House of Commons

Treasury Committee

Oral evidence: Tax after coronavirus, HC 664

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Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Harriett Baldwin; Anthony Browne; Felicity Buchan; Ms Angela Eagle; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 354 - 431

Witnesses

I: Chris Sanger, Global Government Leader, Ernst and Young, and Chair, Tax Professionals Forum; Alex Cobham, CEO, Tax Justice Network; Tom Clougherty, Head of Tax, Centre for Policy Studies; Annie Gascoyne, Director of Economic Policy, Confederation of British Industry.

Examination of witnesses

Witnesses: Chris Sanger, Alex Cobham, Tom Clougherty and Annie Gascoyne.

Q354 **Chair:** Good afternoon and welcome to the Treasury Select Committee evidence session as part of our series of evidence sessions into tax after the coronavirus. I am very pleased to be joined by four witnesses this afternoon. I am just going to ask each of them very briefly to introduce themselves to the Committee.

Chris Sanger: I am Chris Sanger. I am EY's tax policy leader. I am also chair of the Tax Professionals Forum.

Tom Clougherty: I am Tom Clougherty, head of tax at the Centre for Policy Studies.

Alex Cobham: I am Alex Cobham. I am chief executive at the Tax Justice Network.

Annie Gascoyne: I am Annie Gascoyne and I work at the Confederation of British Industry as its director of economic policy.

Q355 **Chair:** Welcome to all of you. In the event that a question is not directed to you by one of the members of the Committee, and you would like to answer or add something to that which somebody else has already said, please do not hesitate to raise your hand and I will attempt to bring you in at that point. I am going to start my questions with Chris.

Chris, I would like to focus on corporation tax for a moment. I would like your opinion on one area of difference of opinion, in terms of how much corporation tax could yield at different rates. We know that if you go back to 2010-11, when corporation tax was up at around 28%, I think it was bringing in something north of £30 billion or thereabouts. In more recent times, despite the fact that the tax rate has fallen now to 19%—it is quite a considerable drop—the actual tax yield has increased quite significantly to around £50 billion.

Some will say that is a Laffer effect: you reduce the tax and you actually get a higher yield because there is more economic activity and there are more people paying it. Others might point to economic growth across that period after the financial crisis, the bank levy coming into place, anti-avoidance such as the corporate interest restriction and other measures actually doing most of the work in terms of increasing yield. Where do you stand on this? Do you think that, if taxes went up, they would produce less over the medium term or might they produce more?

Chris Sanger: If we look at the statutory corporate tax rate, it is the shop window for a company looking at where to make investments. The corporate tax rate, as you were quite rightly saying, was 28% in 2010. If you go back to Gordon Brown, it was 33%. We have seen a considerable reduction, and not just considerable but also a pretty consistent reduction across various different parties seeking to reduce the corporate tax rate. That has had a big impact on making the UK an attractive place to invest into and to invest in for companies that are here today. At the moment, we have a corporate tax rate at 19%. That is the lowest in the G20. That is another very attractive statement for the UK to be able to make in terms of its corporate tax rate.

That has had an impact in attracting investment into the UK. When we look at what drives investment, tax is normally about the sixth or seventh factor down in terms of encouraging investment, but all the factors above that—things like the availability of educated people, transport links, communications—tend to be factors that, once you meet them, you cannot do better by meeting them in a better way. You either satisfy them or you do not. Tax tends to be one of the first ones there that has a number to it that having a lower figure will get you on that approach. I do think it is making a difference.

Q356 **Chair:** Let me rephrase the question. On my specific point there about Laffer effect—yes or no—where do you think the yield-maximising level of corporation tax might be?

Chris Sanger: At a rate around the lowest of the G20, where we are at now. The lowest in the G20 is us at 19% but the next one is 20%, which is Saudi Arabia. If we go above that level we are in danger of deterring investment, because of the rate but also because it is a change in direction of overall policy.

Q357 **Chair:** If the Chancellor is sitting there at the moment trying to work out how he is going to close this deficit gap, not now but at some point in the future, and he is thinking, "I will put it up by a per cent or two, or whatever; that will bring me in X billion pounds", your argument would be, "That is just wrong".

Chris Sanger: HMRC shows £3 billion for each percentage point increase in the corporate tax, but that does not take into account the behavioural response. In my view, anything that goes higher than the other lowest of the G20, the 20%, would send all the wrong signals about the direction for tax policy making in the UK if you want to encourage international investment.

Q358 **Chair:** Do you think companies that wish to invest in the UK look at net rates? There has been some suggestion in the evidence we have received in previous sessions before the Committee that they do not look at the profits after tax on investments. They really focus more on the pre-tax level, subject to an important caveat that they want to feel broadly comfortable with the tax regime and the tax rate that is being applied. Would that be your assessment as well?

