

“For me it’s about pace, it’s about pacing the changes. Yes, those arguments have some credence but I think it’s the pace of change that is important to us as a global society so why wouldn’t you use those levers if you can?” (Energy/Resources)

“So I think incentives would make us get there faster and it’s something we would look at rolling out, for sure.” (Consumer Goods/Retail)

However, a larger cohort of those we interviewed were sceptical about this idea. They suggested that green incentives built into the corporation tax system were likely to subsidise investments which were already taking place - constituting poor value for money for the taxpayer:

“We have to move the needle as quickly as we can. The UK is absolutely on the right path on that. I think there is an incentive there that’s driven by the market. Whether there’s an extra tax incentive, I’m not sure that’s a good use of money. Because I think you’re going there anyway.” (Consumer Goods/Retail)

“I think a lot of it is, for us as a [redacted], we think it’s the right thing to do anyway, so we’re going to invest in sustainable finance and here we are doing it. Any tax incentives from doing that would be probably a bonus more than an incentive.” (Services)

“So, if the government wanted to reduce the cost of that [the push for net zero], I’m sure we’d be very glad of that. But I think we’ve already been nudged in that direction.” (Services)

Others were sceptical for a different reason, suggesting that the corporation tax system is a poor instrument to achieve the kinds of behavioural change which green taxes are designed for:

“And my perspective on that is that you should keep it as simple as possible... We’ve seen that anything you try to achieve through incentives in the corporate income tax world, can rarely meet the objectives. Because they’re based on assumptions about response that are highly uncertain.” (Energy/Resources)

“The corporate income tax system is not designed to do that, that’s why generally experts are saying that specific environmental taxes are more effective...” (Services)

One interviewee suggested that green incentives may be more effective if targeted at smaller businesses, rather than larger corporations. They suggested that smaller businesses are less likely to have established long-term commitments around things like sustainability:

“In terms of other aspects, a tax incentive is what will nudge them. Because otherwise, they’re not particularly bothered. They basically want to make some money, look after their family, and all the normal things, and at some point sell up.” (Services)

Research & Development Expenditure Credit (RDEC)

Interviewees broadly agreed that the financial incentives provided for R&D spending made the UK a more attractive place to invest:

“And the credit actually gives you almost like a grant towards your R&D investments, that does drive investment. And as you say, to a certain extent, it encourages people to undertake the R&D in the UK, because, all things being equal, for that R&D in the UK you get more bang for your buck.” (Manufacturing)

“I think the UK made a very good case with the patent box and the R&D credits to centre the investment in R&D in the UK. And I think that’s paid off... And I think you get a very competitive environment in the UK for R&D investment.” (Consumer Goods/Retail)

In particular, one interviewee highlighted their view that the Research and Development Expenditure Credit (or RDEC) is a well-designed scheme that fosters innovation:

“But in my view, the RDEC is important and it definitely is taken into account... The RDEC is exactly designed in the UK as we would want it to be designed, to foster innovation by

companies who are not necessarily profitable in that specific year, or in the next 3-4 years, maybe just because they're very young and very innovative." (Services)

However, there was concern over the treatment of particular kinds of R&D spending under the RDEC regime. Several interviewees suggested that digital investments were frequently outside the scope of this credit:

"It's because of the definition of R&D. So the mindset, when they designed the R&D incentive regime, and I think this is the same even today, when you look at the people in Treasury making those kinds of calls. It's a very old school view of what R&D looks like. So the definitions are all with a view to people, men, generally men in lab coats... If you're in the tech sector, the way that you innovate, and the way that you create value is not by coming up with some scientific discovery, certainly not something that you can patent... So in our sector, the UK R&D regime is pretty useless to be honest." (Services)

"So there's been a consultation about cloud computing and ensuring that the R&D credits captured all that sort of thing... Now, I can't remember what the words are at the top of the R&D credit regime, but I think it's hard to say that that type of expenditure qualifies. But actually, if you think about the world that we're in, that probably ought to qualify. This is exactly the sort of thing that we want to get companies and society as a whole to do more of." (Energy/Resources)

Another interviewee agreed that there was some confusion around what expenditure might qualify. However, in contrast to other interviewees, they also implied that the RDEC regime was not generous enough:

"When we look at business cases or business modelling or products or look at valuations of potential products, we never put in the R&D tax claim. At the time of the business case it's quite uncertain about what would qualify, what wouldn't qualify, and I think, it's at 10% or 12%, so it's not really a big relief." (Services)

This problem of scope may simply reflect a failure to adapt the RDEC regime to new forms of R&D expenditure. However, a comment made by another interviewee suggested an alternative explanation:

"And maybe just to add that probably the only really controversial design feature of the RDEC is the scope. Because something that is covering too much is open to abuse, if you like. So I think it's a question mark, when you design

a support for innovation you want to strike the right balance between being not too narrowly scoped and too widely scoped." (Services)

CONVERGENCE AND COMPLEXITY

Convergence (1): BEPS and OECD

The majority of the businesses we interviewed were supportive, at least in principle, of the OECD's ongoing Base Erosion and Profit Shifting (BEPS) process. They suggested that greater international cooperation around the rules governing the global corporate tax system would be beneficial:

