

# WHY BUSINESS TAX RELIEFS ARE IMPORTANT

## FOR FURTHER INFORMATION CONTACT:

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*Of the 180 or so principal reliefs costed by HMRC only 3% of the tax expenditures results from reliefs from corporation tax. But they play an important role in incentivising businesses.*

Businesses are clear that current R&D tax credit schemes are an essential part of the wider ecosystem that makes the UK an attractive place to invest. This is particularly true since the introduction of the 'above-the-line' R&D expenditure credit, which businesses can recognise in pre-tax profits, meaning even loss-making companies stand to benefit. This is important to support the UK's growing high-tech sector, which is often characterised by high up-front investment, fast revenue growth but taking a number of years before any profit is realised.

*“Offering targeted and specific tax reliefs, in order to incentivise behaviour, can help to create or to grow activity that may not have otherwise occurred and ultimately deliver on the UK’s economic ambitions.”*

### Why business tax reliefs are important

- Of the 180 or so principal reliefs costed by HMRC only 3% of the tax expenditures results from reliefs from corporation tax. But they play an important role in incentivising businesses
- Offering targeted and specific tax reliefs, in order to incentivise behaviour, can help to create or to grow activity that may not have otherwise occurred and ultimately deliver on the UK's economic ambitions
- In an increasingly globalised and competitive world we must always have an eye on where we stand internationally when it comes to our ability to attract and maintain business investment and activity
- While often boasted that the UK has the lowest headline rate of corporation tax in the G20, effective tax rates (which take into account allowances and deductions) and the overall tax framework also have a big impact on businesses investment decisions.

## A look at the UK capital allowances system

The UK's capital allowances regime is another area that often attracts a lot of focus. These are a crucial part of delivering the UK's long-term infrastructure needs as well as also helping to attract long-term debt finance which is needed to fund capital projects.

*But the UK could do more to remain internationally competitive.*

- The UK has one of the lowest present values of capital allowances in the G20. The introduction of the enhanced Annual Investment Allowance was a welcome example of a measure that will drive investment by small and medium-sized firms in particular
- The rate or number of reliefs though is not the full story
- The ease with which businesses can access these reliefs plays an important role in creating a supportive business environment
- Businesses often find that the qualifying lists of eligible technologies often fail to match-up with the latest industry standards
- Having a simple, clear and transparent way in which business can access reliefs, provides greater certainty and stability to the UK's tax system, which is crucial to maintaining the competitiveness of the business environment.

## Tax reliefs in the wider context

- Business understands that any reliefs must be consistent with the UK's national economic policy
- Tax reliefs whilst an important lever in the Government's toolbox must be considered with the right principles and processes in place
- Stability and predictability in the tax system are just as important to businesses as the rates of tax themselves
- When granting reliefs the Government needs to follow a clear, evidence based approach that considers the economic, social and environmental impacts.

The CBI's Tax in the Modern Economy campaign looks at how the UK tax system can keep up with the pace of change in our economy, so that it can continue to deliver funding for vital public services whilst maintaining the UK's position as a competitive environment for investment employment and growth. The role of the tax system in incentivising business investment is a key pillar of this work.

We are keen to hear from you. If you would like to know more or would like to feed into the CBI's work, please get in touch with Fiona Geskes using the contact details overleaf.