Chris Sanger: If you look at what businesses are looking to invest in, they will look at the returns that come back to them and that will generally be on an after-tax basis. You are right to say it is not just about the rate. When we have looked at competitiveness in the past, we have looked at tax rate and tax base, which is the broad-based part that has definitely played a part in increasing the tax revenue.

It is also the quality of tax administration, the policy making we are seeing and the fact that there is a good level of consultation here in the UK. Indeed, hearings like this one give visibility about where tax policy might be going. Those four elements—rate, base, administration and policy making—are the four key elements for a competitive tax regime.

Q359 **Chair:** Chris, that is very helpful. Thank you. Tom, with increased corporation tax, in the medium term, you are not going to get any more money. In fact, you may actually get less than before. Would you agree with that?

Tom Clougherty: Broadly, yes. In the short term, you probably can squeeze a bit more money out of the corporate sector with a slightly higher corporation tax rate before any sort of significant Laffer disincentive effects set in. I would question whether that would be the right thing to do, especially at a time like this when you really want to send a pro-business, pro-investment message as we come out of the pandemic.

There is an interesting broader point here. You asked a good question about corporation tax revenue and how it has done quite well, despite the falling rates. I do think part of that is the Laffer effect, the incentive and the attractiveness to investors. We also need to remember that, while the Treasury lowered the rate, it was also broadening the tax base by making capital allowances much stingier. There is a good argument—and we may come on to this later—that that was a mistake. It doubled down on the weakness that the UK economy has in business investment. We need to think about more than simply the headline rate, both in revenue terms and in trying to encourage growth.

Q360 **Chair:** Alex and Annie, where would you sit on this? Do you think that raising corporation tax ultimately is self-defeating or do you think that it does actually raise more revenue?

Annie Gascoyne: It is a fine balance and I would agree with comments that have already been made. Businesses say to us that tax is not the be-all and end-all, but also that corporate tax is not the be-all and end-all. There is a wide range of other taxes that businesses pay. It is interesting, exactly as Tom says, that, while we are very competitive if you look at the G20 league tables on the headline rate, we are much less competitive on the marginal tax rate on an incremental pound of investment. Other countries, including Canada, Italy, Belgium and the Netherlands, as well as the obvious one, Ireland, all have lower effective marginal tax rates than the UK does.

It matters what the headline rate is, but it matters more what businesses' expectations of the rates are going to be. If we look at the corporation tax roadmap, which originally saw the tax rates planned to go down to around 17%, there was some scepticism within businesses that that would ever be achieved, which has ultimately been proved right in the last couple of years. It does matter what businesses expect to be politically and realistically achievable, as well as what stated Government policy is.

Q361 **Chair:** Annie, it is interesting that you raise the roadmap, which came in, from memory, in 2011 or thereabouts. Overall, has that been a success as an approach, albeit that in the last two years it does not look like it will be adhered to?

Annie Gascoyne: It was, because it gave some certainty. There is always some scepticism about how strictly a Government can stick to a commitment of a roadmap because it is just an indication of policy. There is still the possibility for the Government to change direction at any point. That is the nature of how our tax policy system works. It gave a political commitment that the Government were trying to achieve something and there was a long-term path, which really was helpful. If we are revisiting the idea of a roadmap in a post-Covid, post-Brexit world, it needs to be clear and specific but also achievable, both economically and politically.

Alex Cobham: It is great that the Committee is looking at tax policy. This is an area that is so important for both revenue and redistribution, and, sadly, lacking in parliamentary scrutiny. On this point in particular, it is worth saying that the economic balance of opinion is very clear on this. Laffer effects, if they exist at all, are at the far margins, and corporate tax is a key part of our tax instruments. It is probably the closest thing we have to an ideal tax and it is also ideal to raise during a crisis. It is non-distorting because it takes a share of profit and so you still maximise profit at the same point. It is cyclical, so when companies are not making profits during a crisis it does not impose on them. It is a backstop to other progressive taxes.

The UK rate is inappropriately low in the international context. As Chris has said, it is well below most major economies, which means we are losing revenues because multinationals are coming here for the market size anyway. It is also far above the effective rates in profit-shifting hubs like the Netherlands or Ireland, so we are not competing with them, even if we wanted to compete in the dirty game of profit shifting.

You would be looking at something like the Biden-Harris proposals, raising the rate to something in the order of 28%, which would bring in, depending on the size of the behavioural effects, perhaps £20 billion to £25 billion. You can make your own comparison with things like the costs of free school meals for all pupils all year round or the UK meeting its commitments to international aid. This is a major revenue item and we are silly to turn away from it for ideological reasons.