"I think that continued push towards international cooperation is something we almost need to redouble our efforts [on], which sounds a bit odd given the pain we're going through with the OECD. But I do think it's a pain that needs to be gone through, otherwise we are going to end in a bit of an anarchy from a tax front." (Services)

"I think the OECD is providing guidance as to what's an appropriate minimum headline rate and some guardrails around the types of incentives; how big your base is, how small your base is. I think that will be helpful." (Manufacturing)

This was often linked to complaints from multinationals about the complexity involved in navigating rules across different countries:

"But simplification I think would be beneficial. And also, across all jurisdictions, having a sort of common set of principles or rules, as opposed to sort of different taxes or different approaches by tax authorities in different jurisdictions [which] is quite difficult." (Services)

"But in principle, I think if that could be made to work it would radically simplify many peoples' lives, and eliminate all of the complexity, all of the enormous effort and waste that goes in, I would say, from our perspective, in trying to defend in one country what is considered perfectly appropriate in another country." (Energy/Resources)

However, while businesses were supportive of efforts to achieve greater international convergence, many remained sceptical that different governments would be willing to agree on a common framework:

"Could there be a metric that you could pick up for a global level and say this is an appropriate tax base globally for this company and we'll compare that to the taxes that were actually paid? That seems perfectly sensible to me, that the challenge is going to be... finding that

metric, [and] the bigger challenge is going to be getting the countries to agree to it.” (Energy/Resources)

“The trouble is, you’ve got to get every single country to agree to the same formula, and that they’re going to calculate it in the same way. If you could get to that point, then it would be absolutely brilliant, you’d save a lot of people’s time...” (Consumer Goods/Retail)

One interviewee agreed with this, suggesting that some governments were particularly difficult to negotiate with and would likely present a threat to any deal being reached:

“Don’t start any proposition with, the governments are perfect and they’re all working together, and they’re all... Because what you have is one set of governments who are practising extortion, and the other set of governments that concede some, or are sensible and concede some.” (Consumer Goods/Retail)

However, there was some optimism that governments might be capable of reaching some agreement - a view that seems much more plausible given the plans laid out by the Biden administration, especially if these proposals are backed by other major economies:

“I think getting anything through Congress is going to be a challenge. But I can see that the Biden administration is signing up to it. I think I can see European jurisdictions signing up to it. Who knows where China will go, they’re very quiet and keep playing their cards close to their chest. But I could see something getting agreed.” (Services)

“I think it’s certainly true that if you had a critical mass of large countries doing it, then the rest of the world would have to get on board, because they would be having their pockets picked by the big countries that are doing it...” (Energy/Resources)

In addition, some interviewees made a related point around convergence. They suggested that, amongst larger, advanced economies, there has been a recent shift towards broadly similar corporation tax rates:

“I think most multinationals kind of agreed that 19% was unnecessary anyway, and looking around at other countries, there’s been more like a conglomeration of corporate tax rates recently, anyway.” (Consumer Goods/Retail)

“In the case of the UK, the tax, depending on your point of view, the tax has now moved into the pack, rather than being perhaps nearer the lower end of the pack with the move to 25%...” (Energy/Resources)

“Yeah, well I think, despite the rise in 2023 to 25%, I think we’re still competitive in the UK. China’s 25%, a lot of Europe’s 30%...” (Consumer Goods/Retail)

Convergence (2): National Interests

Achieving convergence within the international corporate tax system inevitably requires some alignment of policy between governments with different national interests. Interviewees were particularly sceptical that smaller countries would be in favour of plans for convergence:

“The other alternative is to use a three factor formula: assets, payroll or number of employees, and sales, and equally weight them... The countries that would not like that approach are going to be the countries that have small markets, so small populations, and that invest heavily in their R&D capability.” (Consumer Goods/Retail)

“I think the challenge is how do we get a system that is fair to small, open economies that have maybe specialised in particular industrial sectors, that they can reap the rewards from those things that they’ve specialised in as countries?” (Manufacturing)

In particular, any plan which relies upon alignment over the headline tax rate may disadvantage smaller countries which use lower tax rates to attract investment, including the likes of Ireland:

“So if you’ve got: Ireland versus the UK, geographically they’re very close to each other; language is the same, skilled labour force, cost basis probably not that different. Ireland possibly has two advantages now, it’s in the European Union, which does make a difference. And the second, its tax rate’s half the UK rate.” (Manufacturing)

Despite these concerns, international alignment would not necessarily involve securing agreement from every single country. Instead, as noted by one interviewee, it would require a ‘critical mass’ of major economies to support such a plan:

“I think it’s certainly true that if you had a critical mass of large countries doing it, then the rest of the world would have to get on board, because they would be having their pockets picked by the big countries that are doing it...” (Energy/Resources)

But there was some further scepticism that even the larger global economies would be able to reach agreement, given that their economic interests are not perfectly aligned:

"I'm not sure I agree, although it's not my place to say that all the large countries, all the powerful countries, it would be in their interest." (Energy/Resources)

"So I think different countries have emphasised different taxes to try and either protect or maximise their revenue. So South America, China and places like India, [charge] lots of withholding taxes on payments out, whether it's for management fees, all kinds of things, rather than just like royalties. But that's always been a feature of the international tax role." (Services)

