



HOUSE OF COMMONS

# Treasury Committee

## Oral evidence: Tax Reliefs, HC 723

Monday 19 December 2022

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Members present: Harriett Baldwin (Chair); Rushanara Ali; Anthony Browne; Dame Angela Eagle; Danny Kruger and Siobhain McDonagh.

Questions 1 to 93

### Witnesses

I: Alex Dunnagan, Acting Director, TaxWatch; Dr Hosam Al Kaddour, Head of Teaching and Learning, Accounting Department, University of Southampton; Anita Monteith, Head of Taxation Policy, Institute of Chartered Accountants in England and Wales; and Dr Jo Twist OBE, CEO at UK Interactive Entertainment.

## Examination of witnesses

Witnesses: Alex Dunnagan, Dr Al Kaddour, Anita Monteith and Dr Twist.

Q1 **Chair:** Welcome to the Treasury Committee evidence session on tax reliefs. Would I be able to start by inviting each of you to introduce yourselves and your organisation, starting on my left with Alex?

**Alex Dunnagan:** Good afternoon. I am Alex Dunnagan, and I am acting director at TaxWatch. TaxWatch is an investigative think-tank that conducts research into tax compliance, policy, law and tax avoidance.

**Anita Monteith:** I am Anita Monteith. I am head of tax policy from the Institute of Chartered Accountants in England and Wales.

**Dr Twist:** I am Jo Twist. I am the CEO of UK Interactive Entertainment, representing the video games and interactive entertainment business in the UK. I am not a tax expert.

**Dr Al Kaddour:** Hello. My name is Hosam Al Kaddour, and I am head of the teaching and learning in accounting department in Southampton Business School, University of Southampton.

Q2 **Chair:** Wonderful. Thank you very much for coming in and giving evidence on tax reliefs. We understand from the Office of Tax Simplification that there are over 1,000 tax reliefs, ranging from the fact that we do not put VAT on food up to very specialist tax reliefs like the one on the video gaming industry. I wondered if each of the panel could tell me what they think the best tax relief is and the worst, starting again on my left. Alex?

**Alex Dunnagan:** That is a very difficult question. As you say, there are 1,000 tax reliefs.

Q3 **Chair:** Are there any bad ones?

**Alex Dunnagan:** Yes—well, no, let me take that back. There are issues and errors within specific tax reliefs, but it does not mean that the relief in itself is bad. I appreciate we are going to be coming on to the case studies of video games tax relief and R&D, so I will talk briefly about those. With the R&D reliefs, while they may achieve elements of the aim that they are intended to do, which is to promote science and innovation in technology, there is widespread abuse. While the relief itself is not bad, there are bad things that happen within it.

Q4 **Chair:** So that is your worst one. What is your best one?

**Alex Dunnagan:** Keeping with creative sector tax reliefs, film tax relief achieved the goal of promoting British cultural products. With creative sector tax reliefs, there is a set of eight reliefs. The largest is film tax relief—I believe that last year, it was overtaken by TV, but traditionally, it has been film tax relief. I believe it is one of the better ones, in that it does produce and promote British culture—things like the “James Bond”



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films—but again, there are errors and issues with that, in that we are subsidising things like the “James Bond” films when they are not necessarily claiming the tax back on those productions.

Q5 **Chair:** You are less against any specific relief and more against the design of some of the reliefs—we will probably get on to that as we go through the session. I will go to Hosam now: your worst and best, please?

**Dr Al Kaddour:** My worst relief would be the nil rate band for inheritance tax. The main reason is that this relief or band is with the seven years’ trailing by transaction or transfer. It is an obvious way, as Sir James Mirrlees indicated in 2011, of tax avoidance. Instead, we can increase that nil rate band to £0.5 million and make it a lifetime band, for example. Plus the residence relief for homes, that means that, if we have family, they will have relief on more than £1.5 million. In this case, £1.5 million would be fair enough. That is my point of view about the worst.

Q6 **Chair:** And the best?

**Dr Al Kaddour:** Although we have some room for improvement, research and development relief is the best, due to the impact on economic growth, and specially for small and medium-sized enterprises. That is supported by academic literature. On the spaces for improvement, we can go into the details later.

Q7 **Chair:** Yes, we will ask more detailed questions on that—the research and development side of things has come from two of you now. That will be helpful. Early on, I am trying to get the best and the worst. Jo, do you want to comment?

**Dr Twist:** I am happy to comment when we get to the DTR, but SEIS is also extremely valuable to the entrepreneur.

Q8 **Chair:** Will you spell that out for the public?

**Dr Twist:** The seed enterprise investment scheme, which is a tax relief, and the EIS are incredibly valuable.

Q9 **Chair:** And that is the enterprise investment scheme. Three and four-letter acronyms confuse people generally, so could you avoid using them?

**Dr Twist:** The seed enterprise investment scheme is for angel investors—amateur investors, if you like, or friends and family—to receive tax relief back on that investment in small and micro-studios that are just setting up.

Q10 **Chair:** Anita, your worst and best, please.

**Anita Monteith:** I am working within the framework of what I would consider to be a better tax system, which is one with a very broad base, very few reliefs and exemptions and, ideally, a low rate of tax to go with that. My best relief would be the income tax personal allowance, because it is simple and it keeps a lot of lower-income people out of the tax system, which has to be a good thing.



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My worst is probably—this is my personal opinion, although I have heard it echoed elsewhere—something like the VAT exemption, because of the huge complexity that it causes. I am not a VAT specialist, but it seems to me that we have a lot of opportunities to do things with the VAT system now. I worry that, with digitalisation, we are perhaps not tidying up the underlying tax rules before we take that big step. I should just add that MTD—Making Tax Digital—for VAT has of course now all VAT-registered businesses in it. The VAT exemption is something that needs exploring.

**Q11 Chair:** Was that not explored quite extensively during the hot pasties debate back in 2012?

**Anita Monteith:** It has been looked at before—

**Dame Angela Eagle:** Don't forget Jaffa Cakes.

**Anita Monteith:** Jaffa Cakes is 15% or 0%. Food is of course 0%, and Jaffa Cakes and very large marshmallows are apparently now a foodstuff, because they are either cakes or can be used in cooking.

The problem I have with the VAT exemption, however, is the partial exemption and recovery that goes with it. It isn't as easy as just changing it, because of course you have pension funds and insurance businesses that are exempt for VAT on most of their products. So it wouldn't be an easy one, but now that we have left the EU—

**Q12 Chair:** It would be easy?

**Anita Monteith:** No, it would be easier, now that we have left the EU, to look at some of these historically horrendous areas, because it's very complex.

**Chair:** But do you honestly think any Chancellor is going to be politically brave enough to go down that route ever again? Angela, you want to come in.

**Q13 Dame Angela Eagle:** Are you seriously suggesting we should put VAT on food, children's clothing, newspapers and books? Is that what you are suggesting?

**Anita Monteith:** No. Children's clothes are zero-rated, which is different from being exempt. If you exempt a product—

**Q14 Dame Angela Eagle:** So you don't mind zero rates.

**Anita Monteith:** Zero rates are fine. The issue is just the change in how much VAT the business can recover. If they are exempt in what they are selling, they can't recover VAT on the things they are paying for. If it's children's clothes, it's VATable because it's zero rate and they can recover the VAT—all of it—on the fabrics, threads and so on that you would need to make the children's clothes. So zero-rated is fine. It's possible that some of the exempt things we might want to zero-rate instead, but it needs a really thorough look, and we can do these things now that we do have a little more flexibility, having left the EU.



Q15 **Chair:** Would all of you agree that there is room for simplification in tax reliefs in this country?

**Anita Monteith:** Definitely.

**Chair:** I think you have all provided very good written evidence—

**Anita Monteith:** But you can't just turn them on and off. Clearly, as Dame Angela has just raised, it will be an educational challenge for the general public to have this sort of discussion.

