Response to the Treasury Select Committee's inquiry into the fundamental principles of tax policy

1. Introduction

1.1 London First welcomes the opportunity to submit written evidence to the Treasury Select Committee's inquiry into the fundamental principles of tax policy. London First is a business membership organisation with a mission to make London the best city in the world in which to do business. Our membership includes around 200 of the capital's leading employers across diverse business sectors.

2. Balancing short term and longer term revenues

2.1 The UK tax regime needs to be:

- internationally competitive;
- consistent and predictable; and
- implemented in an efficient way with minimum compliance burdens on tax payers.

2.2 The current challenging economic climate puts intense and conflicting pressures on the tax system: on the one hand tax revenues are required to address the budget deficit and pay for the demands on public spending, demands which increase at times of economic downturn; while on the other hand, the tax system needs to support and encourage private sector growth. These challenges need to be addressed within the broader policy framework, including considerations such as the equity of the system.

2.3 The scale of the UK's deficit and the economic uncertainties facing not only the UK but many of its key trading partners mean it is now more important than ever to ensure that the tax system operates efficiently. It must strike the right balance between securing short term revenues and the longer term goal of maximising both the tax base and revenue raising potential. Getting the right balance should reassure the markets regarding the UK's ability to address its current issues while ensuring tax receipts are sustainable over the longer term.

2.4 In doing this, tax policy decisions should be assessed against:

- how they support private sector growth;
- whether they present an attractive investment environment to potential inward investors; and
- whether they encourage globally mobile individuals to work in the UK (or at worst do not deter such individuals).

2.5 Thus, the UK tax regime needs to be competitive internationally; consistent and predictable; and implemented in an efficient way with minimum compliance burdens on tax payers. Adhering to these fundamentals when developing tax policy should ensure that the UK, and particularly London, continues to be recognised as a leading location for international investment and provide a solid foundation for domestic growth.

3. Competitiveness

3.1 The UK, and particularly London, operates in a global market and hence UK tax policy should be developed in a global context. While the UK has its own set of criteria to meet both in terms of its economic requirements and its public spending commitments, if it is to secure the largest possible tax base and generate the maximum revenue from this base over time it is essential that the tax regime is internationally competitive. Government must not only ensure individual taxes, such as corporation tax and income tax, are set at competitive rates, but also that the total tax burden applied to businesses and individuals does not act as a disincentive for investment and growth.

3.2 In determining a competitive level of taxation which also supports the UK's public spending needs it would be unrealistic to expect the UK to match the low rates applied in jurisdictions such as Singapore and Hong Kong. However, the UK must be sensitive to comparisons with other key competitors such as Germany, France and the US. It is also important that the UK keeps a watching brief on who its competitor jurisdictions are; over coming years it is expected that China and India will, among others, become key competitors.

3.3 Failure to deliver an internationally competitive tax regime could result in both businesses and individuals choosing to invest or locate elsewhere. This is likely to be most apparent in London, where the deep talent pool (one of London's key competitive advantages) and positive agglomeration effects derived from London's business clusters could be diminished. If a negative cycle were to start with individuals and businesses no longer choosing London, it would not be long before more established businesses decide to leave the UK. Once such a trend has started, it is hard to reverse.

4. Consistency and predictability

4.1 A competitive tax system is not solely achieved through competitive rates but is also reliant on the regime being consistent and predictable. Businesses and individuals value certainty when they are making investment decisions, especially long-term commitments. Providing a clear process and framework for tax policy does not cost the Exchequer and provides an environment that is conducive to investment. In contrast, frequent and unexpected changes to the tax regime - in respect to both personal and corporate taxes – will deter long term investment.

4.2 London First welcomed and responded to the recent HM Treasury and HMRC consultation on tax-making policy and supported many of its themes. While changes need to be made to the tax system over time, these should be managed in a way that minimises uncertainty. This can be achieved through providing frameworks for tax policy which identify the anticipated direction of travel of key taxes over time (an approach that was taken to corporation tax cuts in the June 2010 budget) and setting a clear process by which changes will be consulted on and implemented.

5. Efficient implementation with minimum compliance burdens

5.1 Tax policy should target the maximum return to the Exchequer while imposing the minimum cost on the tax payer. The Government's commitment to simplifying the tax regime should result in reduced bureaucracy and hence reduced compliance costs and, while this is likely to be a long and complicated process, a clear commitment to simplicity is welcome.

5.2 To minimise the risk of unforeseen behavioural consequences and high implementation and compliance costs to tax payers, detailed impact assessments should be carried out prior to the introduction of new taxes or significant changes to current taxes. To ensure a clear understanding of the practical implication of tax policy, policy makers should conduct an open dialogue with business and be willing to develop measures in a cost minimising way. This approach would be beneficial not only in assessing the impact of changes to the corporate tax regime but also changes to personal taxes. Given the UK's dependence on the service sector, it is vital to business that the personal tax regime is sufficiently attractive, both in terms of rates and compliance, to ensure the UK is able to compete for the best talent.

6. Conclusion

6.1 Delivering an efficient and competitive tax regime will provide a strong foundation to underpin the UK's economic recovery. The principles set out above, if applied across the UK's tax regime (corporate and personal taxes), should provide a positive business environment in which the private sector can grow and deliver the increased tax revenues needed to restore fiscal balance.

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