Thus, even if convergence were reached - perhaps through the BEPS process - it is likely that there will remain some conflict over the workings of global corporate tax system:

"I think this tension between the two types of countries will remain in the future even if we approve Pillar one and Pillar two. Pillar one and Pillar two won't solve that... The tension between source and markets essentially is a big problem, I don't know if it's the main [problem], but it's a big problem. It won't be solved [by] what the OECD is doing now and the tension will remain continuous." (Services)

Profit Shifting/Transfer Pricing

Interviewees consistently suggested that the most egregious kinds of corporate tax avoidance - often achieved via profit shifting - were no longer common practice within their businesses. They suggested that there had been a significant culture shift over the past decade:

"And by the way, just on your dog legging profits offshore, how much of that left is going on? I agree there should never be offshore profits where there's no activity, you just stick a brand or IP in Switzerland, like Kering did with Gucci. Or you run some intellectual property through the Caymans, or whatever it is you're trying to do. That's all nonsense, that should absolutely be slapped down and stood on. But I think most of it is now, it's quite hard to do that without substance." (Consumer Goods/Retail)

"So yeah, tax is a consideration but it's never the thing. It would have been the thing, potentially 5 or 10 years ago when there was more aggressive tax structuring going on, but I think the landscape for what people expect from multinationals in terms of tax has changed so much that it can't really be the thing." (Consumer Goods/Retail)

"But in terms of, it feels like the sentiments of these days where you can use these low tax regimes... The appetite's gone and with the US tax regime, and it was predominantly US multinationals that were driving this as a behaviour for all of their non-US income, the desire is gone as well." (Services)

"Gone are the days where you could shift just a bit of intellectual property, or you could shift a few lawyers, and that would do it. It doesn't work like that anymore. And rightly so." (Services)

"We're very clear in our tax policy that we only book assets and liabilities, where the people are that generate the assets and liabilities. The days of putting stuff in shell companies to take advantage of lower tax rates are long gone." (Services)

One interviewee suggested that this reflected a change in attitudes across the private sector-at-large, with both executives and analysts placing greater emphasis on responsible tax arrangements:

"10 years ago the CFO of a big multinational would have been like licking their lips... And also, the analyst group of the investor community wouldn't have really been paying that much attention to it either. But now, both of those groups of people are paying a lot of attention to it and a lot of those structures have been closed down by effective rules introduced either on a unilateral basis or a multilateral basis." (Consumer Goods/Retail)

However, this does not mean that all of the more egregious tax arrangements have been removed due to these new rules and external pressures on businesses. Instead, as one interviewee reported, some structures have left a legacy on how taxes are adjudicated to this day:

"...but we do tax quite a lot of our profits there because we've got brands there. And that goes back to a structure put in place a lot of years ago, which maybe wouldn't have been done today. But now that the IP is in [redacted], all of the transactions have to be priced in accordance with the arm's-length principle..." (Consumer Goods/Retail)

Complexity

Businesses tended to hold a straightforward view on the question of complexity. They were clear that the international corporate tax system is highly complicated and is only becoming more so with time:

"It could not be more complicated than it is today. And there's only one way it's going. I

say it could not be more complicated, but it is getting more complicated. And then there's no rolling back, there's no retraction, there's no stabilisation of the base. They tinker, tinker, tinker all the time with the base..." (Consumer Goods/Retail)

"We've already got diverted profits tax and ORIP [a tax on Offshore Receipts from Intangible Property] and all these complicated things that come out year after year after year, that are arbitrary, complicated, uncertain, and don't actually raise any money because the way the international framework is set up, just doesn't allow them to." (Energy/Resources)

"I think it's become so complex and also so prescriptive in some ways, that I think they could go back to a much easier, less complex set of legislation." (Services)

This was particularly a problem in relation to 'double taxation', whereby multinational businesses (which are required to pay tax bills in multiple jurisdictions) aim to avoid being taxed multiple times for the same economic activities. This can lead to complex, time-consuming negotiations between a business and different governments - as illustrated by the following comment:

"But you can't get a government, even two governments to agree on what the answer is. Very rarely... I have one APA with the US, who got together with the UK government, and over 10 years agreed on the allocation of 10 years profits and two years prospective." (Consumer Goods/Retail)

Double taxation was considered such a burdensome issue for tax professionals that many of them expressed support for an idealised system, in which they have far less involvement in the process. Instead, they would simply cut a cheque to a particular tax authority and leave all interested governments to divide up the revenue between themselves:

"From a corporate standpoint, if every country in the world just said, you know, the total tax bill of companies should be X percent everywhere in the world, and your top PLC tax authority collects X percent from you and divvies up around the world.... I'm out of here, I'm done. We will be completely fine with that." (Manufacturing)

"So we're big fans of having some kind of one-stop shop where you file one tax return with one tax authority and it gets audited by other tax authorities, that's fine. They can do that in the

background, and then they just allocate it out. In an ideal world, what I would do is I would just pay one sum of tax over to one tax authority and say, you divvy it up." (Services)