Q16 **Chair:** I am going to move on to Dr Al Kaddour, because I know that you have done some work on the linkage between tax reliefs and growth in the economy. Presumably, nearly all these tax reliefs have been put in place because subsequent Chancellors have thought that that was going to help growth in the economy. So, to ask the question again, which tax reliefs do you think are helping growth and GDP per capita the most and which are undermining that?

**Dr Al Kaddour:** Based on the tax literature, which is academic papers, evidence provided by academics, and also relying on the Government objective to have steady or sustainable growth in the economy, which is a cross-party aim—it is an objective for anyone—I think the best way to start is with R&D, research and development. Then we have very good relief in the form of enterprise investment relief, which is really supporting taxpayers who are starting new businesses. This will significantly expand and support the growth of our economy. Also, we have some reliefs that provide relief for investors who are ceasing their business. Keeping those reliefs, like entrepreneurs' relief or business asset disposal relief, at the current level is fine, but we need more support for reliefs related to encouraging our taxpayers to invest and having that sustainable growth in our economy.

Looking at R&D relief, we have very wide room for improvement in that relief, but all the evidence about both schemes—the one for small and medium-sized enterprises and also R&D expenditure credit—suggests that there is a positive impact, especially in relation to small and medium-sized enterprises, on the growth of the economy and financial viability for these businesses. What we could improve, judging from the studies we have, is the distribution of that relief over the geographical areas of the country. Studies show that exactly 47% of the cost of SME scheme claims came from London and the south-east. That will increase to 55% for research and development expenditure credit.

The point here is that in his speech the Chancellor focused on infrastructure related to transportation in this area. We are aiming to spread businesses outside this area, to over other areas, for example, in north Wales and Scotland, where we can improve economic results and lower unemployment levels. One great idea could be for one of the bodies—either the Office of Tax Simplification or another related body—to co-operate with universities in those areas and we can offer a kind of mini-course or executive education workshop to let the director of those



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businesses know about the reliefs. We are implementing that in the University of Southampton.

**Chair:** Thank you; that sounds like a really good suggestion for us to consider. We have now heard two people say how useful the enterprise investment schemes are for growth. Does anyone on the panel want to take the opposite view? Does anyone want to highlight any tax reliefs that are not good for growth? Angela, what was your additional question?

- Q17 **Dame Angela Eagle:** On the enterprise allowance relief schemes, when I was at the Treasury, they could not tell me whether they worked or not. There was no sensible way of assessing them; they just assumed that they worked. Has that improved since I was at the Treasury, or is it just blind faith at work when it comes to assessing whether the cost of the enterprise allowance schemes is actually justified by the extra activity that they generate?

**Anita Monteith:** I cannot point to any evidence, but I think you raise a very good point. It comes back to something I just mentioned, that getting hold of real-time data is very difficult because information comes through so long after the event. That is perhaps a little less so with SEIS and EIS, but it still takes time and then somebody needs to analyse it. I am not sure how long or much resource HMRC has to look closely at that.

- Q18 **Chair:** Does anyone want to highlight a relief they think is harming growth?

**Anita Monteith:** I would like to comment on something I came across recently that has stayed with me. It is not something that I think is harming growth, but it is hindering it. It is capital allowances. I think capital allowances are a great relief; they give people relief for the capital investment that they make, then continue to raise it through the business. That is great. What is eligible for capital allowances is not always clear. If you work in a factory, then perhaps it is not so bad. But we are seeing more innovative investment now than perhaps ever before.

The particular instance I came across involved an offshore windfarm. I read the case report, and I had to reread it because I could not believe the dates. It had taken two years to go through the tribunals to establish the costs of doing the research study on—I can't quite remember whether it was molluscs or who the noise from the turbines might affect, be that sea life or people on the land. It had taken so long to go through the courts I thought, "Is that really what we want in the UK? We have got sea all around us; maybe we need to consider how we can fast track that type of investment." We have the science to be leading the way; we do not want the tax system to slow it down.

**Chair:** That's really interesting. Thank you for highlighting that example. I'll bring in Siobhain now.

- Q19 **Siobhain McDonagh:** I would like to look at the abuse of tax reliefs. Anita, I will start with you. Written evidence from the Institute of Chartered Accountants in England and Wales points to certain tax reliefs



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being used for tax avoidance. In general terms, could you take the Committee through how that takes place?

**Anita Monteith:** For a start, I have to say that tax avoidance is not illegal. The one that everybody has been focusing on recently is of course R&D and the concerns that that might be used by some organisations to create opportunities to claim the relief that should not be there. HMRC is looking at that. I think somebody cited some literature that said you could get a 100% guarantee of what the reliefs would generate. To me that indicates the relief is perhaps too complex. The more rules you put into something, historically that tends to mean there is more opportunity for things to perhaps go wrong. So R&D would be the one that some of my co-witnesses are also here to talk about.

There are probably others as well, but that is the topical one at the moment. I should say that our members are aware of the complexity of tax legislation and know that they should play by the rules. We would take a very dim view of any cases brought to us where people were not doing that.

Q20 **Siobhain McDonagh:** I will come back to you, Anita, unless anyone else from the panel wants to come in. Are tax reliefs particularly susceptible to abuse? If so, why?

**Anita Monteith:** I think some of them are susceptible because they draw attention to the opportunity. A lot of them are ignored. We have talked about the number of tax reliefs that we have in the system. When we opened, we said which were our favourites and which we liked the least. I have a problem with some of them because people do not know that they are there.

Something like the trading allowance, for instance, is only £1,000, but I am sure many of us or our children indulge in some eBay trading on a Sunday afternoon. As long as you are selling at less than £1,000 you do not even need to consider engaging with the tax system, but I think most people do not even realise that that is there. They probably do not even realise that they should consider whether what they are doing will give rise to a taxable profit. That is a tax relief that I have a bit of a question mark over. I like it because it decriminalises people who did not even know that there was a possibility of it, but to me it points to something that might be going wrong in the system.

I know, that with digital exchange of information by platforms, which is coming in, I think, in January 2024, platforms like eBay are going to be exchanging information with the tax authorities about the profits that UK taxpayers and others are making.

Q21 **Chair:** Sorry to interrupt, but are you suggesting there are lots of UK citizens currently committing a criminal offence by trading on platforms like this and not reporting it in a tax return?

**Anita Monteith:** They are not, because of the £1,000 trading allowance. I do not think it is fair to even use the word "criminals" because they don't



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know that what they are doing could be in contravention of the Taxes Act. In fact, most of them probably do not have other income of more than £11,500 anyway, so they will not be paying tax. The point is that our tax laws are so complicated that people will be doing things like letting out their spare bedroom without realising that the income that they get from that is potentially taxable. There the limit is £7,500, so you need to be getting a fair amount of money in—

**Q22 Siobhain McDonagh:** Ignorance is not normally accepted as—

**Anita Monteith:** It isn't, but the average reading age in the UK is something like 11. How can people possibly know that letting out their spare bedroom is wrong? They may have a bit of an inkling, but I just think we have some fundamental problems to address, so I could have chosen the £7,500 allowance.

**Q23 Siobhain McDonagh:** Is there a way of designing out the abuse?

**Anita Monteith:** Obviously, you could try to educate everybody in tax, and I would love that. I do go round to schools and talk to schoolchildren about it. They actually really like learning about tax, but we probably have bigger problems to address first. I like the idea that we have a decent personal allowance. I said at the beginning that that was one of my favourites. I'm afraid that I do not know what the average income now is in the UK, but I like the idea that we keep people out of the tax system, and we certainly keep people out of the self-assessment part of the tax system, if we possibly can. I think PAYE does an excellent job of helping, but even that can creak on occasion.

**Q24 Siobhain McDonagh:** Can I ask anybody else on the panel what makes tax relief particularly susceptible to abuse and what could be done to prevent that abuse from happening?

