

Tax and British Business: Making the Case – briefing

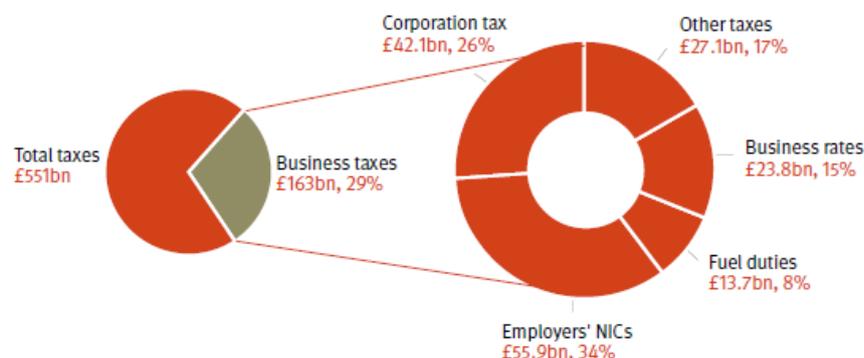
This paper is about highlighting the significant contribution business makes to our economy and society, and combatting the misunderstanding (and, sometimes, misinformation) that has been clouding the debate. It also shows why a balanced and proportionate tax regime is needed to allow business to continue to grow the UK economy and contribute to society. This briefing note covers the following points:

- **Business contributes more than a quarter of all tax revenues and underpins virtually all taxes**
- **Tax management is not the same as illegal tax evasion or abusive avoidance arrangements**
- **The scope and appetite for abusive arrangements has diminished**
- **Tax management is an essential part of running a business**
- **A competitive system is required in a global economy – but this doesn’t mean less tax revenue**

Business contributes more than a quarter of all tax revenues and underpins virtually all taxes

- Business paid around £163bn in tax in 2010-11, 29% of total tax revenues (£551bn), roughly equal to the combined health, education and police budgets
- Business also collects a large amount of tax on behalf of the government, e.g. income tax through PAYE. Virtually all taxes, such as income tax, employees’ national insurance contributions and VAT depend on the successful operation of British business
- UK businesses pay more corporation tax as a proportion of GDP than businesses in similar economies
- Corporation tax paid differs by sector due to sector size, profitability and the availability of tax reliefs – the top 1% of companies pay 81% of all corporation tax, and 60% of small companies pay no CT.

Exhibit 1 Business’ share of total taxes, 2010/11 (£bn/%)



Source: HMRC, CBI Analysis

Tax management is not the same as illegal tax evasion or abusive avoidance arrangements

- The vast majority of businesses pay the tax they believe is owed without the slightest desire or intention to defraud the system
- Tax *evasion* is illegal, and the CBI strongly condemns this, along with abusive arrangements which are highly artificial and have no other purpose than to avoid tax
- Despite reports about 'sweetheart deals' between business and HMRC, the tax gap estimated by HMRC has been shrinking over recent years (for example, from £39bn in 2008-09 to £35bn in 2009-10), and only £1.2bn of this is attributable to large companies: the majority is attributable to high net worth individuals
- Settlements serve a clear purpose - there is often a distinct advantage to the government in getting payment today, rather than a notional sum, totally dependent on risks of litigation, at some undetermined point in the future. There is never any liability that HMRC 'waives'.

The scope and appetite for abusive arrangements has diminished

- There is now a more effective relationship between taxpayers and HMRC, built on a number of developments in how business engages with HMRC, but this doesn't mean that it's a 'cosy relationship'. The number of open issues regarding large business fell from 7,624 to 2,721 between 2007 and 2011
- Corporate attitudes towards tax have changed – companies are increasingly aware of the reputational issues it raises and are increasingly involved in governance around tax
- Developments in judicial case law have reduced the scope for abusive arrangements.

Tax management is an essential part of running a business

- Tax management is an essential part of running a business and is a well-established principle of UK law
- Government uses the tax system to pursue social and economic objectives, by changing incentives within it – as intended, business and other tax-payers must respond to these changes through tax management
- Tax management is also necessary due to the complexity of the tax system – both domestically and for companies operating across multiple tax jurisdictions, which need to avoid double taxation
- The complexity of the tax system also allows room for genuine misunderstanding about how much tax a company should pay.

A competitive system is required in a global economy – but this doesn't mean less tax revenue

- A competitive system is crucial to the UK's ability to compete for globally mobile businesses and to nurture the growth of domestic businesses – which benefits workers, the supply chain and the Exchequer
- An uncompetitive tax system risks driving business offshore and jeopardises business tax revenues
- Reductions in the UK's corporation tax rate are needed to maintain competitiveness - at 26%, the UK's headline rate of corporation tax is still above the OECD average (25.5%).