"My idea - and I said this to NGOs, when OECD started out - take the corporation, times the profit before tax by 30%. I'll hand over that cash to HMRC, and HMRC can divvy it up in accordance with a formula that they agree with all the governments around the world: sales, assets, people, and they do it government to government. I am fed up with, again, doing their job for them, trying to figure out who wants to tax what across 50/60 countries." (Consumer Goods/Retail)

"It's actually something that in my ideal world, in my utopia, I would indeed say pick up the consolidated tax numbers of [redacted], take the profit, have countries debate how much flows to which country and tax it in that particular country." (Energy/Resources)

Businesses were concerned about complexity in the domestic tax regime too. Interviewees repeatedly cited the UK's own tax regime as being unnecessarily complicated and confusing:

"A massive theme for all of us in the tax profession is just complexity... The UK tax code, I think is the longest anywhere in the world, I think it now outweighs India. And it's just so complex and unnecessarily so." (Services)

"It is very complex, the UK regime. In terms of what impacts those capital allowances, it's very overly complex for what it is, [and for what] it should be. And it's very inequitable, as I've touched on." (Consumer Goods/Retail)

"If you look at the company's regime... There's always a lot of complexity involved in it and a lot of subjectivity about whether you're in or you're out and you can benefit from things or you can't." (Consumer Goods/Retail)

However, others were less concerned about complexity. They suggested that this characteristic of the UK's tax system reflects an understandable desire to minimise abuse - though one interviewee acknowledged that this complexity did place a greater burden on smaller businesses:

"I think unfortunately, you probably need the complicated system... to make sure you catch people who aren't trying to be responsible taxpayers... I think you do need the complication." (Services)

“Obviously, we’re a complex business and large business so it’s all relatively sophisticated and we can deal with complex rules. But I sort of wonder for smaller owner managed businesses whether there’s a simpler regime, and there is still a simpler regime for the R&D tax credits, I think, for small and medium enterprises. But I guess the worry from that perspective from the revenue would be that it’s open to abuse.” (Services)

Stability & Predictability

As with the question of complexity, we found that businesses were concerned by the unpredictability of the UK’s business tax environment. Interviewees expressed frustration with how frequently the government announces changes to the UK’s corporate tax regime:

“I think one thing that can drive a lot of uncertainty and also a lot of work, is around when rates fluctuate wildly and things are announced and then rode back on.” (Services)

“If we think about the recent changes to the 25%, and the overall history over the past 5-10 years, it must be one of the most... The UK must be one of the most volatile [countries] on tax rate.” (Energy/Resources)

“I think the UK chops and changes. More than other countries.” (Manufacturing)

Another interviewee offered a slightly more nuanced perspective. They suggested that the UK remained fairly stable and predictable, especially when compared to many other countries around the world, but acknowledged that it had become less so over time:

“The UK is not top, top, top, as to the most stable and reliable environment but it’s one of the most stable and reliable environments. But it’s not top and it has, over the years, fallen down that list. But it’s far above most of the jurisdictions in which we operate where there are geopolitical risks...” (Energy/Resources)

These perceptions of the UK are significant, as interviewees consistently emphasised the importance of stability and predictability to the decisions taken by their businesses:

“We’re a really long term business, at least traditionally have been and the investments we make often take 5-10 years to come to fruition and then another 20-30, sometimes even longer to operate. So we tend to be less swayed by short term changes in tax regime. And what’s important to us over the longer term, as much as possible, is stability and predictability.” (Energy/Resources)

“And what’s most important to us is actually stability over time. Our business cycle is so long, it’s 15-20 years, actually, it’s the stability of the system...” (Manufacturing)

“I think in respect of tax rates, I would like to say one thing which is far more important than anything else, and that’s predictability.” (Energy/Resources)

This suggests that a more predictable approach, in which long-termism is embedded into the UK’s corporate tax regime, would be vastly preferable to businesses:

“But I think it boils down to the same point that I was making about the predictability, I think for multinationals and for any taxpayer, a good and well thought and planned and drafted tax legislation is key because that will create predictability.” (Energy/Resources)

Tax Administration & HMRC

The businesses we interviewed provided a wealth of insights around how they interacted with HMRC and the issues they encountered in this relationship. Some suggested that tax administration in the UK presents more challenges than in other jurisdictions:

“However, where I think the UK scores less well, is when you get into the tax administration process and tax audits. Where all of a sudden you might find HMRC taking a very different view of the legislation even though you think it’s very clear, so that is more risk associated with the conduct of the tax administration, and that risk has increased, in my view, over the last 5 years or so quite significantly.” (Consumer Goods/Retail)

“So there is very much an opaque and a black box approach to disputes now with HMRC, which is hard, it is hard to settle disputes with HMRC. In fact, I’d say it’s probably nearer the hardest end of the scale, even compared to some of the developing economies that we work in.” (Energy/Resources)

“Yes, in other tax authorities, so not HMRC, I see more pragmatism from the tax officers and more discretion from those officers for them to understand the general intention of what you’re trying to do, what you did do and how the rules work to come with...” (Consumer Goods/Retail)

“The risk for the UK relative to those other countries... I think it has increased disproportionately more in the UK compared to those other countries.” (Consumer Goods/Retail)