**Alex Dunnagan:** I will use the examples of R&D and creative sector tax reliefs, because they are the ones I am most knowledgeable about. Abuse is rife in all reliefs. That is owing partially to their complexity, but also to the limit capacity of HMRC, and to a lesser extent professional bodies, to conduct compliance work. The way that you see abuse in the schemes differs greatly. With film tax relief or video games tax relief, what we have seen is profit shifting, where a product is created in the UK but then sold to an American parent company completely at cost price. While it receives tens, if not hundreds, of millions of pounds in relief in the UK, there is no profit on it in this country and therefore no taxable profit—so meeting the definition of profit shifting by offshoring that intellectual property.

**Q25 Siobhain McDonagh:** Have you been looking at my questions?

**Alex Dunnagan:** Sorry if I jumped the gun a little bit; I will switch tack.

**Siobhain McDonagh:** No please, I am really interested in this.

**Alex Dunnagan:** Maybe we can come on to those case studies in a little more detail later. Looking at R&D relief, there has been £1.1 billion in fraud and error over the past three years. That is not—to the best of my





knowledge—through profit shifting or the use of avoidance schemes, that is through boundary pushing. You have advisers and accountants suggesting that companies put in what are borderline fraudulent claims. A lot of these were recently covered in *The Times* newspaper. There was somebody who created a new croissant and said it was research and development. You have a tax adviser saying, “If you put new cocktails on your menu, that classes as R&D”—so a lot of things that I am pretty sure nobody here would class as R&D. You have advisers effectively cold-calling companies saying, “By the way, you’ve almost certainly qualified for relief. You should stick in for it.”

**Q26 Siobhain McDonagh:** A new cocktail would constitute that?

**Alex Dunnagan:** Yes. There is a YouTube video of an adviser based in Manchester saying, “If you put new cocktails on your menu, HMRC wants to give you free money to help the hospitality industry.” We all know that that is not the case. Taking it back to compliance work, when an R&D claim goes through, HMRC is unable to check all of them, so these borderline fraudulent claims go through. Yes, HMRC could look at it in retrospect through random compliance checks, but it is my understanding that it does not have the capacity or resources to do that when there are tens of thousands of claims going through every year.

**Q27 Siobhain McDonagh:** Would you say a bit more about companies getting tax relief and then shifting their profits abroad?

**Alex Dunnagan:** Yes. I will use the example of “James Bond” films. They are a cultural product. Everyone would agree that they are British, and it is a very good thing that they create jobs. As Brits, we can be very proud of those films. The way it works is that there is a company that produces those films in the UK: EON—“Everything or Nothing”—Productions. I cannot remember the exact figures, but let’s say it costs £100 million to make one of those films. That then receives 25% relief, as is the intent of the creative sector tax relief, so it will get £25 million back. But the finished product is then sold to the distributor, which is based in the US—I believe in Delaware, which is no surprise. The distributor then puts it out to cinemas around the world. All the taxable profit then sits in the US, which means that we have subsidised the production of that film in the UK but received no tax back on the profits. You see that right across creative sector reliefs. Another example I could give is the “Grand Theft Auto” games, which I am happy to tell you about. It is more or less the same.

**Siobhain McDonagh:** I know I have spent my 10 minutes, but would you mind if I pursue this, Chair?

**Chair:** You are going to touch on sunset clauses in another couple of minutes, aren’t you?

**Q28 Siobhain McDonagh:** Could you give us your example? Then I will come to you, Dr Al Kaddour.

**Alex Dunnagan:** “Grand Theft Auto” is a video game created in the UK by a company called Rockstar North, which is based in Edinburgh. The



Rockstar game will, again, be made for circa £100 million, and sold to its American parent company, which is Take-Two Interactive, based in New York. Take-Two then distributes it around the world. It does incur some costs—it pays for the physical copies of discs and the advertising—but all the taxable profit then sits in the US. I think “Grand Theft Auto V” is the most successful entertainment product in history. The last detail I saw was that it generated revenues of over \$6 billion. None of that \$6 billion taxable profit sits here, despite the fact that it was made here and made with a 25% tax relief.

**Q29 Siobhain McDonagh:** Dr Twist, is this uncomfortable listening?

**Dr Twist:** It is not at all, because it is not how it works in video games, I’m afraid. It slightly misunderstands how the business models of games work, particularly in the 21st century. It is important to remember that the incentive for video games tax relief is not connected to the monetisation of the ultimate asset. That is not the case. It is not that you produce something, it gets released, it gets distributed, and that is the end of the story. It is about the production and who is making the asset, product or game. Video games tax relief incentivises companies to base the work, and you get the tax relief on qualifying costs that are incurred in making the game in the UK or the EEA. I think that is important. Next year, it will be nine years since VGTR was introduced, and since then it has continued to incentivise growth outside of London. You now have 23 key areas across the UK that are generating a lot of value and GVA.

It is important to look at the multiplier effect. If you spend that £100 million on a game made in the UK, you get that back in a multiplier effect, because of the people who have been hired. We do not work in the same way as the film industry, which is a freelance industry. We have only 3% freelancers. We are more company based, so the people hired stay, and they deliver value in their own taxes back into the economy. It is a net positive.

**Q30 Siobhain McDonagh:** Mr Dunnagan?

**Alex Dunnagan:** I do not disagree with anything that Jo said. That is correct: there is a multiplier effect, and it supports jobs in the country. But that does not take away the fact that the intellectual property is offshored and that no tax is paid in the UK on those revenues as a result of profit shifting.

**Dr Al Kaddour:** First of all, on your first question, the best way to design tax relief is to start with the objective of the tax relief. HMRC has recently introduced some of the objectives for some of these reliefs, although they are still very wide and could be more specific to maximise the benefit. But that is the first step.

Profit shifting is an international problem, and we cannot control it, because there are legitimate schemes that shift these profits outside of the UK. What we can do is, for example, look at eligibility for that relief, including core activities to be done in the UK. If we try to increase the percentage of core activities done in the UK, those activities will try to

move the economy and we will generate some taxes from employees in that sector. The statistics show that there are 27,000 in this industry, and the numbers are growing, so the relief is working.

But, at the same time, we can play with the conditions. For example, with the culture test, you need 16 out of 31 points to get that certificate. If we need that test from the beginning, we can increase the passing point. We could reduce the percentage of costs qualifying for that. Currently, it is 20% for gaming relief. We could reduce that, but it depends on the Government's plan for what we want for the next six to eight months.

**Chair:** Thank you very much. It is like being at university; we are learning this in great detail. It is good that you have submitted some excellent written evidence.

Q31 **Anthony Browne:** My first question is about the value for money of tax reliefs. How do we know whether non-structural tax reliefs—tax expenditures—are good value for money? I will ask Anita first and then Hosam, and then I will come to the others. Generally, do we know whether non-structural reliefs are good value for money? What is needed to ensure that they are? The Chancellor is making decisions to spend £100 million here and £1 billion there. You want to make sure that you are getting something back for it.

**Anita Monteith:** That is a really good question. You will have to ask the Treasury if it has some special way of working this out. I have worked in tax for a number of years, and I am not totally convinced that we know the answer to that question. I am not sure how we can.

Q32 **Anthony Browne:** Any of the tax reliefs, or all of them?

**Anita Monteith:** I think there are about 1,100 or 1,200 tax reliefs all together. Some are probably easier to work out than others. For instance, the number of entities claiming the museum tax relief seems to be fairly static. It would be reasonable to assume that they are achieving the objective, whatever equation you use to assess their success. One issue I have is that it is not always clear what the objective is when a new relief is announced.

**Anthony Browne:** I was going to come to that.

**Anita Monteith:** We don't know what the objective is, or what timeframe we are going to give ourselves to assess whether we have achieved the goal. We don't have real-time data about exactly who is claiming and how much. It is terribly difficult to measure these things. It will help to have better information. I can point back to when iXBRL was introduced for companies.

Q33 **Anthony Browne:** iXBRL?

**Anita Monteith:** Inline extensible business reporting language. That is the sort of rubbish I have inside my head, and I don't know why.

**Anthony Browne:** I apologise for not knowing that.



**Chair:** You can see what we mean about acronyms.

**Anita Monteith:** Exactly. Back in 2011, all companies were required to effectively put little computer-readable labels on all the information that they submit. It would apply to their accounts and their tax computations. Shortly afterwards—a year or so later—we had a presentation by HMRC. I think they used R&D as an example, and they said, “This is great. We can now see where the number of SMEs claiming R&D has been focused. We have this information. It’s great.” However, the pain of introducing inline extensible business reporting was huge, and the cost was huge. I haven’t heard anything more about it in the last 10 years. The data must still be within HMRC and Companies House systems, but I am not aware of how it is being used. There is potential for greater analysis, I would think.

Q34 **Anthony Browne:** Before I move on, you mentioned just a second ago that one of the problems is the poor definition: it is not clear what the objective is for a tax relief. But that is theoretically addressable by the Government; it could be clear in their objectives. You mentioned that there is a lack of a timeline—again, the Government could address that by setting timelines. But is there a problem just working out what the dead rate cost is and what the counterfactual is? Often it is quite difficult to interpret what behaviour is changed by the tax, as opposed to being affected by something else.

**Anita Monteith:** I am not sure how much support there is within Government Departments for doing the calculations. There are some reliefs where I think you probably could work out the cost more easily than others. The one I would point to, for inheritance tax, is the residence exemption. When you die, if you have a house—

**Anthony Browne:** It’s £175,000.

**Anita Monteith:** Yes, and it racks up. You can effectively get to £1 million-worth of relief if you have a spouse, you have lived in the house for a certain period and all the rest of it. When it was introduced, everybody said, “That is a horrendous calculation.” It was worked out through various iterations as the legislation passed through Parliament, and more reliefs were bolted on to achieve the £1 million exemption, which had been promised as part of a manifesto.

There was an easier way of achieving that £1 million exemption, but by the time we got there it had already made it a long way through the legislative process, and I think it was just too late to do an about turn and find a simpler way to achieve that. That is one of the problems: we aim for something—in that case, the aim had been set out up front—but the conversation and consultation about how to achieve that is closed down too quickly, and then we are on to the next complex relief. We just need to pause and listen more.

**Anthony Browne:** I think we can all agree on that. Hosam, you brought this up in your evidence quite a bit.

**Dr Al Kaddour:** As Anita said, it is really difficult to judge that based on the data available to us, so the first step is to collect this data in a timely way. To do so, we might need a small body or office that could be part of the Office of Tax Simplification or the National Audit Office. If that is out of the Treasury's remit, as this is related to tax policy, they could offer that office themselves. The idea is that to ensure the transparency and accountability of HMRC, we need this data as a first step. One of the initiatives of ICAEW is to make the tax system digital. With the implementation of that approach, we could include some sections related to each of the reliefs that can be claimed by each type of industry or business.

In this case, similar to in accounting software, we will have timely information about any relief being claimed at any time—with just two or three clicks, we will get that information. The office will also be responsible for analysing and checking for any variation between what we are protecting as the cost for that relief and the actual cost for that relief. In this case, with any variation in that cost, especially for large reliefs, large expenses or expensive reliefs, we could start with these reliefs and the reliefs related directly to economic growth. Then, starting from this small area, we could first, in the short term, achieve the objective of that relief. At the same time, we could expand; afterwards, we could expand that experience to include all the 1,192 reliefs available for any business in the UK.

Q35 **Anthony Browne:** You mentioned in an earlier answer that you thought there was very good evidence that R&D tax credit for SMEs works. I know the Treasury is rather sceptical about that and HMRC published a report saying that you get only 0.8 pounds back for every £1 spent on the tax credit. How do you account for that discrepancy?

**Dr Al Kaddour:** For R&D relief, the main problem is that we cannot really measure that, but we are relying on the data given through academic papers, the survey of national entrepreneurs or one of the data providers. Based on that data, we can approximately measure the impact of that relief on the economy. Hopefully, that answers your question. Mainly, there is good room for improvement in VAT relief, but in the long term this is a great relief for the economy, and it is competitive compared to other OECD countries.

Q36 **Anthony Browne:** Alex, I ask you the same question: how do you know whether a non-structural tax relief is good value for money or not?

**Alex Dunnagan:** The short answer is that we don't know. I am not an economist and TaxWatch isn't an economics think-tank, so this is not as much my area of expertise.

**Anthony Browne:** You said earlier that there were some good and some not so good tax reliefs. I presume the good ones are the ones that provide a return on the tax forgone.

**Alex Dunnagan:** What I was saying earlier is that I believe there are benefits through the jobs provided. In terms of the actual financials of



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return and investment for each £1 spent, I am not sure aware. I am not sure that anyone is fully aware of the exact value for money, first because there are close to 1,200 reliefs and, secondly, because reliefs are going up with the value of GDP every year. The OBR calculates that non-structural tax reliefs were 6.5% of GDP in 2005 and 7.6% in 2019, but nobody fully understands why.

Going back to video games tax relief, when that was introduced in 2014 it was thought that it would cost £35 million a year, but last year it cost £200 million. Again, without any caps on this, nobody fully understands what is going on, so I think we are a few steps back from fully understanding the reliefs before we can actually talk about the value for money.

**Q37 Anthony Browne:** Jo, you touched on this before when you mentioned the multiplier effects and everything else about the economic benefits, as you claim, of the video games tax relief. Is there anything else to add?

**Dr Twist:** Yes, absolutely. We are very fortunate to have the cultural test that the BFI—the British Film Institute—administers on behalf of the creative sector. I will focus on VGTR—video games tax relief. Business reports, the last of which was released last year, have showed the return on investment for VGTR was that the video games sector generated £1.72 in additional GVA for the economy for every £1 invested by the Government. That is a methodology that HMRC understands, and Treasury uses as well.

We are working with experts on the methodology because games are very different. Sometimes there will be huge budget games that take four or five years and thousands of people to create, and they might wait until after the period of main development to make the claim, so sometimes it goes in peaks and troughs. Others, such as the small development studios—which make up the majority of the over 2,000 companies in the UK that employ 50 people or fewer—might continue to apply for their tax credit if their game is a continuing service, which many games are nowadays.

We can see that we do have a return on investment, because the certification is handled by the British Film Institute and corroborated by HMRC. We would love to be able to map that across the country, because we know that this is generating revenue. It is a great scheme for incentivising businesses not just to set up here by taking advantage of the wonderful creative talent we have in this country, but to stay here. We can see a direct correlation between the last eight years and what has happened as the industry has grown.

**Q38 Anthony Browne:** I have one last question about cliff edges for Anita and Hosam. I have about two minutes left, so could you keep your answers very quick? Pretty much all the tax reliefs have cliff edges. How bad are they and what can be done about them?

**Anita Monteith:** They are bad where they bite sharply. The VAT registration limit is one that we have to point to—



**Anthony Browne:** For VAT?

**Anita Monteith:** I'm back to VAT again, I know. I don't really like VAT very much. The problem is that by the time you get to £85,000, you are running a substantial business. There have been various inquiries into whether £85,000 is the right amount, but it feels like it probably is, because VAT is a burden for business.

Q39 **Anthony Browne:** Why is that cliff edge bad?

**Anita Monteith:** Take my local coffee shop. I used to go in there many days in the week to get a cup of coffee. I asked the lady in there, who was very open to conversation, "Are you registered for VAT?" "No, I'm not." "Oh, why aren't you?" She said, "Well, if I were to register for VAT, I couldn't put my prices up by 20% and I am competing with Pret down the road. I don't have those opportunities to scale, so unfortunately I would suddenly be losing a significant proportion of my profit. It is better for me to close one day a week, not take advantage of the extra trading and remain below the limit."