Other interviewees appeared to agree with these criticisms, arguing that the UK's approach to anti-avoidance has created unnecessary complexity and that HMRC itself is slow to change its perception of businesses:

"The approach to anti-avoidance is very tactical. So the way that HMRC approaches anti-avoidance is that they wait until they spot something - perhaps because they've seen some company doing it or some individual doing it - and then they legislate for it. And they try and legislate for everything they can think of around it. Which is very complicated to do, and it makes the legislation very hard to understand, and it then opens us up to unintended consequences." (Services)

"What they should do is just have a whole bonfire of it all, and just bring in this very broad-reaching anti-avoidance rule." (Services)

"But that's more of an institutional culture point of view. It takes them [HMRC] a long time to change their perceptions of multinationals, even if you try really hard, and even if you are genuinely trying to do the right thing." (Consumer Goods/Retail)

Some suggested that the UK's approach to businesses had become tougher in recent years, with one interviewee attributing this shift to the criticism received by HMRC over 'sweetheart deals' several years ago:

"I think HMRC, over the past 5 years has had some kind of crisis where it feels like it's got to be a very aggressive police person and they're really, really trying to police their very complicated rules very diligently. But none of the HMRC case officers feel empowered to be pragmatic decision makers." (Consumer Goods/Retail)

"So to be totally honest with you, I think this all stems from Margaret Hodge and the Parliamentary Accounts Committee and all the criticism of Dave Hartnett at the time and sweetheart deals... I think Margaret Hodge was misplaced in that because the responsibility for implementing tax legislation sets fair and square with parliament. It doesn't sit with taxpayers to file their tax returns in a way that differs from the tax legislation." (Consumer Goods/Retail)

There was some criticism of how HMRC administers particular components of the tax system, in particular the Digital Services Tax (DST) and the Research & Development Expenditure Credit (RDEC):

"And I think that they [HMRC] were trying to be too clever by half. I think they wanted to tax the Googles, Facebooks and Amazons of this world, and they were trying to create some intellectual reasons for doing it. And then they design their tax [the DST] accordingly. Whereas, at least, if you look at the European model, it's much easier to tell whether you're in scope or not, because a lot of it is about defining the revenues." (Services)

"Where I think allowances could work better and be easier is the research and development tax credit space. So for financial services, we do qualify for that, but it is increasingly difficult and burdensome to take advantage of that legislation. Financial Services at HMRC don't seem to like us claiming these RDEC, research and development tax credit claims." (Services)

In addition, interviewees identified problems with the role played by senior leadership within HMRC. They claimed that they are unwilling to make difficult decisions and are too distant from businesses:

"It's not only that individuals [at HMRC] are afraid of making decisions, I think also it's not just about what the public will think, I think it's more senior people in HMRC being worried about what more junior people in HMRC will think. So they're kind of afraid of themselves in addition to being afraid of external perceptions, because nobody wants to be accused any more of doing sweetheart deals with multinationals." (Consumer Goods/Retail)

"In the case of HMRC, it's really hard to get into that dialogue because you're never actually talking to the people that are actually in the back, making those decisions, because their governance process puts a black box over all that." (Energy/Resources)

One interviewee raised an additional concern, relating to the lack of expertise amongst more junior staff who work at HMRC, due to the frequency with which they move jobs:

"But on the latest audit, you'll have your HMRC team walk into the room and they'll all individually introduce themselves as a specialist. 'I'm the transfer pricing specialist, I'm a VAT specialist'. And they might have been a different tax specialist last year and a different one the year before that. They just don't know enough about the thing that they're talking about to form a view." (Consumer Goods/Retail)

Nonetheless, one interviewee provided a counterbalance to these complaints, acknowledging

HMRC's recent moves to improve relationships with businesses:

"They've introduced the CRMs (client relationship manager), I think they are now... They're trying to give more authority to the CRM to get close to the business and build that relationship..." (Consumer Goods/Retail)

TAXES AND PRIORITIES

Corporation Tax Rates

Throughout our project, we asked businesses for their opinions on the prospects of a rise in the UK's corporation tax level to 25%. Those we interviewed before the recent Budget were generally not concerned about the impact of this policy:

"We're US headquartered, so actually 25% is still not out of line with the US, etc... So I don't think the right rate increase would have that impact for us." (Services)

"So a rise to 25%... That isn't going to cause too much alarm and I don't think that would change investment decisions. It might do at the margin, [it would be] very small. I can't believe it'd be a big factor." (Services)

Crucially, we found the same response after the Budget too, when the Chancellor announced exactly this policy. Interviewees were broadly accepting of the hike in the UK's corporation tax rate to 25% by 2023, seeing it as in keeping with international competitors:

"Yeah, well I think, despite the rise in 2023 to 25%, I think we're still competitive in the UK. China's 25%, a lot of Europe's 30%..." (Consumer Goods/Retail)

"I think most multinationals kind of agreed that 19% was unnecessary anyway, and looking around at other countries, there's been more like a conglomeration of corporate tax rates recently, anyway." (Consumer Goods/Retail)

"A lot of countries now are like the US... The biggest territories where we tax most of our profits are all going to have about the same tax rate in a couple of years' time." (Consumer Goods/Retail)