The other problem is that by the time you get to £85,000, you are running a substantial business. If you suddenly have to do Making Tax Digital returns, that is another challenge: you need to keep digital records. There is a lot of stuff packed in there. One of the things is that it may change when we have Making Tax Digital for income tax, which will affect businesses at a much lower income level. Thankfully, about an hour before I came in, there was a ministerial statement saying it has been put back a couple of years—great. But that £85,000 is a problem. If you look at the stats, there are quite a large number of businesses clustered just below the £85,000.

**Anthony Browne:** I have run out of time. If I am allowed, I will go to Hosam very, very quickly—in less than one minute. How bad are cliff edges and what can be done about them?

**Dr Al Kaddour:** It is quite bad, as Anita said. I will give you an example about stamp duty land tax for residential or mixed-use property. If you are going to buy four flats and a shop underneath, and you have applied for some reliefs, you could save up to 80%. For example, if you are buying for £350,000, you could end up with £18,000. If you applied for that relief, you will end up with four, so £14,500 could be significant for that. For the property development sector, claiming multiple dwellings relief would also be significant. Again, we need a way to tackle the cliff edging.

Q40 **Anthony Browne:** How do you do that? You have to draw the line somewhere.

**Dr Al Kaddour:** We could do it similarly to what we do for personal allowance—gradually reducing or increasing the burden for the taxpayer. It is significant for any business to be around £80,000 turnover, because in the blink of an eye they have to register and charge 20% VAT. Again, we need some way to gradually do that. For VAT, we might remove that

threshold and link with the industry or specific types of businesses, where they have to pay that VAT.

**Anthony Browne:** Thank you very much. I would love to ask more, but I have totally run out of time.

Q41 **Dame Angela Eagle:** How many tax reliefs are there?

**Anita Monteith:** 1,192—horrendous.

Q42 **Dame Angela Eagle:** And it is right that HMRC evaluates and provides data on 200 of those tax reliefs so that we can assess them?

**Anita Monteith:** We probably need more data, if we are honest.

Q43 **Dame Angela Eagle:** But what percentage of the cost of tax reliefs is that 200? I presume it is the big ones that they provide data on.

**Anita Monteith:** I would expect them to look at the big ones, certainly. I am sure they would like a lot more data. I have mentioned the tax gap before, but the only way we can get data is through increased use of digital. It must be very, very difficult for them to assess the other 1,100 or so.

Q44 **Dame Angela Eagle:** In July 2020, the Public Accounts Committee published its report on the management of tax reliefs. It expressed concern that “tax reliefs are not sufficiently evaluated to ensure they are delivering what was intended when they were introduced.” Those are its words. Do you all agree with that general assessment?

**Dr Al Kaddour:** Yes. I think that evaluation is accurate, and I think HMRC has reacted lately by introducing some objectives for some of the reliefs. In terms of the number of reliefs that have been checked by the Government, it is 155—the largest 155 reliefs. However, that is not enough to ensure that this will represent good value for taxpayers’ money.

Again, we could have a specific body to just scrutinise that and check if there is any way we can match those through the digital tax system and through that office. In this case, we definitely will be able to know where the weaknesses are and which tax reliefs need to be simplified, removed or cancelled, or are no longer needed. Some reliefs have not been used for a long time or are not needed.

**Dame Angela Eagle:** Alex, do you have a view?

**Alex Dunnagan:** In 2019-20, there were a lot of calls for further scrutiny. The NAO, as you mentioned with the management of tax expenditures, said that there were issues with the current administration, including large increases of expenditure over and above the forecast. The Public Accounts Committee, also in 2020, said, “We are concerned that HMRC does not understand the impact of any of the largest tax reliefs”.

HMRC has responded to that. The latest statistics were published in December 2021, I believe, unless one has come out in the past couple of days. In them, HMRC produced six-year cost estimates for 102 non-





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structural reliefs and one-year estimates for 118 reliefs. That might have been where you got the 200 number from. That still leaves hundreds, if not close to a thousand, of reliefs that are not scrutinised. The ones that HMRC is looking at are understandably the largest reliefs, like private residence relief, pension tax relief and VAT relief.

Even the very smallest reliefs need scrutiny. The smallest reliefs can still be worth more than the budgets of Government Departments. I am sorry to come back to video games tax relief again, but it is the one I understand the best. It had a cost of approximately £200 million last year and very little in the way of scrutiny. That is because hundreds of reliefs have very little scrutiny, but compare that to the Food Standards Agency with a budget of £121 million, or the Serious Fraud Office with a budget of £74 million. Government Departments get a huge amount of scrutiny from places like the National Audit Office, whereas some reliefs effectively go unchecked. It just doesn't add up. The NAO and the Public Accounts Committee are right to highlight that lack of scrutiny.

**Anita Monteith:** I would agree about the lack of scrutiny, certainly, but I think we are mixing quite a lot of things in the same pot here. For example, with main residence relief, I think there is a legitimate expectation that when somebody buys their home, they can keep it—assuming they keep it for 50 years or so—and sell it at the end without a capital gains tax charge, because it was part of their life plan and the way they lived.

Those sorts of reliefs are different to some of the more specific reliefs we have been talking about. For example, theatre relief has a specific objective and, because it is relatively small compared with some of the bigger ones, you can see what it is achieving. We have a vibrant theatre industry—that is the wrong word, but we have successful theatre and productions—in the UK for that cost.

Q45 **Dame Angela Eagle:** Dr Twist, have you got any thoughts?

**Dr Twist:** I can counter that again. We have a very clear picture of the return on investment and the value of the VGTR in particular—the video games tax relief. Indeed, a report for HMRC showed that the VGTR really set the industry on a path to global competitiveness again, and we have those figures showing the increase in employment directly related to the VGTR. We have a lot of the evidence around inward investment that has occurred, particularly over the last three years. We have had record-breaking inward investment and investment in UK-based studios that would otherwise have simply taken that work and those jobs elsewhere. We have a very clear evaluation of VGTR, and it is extremely important for our future growth.

Q46 **Dame Angela Eagle:** Are there examples from other countries that are more effective at looking at how their tax relief works than we are? Is there oversight equivalent to that of the HMRC tax authority in other countries that is more effective than what our HMRC has managed, or is everyone equally at sea about whether any of these tax reliefs work or



not?

**Alex Dunnagan:** This does not quite answer your question, but it is in a related field. The fact is that the UK has a lot more tax reliefs than many other countries. This statistic is slightly out of date, so forgive me for that, but in 2016 the IMF reported that the cost of tax expenditures in the UK was more than in most of the 25 comparator countries. The NAO—I believe in the 2020 report—stated that “the cost of UK tax expenditures is relatively high by international standards”, but it is very difficult to compare and contrast these things because of the complexity of the tax system. Whatever other countries are doing is perhaps slightly easier because they do not have 1,200 different reliefs to administer.

Q47 **Dame Angela Eagle:** So is it a good idea to abolish the Office of Tax Simplification then?

**Anita Monteith:** It is a terrible idea, in my view.

Q48 **Dame Angela Eagle:** Do we all think that it is a terrible idea?

**Anita Monteith:** Perhaps I can qualify that. The OTS has done some fantastic work; where we have slipped up is that we have not implemented enough of its suggestions. I think HMRC is struggling at the moment. It may feel like a non sequitur, but if you try and call HMRC at the moment, you could, if you are lucky, wait for an hour before somebody answers. You can be waiting months for answers to letters. A lot of the OTS’s suggestions will require change—change in the system—and that can be difficult. To expect the work of the OTS to now be absorbed by HMRC seems very over-optimistic—I do not know what it will do it with.

Q49 **Dame Angela Eagle:** It is not doing it anyway, is it? As I said, when I was a Minister there was no reasonable attempt to assess whether the entrepreneurs’ tax exemptions and venture capital tax exemptions were working at all. Nobody has talked about charitable tax exemptions or trust funds, or any of the other things that get people out of paying tax, so we do not seem to have a capacity to assess what is happening.

**Anita Monteith:** I think you are right. Failing to assess the results of reliefs is a big problem. That is why, at the beginning, I said that I think our preferred tax system is very much broad based, with few reliefs and a low tax rate.

Q50 **Dame Angela Eagle:** Can I talk about the R&D tax reliefs for SMEs and the announcements that were made in the autumn statement? In TaxWatch’s evidence to the Committee, Alex, you stated that “HMRC’s estimate of fraud and error with R&D relief is likely a significant underestimate” and that it is costing billions of pounds a year, but there has been widespread dismay at the announcements made by the Chancellor effectively taking away R&D tax relief for SMEs.

**Alex Dunnagan:** The reason I believe—or TaxWatch believes—that it is an underestimate is that we do not know how many compliance checks HMRC is doing. Although that information will be available to you, it is not



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available publicly or through FOIs, but it is my understanding that there are very few compliance checks. Without fully understanding what claims are going through, we do not know the full scale.

Another reason we thought there was a large degree of fraud and error—perhaps above what HMRC was saying—was that there were differences between the ONS data and the HMRC data. The methodology has since been changed, which has brought those in line.

**Q51 Dame Angela Eagle:** Are you saying that it is now not an underestimate?

**Alex Dunnagan:** No, I am not saying that. I believe the methodology for the ONS data is that businesses are told to say, “Have you conducted R&D—yes or no?” If you have claimed for that R&D through HMRC, you are definitely going to say that to the ONS, regardless of whether it was a correct claim. It makes sense that those two should marry up, but it does not necessarily mean that the claims are genuine.

**Q52 Dame Angela Eagle:** Anita, the institute said that there were reports of abuse and fraud in R&D tax relief for SMEs. Do you have evidence of that?

**Anita Monteith:** No personal direct evidence, no. It is largely what you read in the press and the headlines, I am afraid.

**Q53 Dame Angela Eagle:** The ideas for R&D for an SME include introducing a new cocktail or a vegan croissant; they are anecdotal, but is not the problem the whole issue of tax advisers providing sort of evasion or avoidance packages, and flogging them en masse? Perhaps we need to do something about that side of the activities rather than the reliefs themselves.

**Anita Monteith:** We are probably heading towards a conversation about regulation of the tax profession.

**Dame Angela Eagle:** Yes, that is the polite way of putting it.

**Anita Monteith:** I am aware of the adverts where people say, “Roll up, roll up, we’ll get you some tax relief from HMRC.” To be frank, they are a hindrance to the work of the tax system. I would never say that everybody is playing by the rules, but our members who are trying to do their job and to do their best for their clients. If HMRC did not have to chase people who are playing fast and loose games, the rest of us—who are trying to make the tax system work properly, as Parliament intended—would be able to get on and do it.

**Q54 Dame Angela Eagle:** Might it not be a good thing to try to crack down on the wilder elements of the tax advice industry—I am being very polite by putting it that way—in parallel with looking at the shape of the reliefs themselves? A lot of these things would not be noticed, much less exploited, if it was not for the cowboys in the tax advice industry.

**Anita Monteith:** I agree, and I do see HMRC increasingly going after the cowboys, if we can call them that. Again, it gets a good return from the



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money it invests in chasing these people, but it is not easy. It takes a lot of time, and then you have to look at all the cases that have been put before you.

- Q55 **Dame Angela Eagle:** What about the tax relief changes for the video games industry, because by definition the R&D changes impact SMEs in particular rather than larger companies? Will that affect your industry?

**Dr Twist:** Potentially, but we do not know how many games companies claim R&D tax credit. However, we do know how many companies claim the video games tax relief, and it is a far more accessible and valuable scheme in terms of direct job creation in a games industry where technology and innovation meet storytelling and art. It is sometimes difficult to abstract the real research and development—because we want to be doing real research and development, not making digital croissants—from game development.

**Dame Angela Eagle:** Vegan croissants, I think it was.

**Dr Twist:** We could probably design a game to help educate people on this as well.

**Anita Monteith:** I would love a low-calorie croissant, actually, if someone could come up with one—

**Dame Angela Eagle:** I think there would be no calories in a digital croissant. You could correct me if I'm wrong; I'm not an expert.

**Dr Twist:** Have we just invented something?

- Q56 **Rushanara Ali:** I have some questions about policy options for improving tax reliefs and then on some of the larger tax reliefs.

In the written evidence to this Committee, the Institute for Government said that there is an "asymmetry in the ease with which tax reliefs can be introduced and removed". What would happen if we imposed a one-in, one-out rule for tax reliefs? Who wants to start off?

**Anita Monteith:** I will take that one. I like the idea of getting rid of tax reliefs. I'm not sure one-in, one-out would necessarily work, because then you have to bend yourself over to get rid of one just to have an urgent new one that you have thought up.

However, what I do think you could do is to make greater use of sunset clauses. You could introduce things for a limited amount of time and then work your way through a review of others. I know the OTS produced a longer list of reliefs that could be got rid of, and only some of those have gone so far.

I think you could stop the problem getting worse and also keep legitimate expectations in place if the next time somebody has a brilliant idea—quite frequently, it is because they've been lobbied really, really well—we could say, "Well, we'll have that for the life of this Parliament." However, we should bear it in mind that sometimes it takes a long time to get



permission or to get sign-off for acceptance of your particular relief, and I go back to my capital allowances claim.

Q57 **Rushanara Ali:** Does anyone else have a view on this?

**Dr Al Kaddour:** I think a sunset clause is really important, especially after the evaluation of tax reliefs, as we do not have the data to judge any relief in terms of value for money. If we set an expiry date for any relief—usually, it would be five years after its entry into force—that would give enough time for the OTS and other bodies to evaluate the impact, especially in terms of economic growth.

We would then have a better idea, and I think your Committee now has more power to scrutinise the financial regulations. You could play a vital role in this area, in the introduction or evaluation of that.

Q58 **Rushanara Ali:** Well, I am not sure about that, because there are a lot of tax reliefs; I do not think that would be an appropriate role for this Committee, other than the overarching scrutiny of reliefs. But you make a good point that perhaps other agencies and HMRC could do some of that.

Are there any downsides to sunset clauses? Very quick answers please, because I have a lot of questions to get through.

**Anita Monteith:** You would have to listen before you simply crossed one off the books, because there may be very, very good reasons for them.

**Dr Twist:** When it comes to the video games industry, investors and companies work on really long timescales and need certainty, and I think that would be disastrous.

Q59 **Rushanara Ali:** Okay, good point. Lord O'Donnell said to the Institute for Government that, "Every chancellor would be bowled over by the luvvies and we'd come away with a film allowance". Do lobbyists have too much influence in the creation of new tax reliefs?

**Anita Monteith:** You would probably be in a better position to judge that than we are.

Q60 **Rushanara Ali:** My party is not in government, so not necessarily; you'd have to go back quite a long way. Does anyone have a view on that?

**Anita Monteith:** I was just going to say that lobbyists are interesting, because of course they do know their area. If they are coming to you with a particular problem or cause or suggestion, it's worth listening to them—

Q61 **Rushanara Ali:** Well, except that there is an imbalance. For instance, in terms of those who are lobbying the Treasury on financial services, there is a very heavy bias towards the financial services sector versus consumers. In this case, Lord O'Donnell has singled out luvvies, and as much as we love luvvies, we do not want them to have undue influence versus other citizens. Does anyone have a view on that, and the question of whether one group has too much influence?



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**Dr Twist:** I am not a lobbyist; I represent the voice of an industry that is really important, and the UK is really important in the global standing of our industry. We listened and we observed what happened in the 2000s, when we faced huge global competition and our studios were attracted offshore. Our skills were not passed down and our innovation did not bleed into other sectors. We listened and we lobbied for the video games tax relief as an industry because it was targeted, it was doing a specific job and we could measure it. I object to Lord O'Donnell's point.