This reflected a wider point made by businesses. They recognised that they would need to pay their fair share to support the UK's economic recovery, meaning that corporation taxes were likely to rise in light of the cost of Covid-19:

"In a COVID time, coming out [of it], we were not going to be going down to 17%, that was reversed. And 19% was never really going to

be sustainable. So I think we're accepting... The corporates will accept it. And I don't think it's going to damage UK investment per se." (Consumer Goods/Retail)

"Now, obviously, in the context of the COVID pandemic, and the havoc that that's wrought on public finances, people understand that there's some... That to pay for [it] is needed." (Energy/Resources)

"We are in the business where we need a lot of approval from different societies. So paying tax is not really a problem for us, we see that we need to contribute to the society and the society is contributing to us..." (Energy/Resources)

Another interviewee recognised that this is especially fair given corporation tax is a profits tax:

"But yeah, in terms of other taxes, I think business probably should pay its fair share and in terms of somebody's going to have to pay more, business should step up to the plate. It feels like it's fairer for profitable businesses to do that than for loss making businesses to do that. The businesses that have got big windfalls, like online delivery companies and things like that..." (Energy/Resources)

By contrast, one interviewee disputed this somewhat. They suggested that for some a rise in corporation taxes would be extremely frustrating, given the disruption businesses have already faced due to the series of lockdowns put in place during the pandemic:

"I think there would be a degree of irritation, to be honest, because basically, Government closed the economy down... And [businesses have continued] despite the best efforts of Government. So I think there'll be a fair amount of irritation." (Services)

Nonetheless, businesses did tend to appreciate that they would need to pay more in taxes to support the economy post-Covid. They were supportive of this increased tax take being levied via the corporation tax system, rather than alternatives such as NICs:

"So I guess, I still think it's pretty minimal to be fair, and I certainly think I would rather have taxes on profit anyway than equivalent taxes on business rates or [redacted] or NICS because you've to make a profit [to pay it]." (Energy/Resources)

"No. I can imagine it, it probably wouldn't, as you say, because it's a tax on profits. It won't make a difference, particularly to individual investment decisions, about whether I buy that piece of hardware, or whether we go for this

number of additional heads to do thing X or thing Y. It probably doesn't make an impact on those." (Services)

However, a few businesses disputed the economic logic of rises, suggesting that increasing the corporation tax level may lead to lower revenue overall:

"If the burden just is perceived as being too high, then... I'm not a kind of Laffer curve guy, but I can see how there will be an element of behavioural change. So I think that the CT rate he's pushed it as far, possibly further, than he should have done." (Services)

"I know that looking at the CT rate... They've gone down in the UK considerably. If you track the decrease of rates on one side, and the revenue rates on the other, you actually find the revenues [have] gone up, as the rates have gone down. So I'm not entirely convinced that raising rates is going to raise revenue... So I think that is a degree of smoke and mirrors. But I think if rates went up, I'd certainly have clients who would take a lot more interest in getting the corporation tax rate down." (Services)

Finally, one interviewee raised a rather different point concerning changes to the corporation tax level. They suggested that the narrative put forward by any government was extremely important, as businesses would react not just to the specific proposals, but the wider political context in which any such decision had been made:

"Let's say... The whole country decides to elect Corbyn as the next Prime Minister and he announces as a great measure to increase corporate tax rates to 30%. I genuinely think that there'd be a lot of boardrooms thinking about how they got out of the UK... And that's why I think the narrative's so important in terms of what you're trying to achieve when you raise the taxes." (Consumer Goods/Retail)

Business Priorities (1): More Generous Allowances/Wider Base vs Lower Rates

The businesses we interviewed acknowledged that while the UK has maintained a relatively low headline corporate tax rate in recent years, this has been balanced out by a much broader tax base:

"...what qualifies for the capital allowance buckets is shrinking and the rate is reducing every year. So they've given with one hand, and are taking away with the other from existing UK businesses. So, there's the headline rate to attract businesses from the US to invest in the UK with a 19% rate versus Germany, great,

but for an existing [redacted] not so great." (Consumer Goods/Retail)

"The biggest single factor is the headline rate. And I think that's important. I think there's also an element of well, what does the tax base look like? But the UK is in a particularly bad place when it comes to the UK tax base." (Services)

As a consequence, there was some excitement amongst our interviewees following the Chancellor's announcement of the 'super-deduction', effectively a very generous and time-limited new capital allowance:

"The super deduction, for example, last week is a really, really good example. That's generated a huge amount of positive noise in the business, looking at our existing capital spend." (Consumer Goods/Retail)

"It is a nice acknowledgement, if it's as good as it looks like, that the government wants people to invest. Through the CBI, we've always said fixed capital investment is always a part of the UK economy that's weak, compared to the Germany-s of the world. The UK just doesn't invest in fixed capital. So I think it is a good incentive." (Services)

By contrast, another interviewee, who we spoke to in the weeks following the Budget, recognised that the super-deduction only equalises allowances with the level they will be at when corporation tax rises to 25%:

"So he announced quite cleverly a super deduction for the next 2 years at a 19% corporate tax rate. If I deferred that, okay, I don't get an extra 30%. But I get to deduct the 100% at the 25%, and if you look at the numbers there's no difference." (Consumer Goods/Retail)