- Q62 **Rushanara Ali:** The point was about new industries, sectors or innovations—providing it is not types of cocktail, and it is not being misinterpreted or misused—having undue influence over others. I think he was getting at ensuring that there is a fair and balanced approach, and parity, so that the voices that come into Government are not skewed towards one sector. He is also quoted as saying, "Nearly all of these allowances meant that...really rich people with smart tax advice paid very little tax". How can we make the system easier for all taxpayers, and ensure that rich people with smart tax advice are not paying much less, when everyone else is paying their fair share?

**Anita Monteith:** By having fewer reliefs, probably.

- Q63 **Rushanara Ali:** Your response would be to scrap the reliefs, so that rich people would not find ways of paying less—that is one way of looking at it.

**Anita Monteith:** I think you need to decide what shape of tax system you want.

- Q64 **Rushanara Ali:** To probe you a bit, you are talking about scrapping reliefs. I am speaking objectively. This picks up on earlier questions. For instance, there are tax reliefs on pensions, there is private residence relief, there is relief for VAT on food, and so on. If your answer is to scrap all tax relief—it doesn't matter what I think about that—so that rich people will not hire tax advisers to not pay so much tax, is that not a bit facetious? Are there not better ways to stop rich people avoiding tax?

**Anita Monteith:** The idea of just scrapping everything overnight is obviously ridiculous, but I am setting out how I think that—and most economists would agree—you could have a more manageable tax system. When we come to rich people avoiding more tax because they are using an adviser, for a start they are going to have more complex affairs. Because they have more complex affairs, they will be looking at using or accessing more reliefs. If those reliefs are there, because Governments have put them there, I do not think we can criticise them for using them.

- Q65 **Rushanara Ali:** No, I am talking about a particular perspective from a former permanent secretary about how tax allowances can be used in this way. Obviously, there are different views about tax allowances, and I am not sure that many politicians would argue for removing tax allowances on food, for instance, or on pensions. There is a specific point about how these tax allowances are used by wealthy people, because they have the means to do so. That is what I am getting at.



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**Anita Monteith:** Maybe we need more of the small allowances that we were talking about earlier—for example, the trading exemption of £1,000.

Q66 **Rushanara Ali:** Provided people know about it.

**Anita Monteith:** But most people will not be coming into the tax net because of it, so we are protecting them. Someone who is trading and earning hundreds of thousands of pounds will obviously need more advice, because they are clearly not exempt.

There are other things there. We have things like overseas workday relief: for example, if you are a non-dom resident and working in the UK most of the time, you will have to leave overseas any earnings for the periods of time you are overseas, if you do not want to pay tax on them. I think that is unfortunate, because I would rather they brought their money into the UK and spent it in shops here, rather than having that slightly awkward exemption. Other countries do not have that. It depends what we want—

Q67 **Rushanara Ali:** This is a very live debate at the moment. My party is arguing that the Government should do something about non-doms. They could generate about £3 billion—

**Anita Monteith:** Yes, but you and I would be taxed on—

**Danny Kruger:** You have spent it about 10 times over.

Q68 **Rushanara Ali:** It was brought up—your turn will come, Danny, and then you may ask whatever question you like.

Anyway, that is an important point. If you have finished, Anita, I will come to Dr Hosam Al Kaddour. In your evidence, you said that tax reliefs have negative effects on incomes and regional inequality. Are you saying that the tax reliefs are actually adding to regional inequality? Do they cause tension with the levelling-up agenda?

**Dr Al Kaddour:** No. What I meant is that the levels of awareness about tax reliefs are not at the same level everywhere. That is the reason for my suggestion about co-operating with universities in disadvantaged areas to make directors of small and medium-sized businesses aware of the reliefs available. That could also be taken into a wider picture through introducing the financial knowledge to—

Q69 **Rushanara Ali:** You also mentioned that it would be good to introduce specific tax credits for lower incomes, instead of tax reliefs. Previously, the Labour party had a number of different tax credits. Are you saying that, to reach those in the lower-income bracket, tax credits are a better way forward, rather than tax reliefs, which are more complicated, have less awareness and so on?

**Dr Al Kaddour:** That is what academic theories suggest.

Q70 **Rushanara Ali:** That is very interesting. That would include the working families' tax credit-type models, universal credit, and things like that.

**Dr Al Kaddour:** Yes.



- Q71 **Rushanara Ali:** Thank you. I have a couple of questions on large reliefs. About five reliefs cost more than £20 billion a year. Given that they are so large and, presumably, so integral to their respective taxes, do you think they get enough scrutiny, or the necessary scrutiny they deserve?

**Dr Al Kaddour:** Most of them, yes, although we do not have enough data to have a full picture of the evaluation of each of them, but there is academic evidence. For example, I can talk about R&D, because I have empirical evidence from Cowling about UK SMEs. The evidence indicates that we have an increase in the level of products and services provided by them. Using the national systems of entrepreneurship, the academic had access to the vast majority of SMEs in the UK and, based on that study, he arrived at the conclusion that those who took up that relief are benefiting and having better financial results. That is the evidence.

I understand what the Government were doing by reducing the credit for small and medium-sized businesses from 130% to 86%, but the reduction in repayable credit from 14.5% to 10% is not a good idea and will discourage SMEs from investing in R&D, because most likely they will incur some losses in the year in which they have spent for R&D. This will discourage them and affect the overall growth in our economy.

- Q72 **Rushanara Ali:** Let me ask just one more question. I mentioned the figure for pension reliefs: £42.5 billion a year. For private residence relief, the figure is £30.2 billion. For VAT relief on food, the figure is £20.7 billion. Are individual reliefs such as these so large by design, or have they just grown over the years? Do they still justify their original reasons for existence, or does there need to be a careful look at them? Would anyone else like to come in?

**Dr Al Kaddour:** The aim of that relief is justified. We are now discussing the cost and trying to make the cost affordable for the Government and, at the same time, achieve the aim of the relief. For example, in relation to VAT, you cannot reduce VAT or scrap VAT on food, but instead you can expand the tax base for sugar tax to include ready meals that involve a high intake of sugar. In this case, you can guarantee revenue for the Government and, at the same time, you are not hitting the main food for the nation.

For residence relief, for houses, you can just adjust the conditions. For example, you have three years during which, if you are absent for any reason, your property can be deemed to be occupied. We can scrap that condition and, in this case, we will give the CGT relief only to those who really deserve it.

- Q73 **Danny Kruger:** I want to ask about charitable tax relief and gift aid in a moment, but first, if I may, I will come back to you, Dr Twist, and the earlier conversation about taxing the distribution of profits on video games. Tell me if I am understanding you correctly. The profits from—you mentioned “Grand Theft Auto”, an enormously successful product that I understand has grossed £6 billion in sales globally.

**Dr Twist:** It reached £1 billion in three days in 2013.





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Q74 **Danny Kruger:** Incredible. But none of the tax on those profits accrued to the UK Treasury. I say that even though I totally appreciate the value of that game to the UK in terms of generation of jobs and—

**Dr Twist:** And it continues to create value, because it's not a game that was released and distributed and that's it; it continues to live.