In broader terms, several interviewees signalled that they would be willing to pay higher corporation tax rates, if this were balanced out by a more generous system of capital allowances that rewarded businesses for the investments they make:

"And I think there is a case to say it would be better to give people allowances that matched more with the cash flow from the investments that they were making, even if that meant the higher overall headline rate." (Manufacturing)

"But from a personal point of view, I think it's probably better to have a slightly higher rate with a simplified tax system, where there's more generous deductions for investment activities that you actually do want to encourage." (Consumer Goods/Retail)

"And so, I think from an NPV perspective, reforms in those areas [capital allowances] offset by higher corporation taxes in the future... I would be in support of that, yeah." (Energy/Resources)

However, there was not complete consensus on this point. Some businesses reported that a higher-rate regime coupled with a more generous system of capital allowances would not be attractive, as little of their spending would ultimately qualify for these deductions:

"No, it wouldn't make a big difference and I don't think it'd make a big difference to most [redacted], because the capital allowances that they claim just aren't that big in numbers. It's not like big plants and machinery that we have in finance, it is literally desks and computers and a bit of IT." (Services)

"So how important that is to you as a business sector will depend on how capital intensive you are. And although we are a manufacturer, we don't have significant amounts of capex, I would say, compared to some other business sectors. So I think on that aspect: it wouldn't come top of our list, but I can see why it would be top of some other types of business." (Consumer Goods/Retail)

Another interviewee argued that while their business would not particularly benefit from higher allowances or more generous R&D deductions, the UK would be wise to adopt this policy as it would secure additional inward investment:

"So I think increasing corporation tax would be a preferable way because it's simple and if it's all well trialled and businesses know that that's coming, then I still think that's the simplest thing. But I still think keeping it below our competitors and the OECD average will be important to attract inward investment. I think increasing capital allowances wouldn't really for financial services make a big difference. And similarly, sort of R&D tax credits, we do claim them but we don't have really big claims. But I think increasing these would attract more businesses and inward investment." (Services)

Business Priorities (2): Simplification vs Lower Rates

As noted above, businesses we interviewed were often extremely frustrated by the level of complexity involved in the corporate tax system today:

"So just, a level playing field is what we asked for and simplicity, simplicity to deal with administer setup, pay, etc. Was it the Office of Corporate Tax Simplification, right? There's

more pages in the tax legislation now than there was when that was set up." (Consumer Goods/Retail)

"I think it's become so complex and also so prescriptive in some ways, that I think they could go back to a much easier, less complex set of legislation." (Services)

Similarly, as was also noted above, businesses argued that a much more stable and predictable tax system is a top priority for them:

"I think in respect of tax rates, I would like to say one thing which is far more important than anything else, and that's predictability." (Energy/Resources)

"I think one thing that can drive a lot of uncertainty and also a lot of work, is around when rates fluctuate wildly and things are announced and then rode back on." (Services)

As a result, some businesses signalled a willingness to make a trade-off to achieve greater simplicity, even if it meant they would lose some of the financial incentives they current enjoy:

"So even if we lost a few incentives I don't think, if everyone knew that this is your profit before tax, this is your tax rate, this is what you pay. I think people would understand that a lot easier." (Services)

"And that's why I strongly do believe that the more neutral the system (in that we wouldn't create incentives through the tax system), that would make it perhaps easier and more simple and somewhat more that we could understand what the outcome is." (Energy/Resources)

This even extended to a willingness to accept slightly higher corporation tax rates, if it were coupled with a wider programme of simplification within the tax system:

"From a personal perspective, I don't really want to be out of a job. From a broader perspective I think that's wrong. You would rather have a slightly higher tax rate with certainty and waste less money on getting advice and paying people to work out what your tax is. You would much rather have that than lower tax rates with complexity and uncertainty and having to bear for long periods of time the risk." (Energy/Resources)

"And if we could see less going on waste and inefficiency and layers of bureaucracy and so on, we'd be supportive of increased taxes, if that was a genuine cause and effect." (Services)

"I know that would never be possible, but let's just say for the purposes of this illustration, a guaranteed higher rate over the lifetime of the investment, and the other one had a lower headline rate, but a significant risk of increase. Then I would imagine that we would be tempted towards the former." (Energy/Resources)

Business Priorities (3): Hypothecation vs Lower Rates

Interviewees were usually not supportive of hypothecation: they were clear that linking corporation tax rises to particular kinds of government spending was generally not desirable. This often reflected the widely-held concern that hypothecation, leading to genuinely ring-fenced funding pots, will undesirably constrain policymakers:

"I'm not a big fan of it. And part of the reason there is that, what might look like a good area to target government investment today, might not be in 5 years' time. But by the time you've ring fenced a pot of money that you know that that pot is very hard to un-ring fence it in the future... And that's what I worry about hypothecation, is it removes the ability of the government of the day to make adjustments to how money is spent." (Manufacturing)

"I just don't think hypothecated taxes are ever sensible. They just don't work and you end up in this situation where [if] there is more than you expected, what do you [do?]... You have to spend it on something similar that you don't need? If they don't raise enough, people will top it up from somewhere else anyway." (Energy/Resources)