Q75 **Danny Kruger:** Fine, and I take your point about it attracting talent to the UK. There is a multiplier effect. It makes the UK a good gaming centre, and all the rest of it. But wouldn't it be nice if some of the profits, which are the ultimate purpose of a commercial enterprise, were taxed in the UK? Do you not think that there would be some value in that? And is there a way of doing it that would not harm—

**Dr Twist:** I am not a tax expert—

Q76 **Danny Kruger:** No, but what's your view, from the point of view of the industry and the—

**Dr Twist:** My view is that the VGTR does what it is supposed to do: it incentivises that work and the employment of thousands of people across London, Lincoln, Leeds and Edinburgh, where Rockstar has studios. The game is a living game; people still purchase extra content, which is also made in those studios across the UK. It is not a product that is released and then the asset is monetised elsewhere in that regard. I am talking about the effectiveness of the VGTR. In a targeted way, it does what it is supposed to do. And it does have that multiplier effect. I cannot comment on the way in which other tax regimes are worked out by multinational companies—

Q77 **Danny Kruger:** But is there a way, from the industry point of view, and do you see the value, from a UK point of view, of incentivising these companies to distribute from the UK?

**Dr Twist:** The vast majority of companies will make the tax credit work in the jurisdiction—in this country—by ploughing back the money in order to hire more people, to make better-quality games and to expand the innovation or the creativity that they are giving to games to the whole world. We know that that is the aim of it, and that is what they do. Those studios that are owned internationally have grown in the UK, and that is what the relief was supposed to achieve.

Q78 **Danny Kruger:** I appreciate the value of the relief, and that is what we are here to discuss so I will leave it there, but it strikes me as a massive shame that we are not—

**Dr Twist:** I think it is worth looking at. It is not a product that is sold and that is it. It is not like a—I don't know—a table, or a film in the same way.

Q79 **Danny Kruger:** It continues to generate profits for another jurisdiction.

**Dr Twist:** Not necessarily.

Q80 **Danny Kruger:** But it does.

**Dr Twist:** The VGTR delivers the multiplier—



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- Q81 **Danny Kruger:** I appreciate that that has its effect. I really do see that.  
**Dr Twist:** It puts us in a global standing point. It is a huge export of soft power and British cultural identity, and is really important.
- Q82 **Danny Kruger:** All great stuff. I do take that point. Who is the best person to talk to me about charitable giving and gift aid?  
**Anita Monteith:** That will be me, I suspect.
- Q83 **Danny Kruger:** Thank you very much. Can I ask you about a point of principle, and reference a point made by colleagues earlier by implication? Are you happy with the principle of gift aid, which essentially means that the taxpayer is deciding where their tax money goes? Do you think that that is an appropriate principle?  
**Anita Monteith:** Yes. To be honest, I have never really thought about it that much, but yes, I do. I should perhaps declare a vague association with charities. I was the treasurer of Alzheimer's Society quite a long time ago in my career, and my husband worked for Dogs Trust.
- Q84 **Danny Kruger:** Good—you have seen the benefits of gift aid. Just thinking about Rushanara's *bête noir*—the rich—on the top 1% of earners I most likely share her scepticism, because the problem is that the very rich are not paying enough gift aid, or they are not claiming enough gift aid, according to the research that we have here. It says that 37% of the top 1% of earners are claiming gift aid on their donations, which has been at a stable level for 10 years. It does not seem as if the system is working brilliantly. The wealthy who might be giving charitably are not necessarily claiming the gift aid. Do you recognise that as a problem?  
**Anita Monteith:** I did not know that to be honest, but that is not great.
- Q85 **Danny Kruger:** What can we do to enhance the uptake or the use of gift aid, do you think?  
**Anita Monteith:** I do not know why they are not claiming. I suppose somebody should be asking them why they are not, but HMRC probably would not have the resource to go back. I suppose it is possible that they are overseas people making donations. I don't know.
- Q86 **Danny Kruger:** Indeed. It might be that the system is a bit clunky. It is mostly still paper-based. Do you think that there is a way of automating gift aid to advance its uptake?  
**Anita Monteith:** You are absolutely right that it is clunky. Never mind high-income people; many ordinary people who sponsor a friend for a run or something do not make a gift aid claim because they do not know how to do it. The particularly awkward bit—"clunky" doesn't even begin to describe it—is the tax rules for carrying back a gift aid claim, which is what you are allowed to do. I will not set out now the rules that are in place, but believe me that they are mind-bendingly and ridiculously difficult. I suspect that most people, unless they do their tax return very early in the year and make the payment early in the year, probably never bother with



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that bit, but it benefits the taxpayer, really, rather than the economy in any case.

- Q87 **Danny Kruger:** Okay. The Government have recently announced changes to the additional rate threshold for taxpayers, which means that some people who have been paying the higher rate of tax will now be paying the additional rate. That then means that more people will benefit from gift aid if they claim it, and indeed more charities will benefit from their donations. Has any work been done? Does anybody know the likely effect of the additional rate?

**Anita Monteith:** None at all. Possibly somebody like the ONS might have.

- Q88 **Danny Kruger:** Okay. It would just be interesting to know what the potential is for increased giving, but again, it comes back to the point about whether people will actually use gift aid. The last topic is social investment tax relief. Are you familiar with that tax relief?

**Anita Monteith:** Not very, no.

**Danny Kruger:** It is one of the thousand tax reliefs, and it is due to end next year because I think the Government have concluded that it is complicated and is one that they could do without. It is a tax relief on investment in social enterprises, so charitable businesses and charities themselves qualify for the tax relief. The difficulty is that uptake has been lower than hoped for.

My challenge to the Treasury has been: "That's because you haven't communicated it well, you kept changing the rules, and you're not respecting the fact that investors and advisers often take some years to have full confidence in a relief, or an investment opportunity, before they advise people to use it, so it's not surprising that the uptake has been low for social investment tax relief." Do you share my sympathy for that particular tax relief—I appreciate that you do not know much about it—and the idea that it has a lot to do with communication, simplicity and giving a relief some time for it to prove a success? Perhaps we have been too hasty in saying that this one has not worked.

**Anita Monteith:** Obviously, I cannot speak to that particular one, but from my experience of the tax system, usually if people are not using something, it is too complicated and there hasn't been sufficient communication about the opportunities. Complexity is at the heart of most things that go wrong in tax—not understanding the rules, not knowing them, and then complexity.

- Q89 **Chair:** I am going to finish with a couple of topical points, if I may. Duty-free shopping has been switched on and off so many times in the last few years. On the pro side of duty-free shopping, you do not charge VAT to people who come to the UK and who do a lot of shopping, but the quid pro quo is that they come, they spend a lot of money in hotels, and they make visits here rather than to other places that do offer tax-free shopping. That is the argument in favour of not having the VAT. Then of course the argument in favour of having this is that it is £2 billion of extra



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revenue, and why should we have to pay VAT on our goods when someone who flies in from China does not have to? We have had a series of Chancellors make different decisions. At the moment, there is no duty-free shopping in the UK. I wondered what the panel thought about it, and whether they have a view as to the preferred state.

**Alex Dunnagan:** This is not an area that I have conducted any research on. Sorry.

**Anita Monteith:** Following the theme of simplicity, the simplest thing to do is to have VAT on everything and then, if you want a relief and there is a very good reason for it—£2 billion sounds to me like a very good reason—can you implement it clearly? I remember they used to have—

Q90 **Chair:** The £2 billion is what you have by not having duty-free shopping, according to—

**Anita Monteith:** Well, if you want duty-free shopping you need to point to the number—the extra income to the UK.

Q91 **Chair:** But none of you has done any particular work on this very topical one?

**Anita Monteith:** No.

**Dr Al Kaddour:** I would support Anita's suggestion that we should tax or charge VAT for everyone in the UK.

Q92 **Chair:** And you would need to find out if there was any actual benefit to doing this, and you have not seen any studies on that.

**Dr Al Kaddour:** No, I haven't seen any studies about that, but initially, we are a really popular place for visitors, so I would expect good revenue—even more than £2 billion.

Q93 **Chair:** Jo, I assume that this is not one of the ones that you want to answer.

**Dr Twist:** No.

**Chair:** Can I just say what an amazing panel you have been? It has been fantastic to hear your evidence because you have obviously thought very long and hard about different aspects of it. On behalf of the Committee, I thank you for coming in on the Monday before Christmas and giving us your evidence.