However, this lack of support for hypothecation was also based on a sense that people inevitably hold different views about what constitutes the 'right kind' of government spending:

"I'm not sure it will really work, because what I might want to spend money on, is what you might not want to spend money on. So the more you try splitting it up into worthy causes; one man's worthy cause is not another man's worthy cause." (Services)

"To then sort of bind it to certain types of expenditure is, I think, very complex in a way that people have different values and it's difficult to say what would be more important than other... I think that we would be happy that the political decision makers need to make the choice how to spend and to be efficient enough that they can, with the existing funding that they can do whatever good there needs to be done with that funding." (Energy/Resources)

One interviewee offered a more mixed perspective. They claimed that health and education spending might be slightly more attractive to their organisation - although this was likely to be a fairly marginal concern:

"Well, if I think about what we do, I would have said education and health is where I think we as an organisation, where we spend money and do our charity work. So I would accept that if that was where the government [were] saying extra taxes were going, it would be more desirable to [redacted]. But I don't think there's much in it to be honest." (Services)

Nonetheless, there was still some (albeit limited) support for hypothecation in the interviews we conducted:

"If people said, well, look, this is where your money is going to be spent and you thought it was going to the right, reasonable, fair cause... I personally would pay more and I think people would, and I think as an organisation I think [we] would." (Services)

"So I think if we did pay more corporation tax and we could directly link it to more environmental things or other green initiatives that the government are doing, I think we would all be in favour of that." (Services)

National Insurance Contributions (NICs)

Interviewees were generally in agreement that any increase in National Insurance Contributions (NICs), to help pay for the cost of Covid or raise revenue, would likely not be passed onto customers:

"I think in our industry, probably not at all, because it's a commodities driven industry. The prices we charge are driven by indices globally, it would be very difficult for us to pass on additional costs." (Energy/Resources)

"So the nature of our business, I guess, is such that we wouldn't be able to have a cause and effect there between passing things on to customers. Being a technology business." (Services)

"But that would be in the very long run. The nature of our business is that it would be difficult to pass that on in a straightforward manner." (Services)

"So, if the costs are increasing that will, of course, automatically hit our profitability, so we don't have a way to pass it on towards the customer." (Energy/Resources)

"I think we might struggle with our business model to pass it on. Obviously the cost we incur is a big deal for us and we try and do what we can. But I think because of our business model is, in the UK we do a lot of business with people outside of the UK, so trying to pass on a UK tax charge is nigh-on impossible and makes us anti-competitive in that country." (Services)

One interviewee suggested that NICs had very little influence on their decisions as a businesses, as they focused instead on recruiting talented people in order to grow their revenue base:

"I don't think we really view employers' NICs as a sort of cost that we pass on really. I think we focus on growing our revenues and the budgeting process looks at costs and revenues in isolation... I think we focus on talent and people fit in the roles, etc." (Services)

However, another implied that they would attempt to pass on increases in NICs to customers, though this would be balanced against other factors:

"So I would say it's a mixture of three things. It's how much can you pass into the market; how much do you share between pay rises or not; and how much do you just let it erode margins, is probably the three factors." (Services)

Interviewees were generally unconvinced that raising NICs was a sensible idea, as it would create costs pressures for businesses that might make them examine their own headcount:

"But it's a difficult one, because I think if you put too much on NIC, you've basically got an employment tax. Which I'm not convinced is a good thing overall for either the economy or society, really." (Services)

"In terms of clients and manufacturing guys it will probably hit most, because they have a higher headcount. The service ones, that probably has less effect..." (Services)

"But certainly, when you look at things like employers NIC, for us we employ 110,000 people, and we look in the all in cost of employing those people, and that would be inclusive of employers NIC, it might also be inclusive of property costs, and all of that sort of all in costs... And, if it's a big enough movement, we would say we have to look at it. So I think it's more in terms of absolute impact on the cost base, rather than looking at it as a percentage rate." (Services)

One interviewee went further, arguing that reducing the rate of NICs would be an effective way to encourage investment within the UK:

"I think cutting NICs as well as removing some of the barriers to get skills into the UK from Europe in particular, is a combination that would work for us and secure the UK as a place of investment and employment in this company." (Consumer Goods/Retail)

Finally, interviewees held mixed views over whether changes in NICs would lead to greater interest in automation of jobs previously done by humans. While some suggested that businesses were already pursuing automation regardless of rises in NICs, others suggested that medium-skilled jobs might be threatened by such a development:

"Obviously, we've got a very large call centre with less-skilled roles, and we're looking to sort of automate a lot of those roles and so on... As part of those sort of decisions, employers NICs, if that increases dramatically, potentially could influence that. But I don't think, given those people's salaries, etc, that would be a major driver at all." (Services)

"In the long term, increased costs of employment would reduce the marginal cost of that technology, so it feels like the hollowing of the middle. The only reason it's not the hollowing of the bottom and the middle is not because the technology doesn't exist or can't exist. It's because it's cheaper to employ low-skilled labour than to get the technology to replace the low-skilled labour." (Energy/Resources)

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PUBLISHED BY DEMOS MAY 2021

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