Q362 **Chair:** That is very interesting. Your view, Alex, would be that raising the rate does bring in more revenue and your disagreement with the other panellists would be that the behavioural consequences of that would not undo that.

Alex Cobham: Absolutely. The economic analysis is clear on this. If you look at the Government's own projections and the projections of the OBR when this spiral of downward cuts was put in place, their estimates and projections were for an investment effect—a benefit in terms of increased investment—of precisely zero. That has broadly been borne out. That is where the mainstream economic analysis position of this sits, not that there is some great gain for the UK from going from 19% to 18% or anything like that. That just is not supported.

Q363 **Chair:** Annie, on this point, let me just challenge you a little. I am going back to my days at the Treasury when I was responsible for oversight of UK taxes, including corporation tax. The CBI and other businesses would often come in and chat. Very rarely was corporation tax ever raised. In fact, if it was, it was generally, "Well, no, we are very happy with that". Business rates and lots of other areas of investment incentives were understandably raised but corporation tax almost never was. How does that sit with your view that it really matters that it is nailed down at 19% or, indeed, lower?

Annie Gascoyne: That is a really good point. I would echo that in the conversations that we still have at the moment with businesses, even more acutely during the current crisis where we have seen a 12% drop in corporation tax revenues in 2020-21. In the seven months or so that we have had since the start of this fiscal year, we have seen another 25% drop or more. Costs from other taxes are much more significant. It is interesting. We have conversations with businesses about why it is, from a public perception point of view, that we are very, very obsessed with what businesses pay in corporation tax when, overall, it is not the largest business tax that businesses directly pay. In fact, employers' national insurance contributions are around 25% and, as you say, business rates are another significant cost.

Looking at corporation tax rates in isolation is not helpful if you are thinking about what a competitive overall tax regime looks like. Similarly, looking at rates alone is also not helpful. As Chris said, when you look at the evidence—and we did a survey pre-Covid—the thing that came up at the top of the list of what businesses wanted to see in terms of improved performance in the tax system was not rates. It was certainty and simplicity. They were the two top things that businesses said would increase competitiveness and the pro-growth nature of the tax system. That is a really important point.

Chair: There has been a set of slightly different views across the panel, but a very interesting discussion. Thank you very much for that.

Q364 **Mr Baker:** The OECD published a report in 2008 and said corporate taxes are found to be most harmful for growth, followed by personal income taxes and then consumption taxes. Mr Cobham, that seems to be somewhat at odds with what you said. Do you accept that corporate taxes are the most harmful for growth?

Alex Cobham: No, not at all. That is a very old study, which was not peer reviewed. The balance of economic analysis is clear that that is not the case. We actually find that, by and large, the higher the share of tax in Government spending as opposed to other sources of income, the stronger the process of democratisation. That is particularly true for direct taxes like corporate income tax. That is a stronger result, if you like.

On growth, the balance position is very unclear. There is some evidence for lower-income countries that you might be better to have a bit of a balance between indirect taxes. There is no peer-reviewed and high-quality evidence that, across the board, corporate taxes are bad for growth.

Q365 **Mr Baker:** I noticed a slight eyebrow raise from Mr Clougherty. Can I come to you, Tom? You have listened very carefully to what Alex has said in these last couple of questions. What is your response about the corporate tax?

Tom Clougherty: My view, as you will expect, is slightly different. The corporation tax is very, very far from an ideal tax. It is not just that OECD evidence, which is a few years old. There have been many other studies, including one from the Australian Treasury, which took quite a broad view of other studies in this area. By and large, in terms of the big categories of taxes, taxes on corporate profits, per pound of revenue raised, seem to have the largest impact on GDP per capita.

More than that, it is easy to think of corporation tax as just something that is paid by businesses, so who cares? There is a lot of evidence to suggest that a large part of the incidence—maybe as much as half—falls on employees. When you couple that with employers' national insurance contributions, which have been mentioned, it is not faceless corporations; it is workers who lose out, in terms of lower wages, a lot of the time.

The big problem with corporation tax, though, and I come back to this point, is not so much with the rate, because we have done good things on the rate over the last 10 years. We are in a very competitive position. I think it is the fourth lowest in the OECD. As others have pointed out, the way we treat business investment is very stingy. We are among the stingiest in the OECD—I think 33rd out of 36 on a composite measure of how much you let businesses write off their capital expenditure against taxes. That strikes me as a big problem and probably the area where, looking at tax reform, we have the biggest opportunity to improve our growth prospects through tax.

I freely admit that tax is not all about growth but growth is an important element when we are talking about tax reform, particularly at a time like this when, frankly, we have struggled for robust growth for a while and we are just going through quite a traumatic economic period. Corporation tax is worthy of further reform, but the focus should be on the base and promoting investment.

Q366 **Mr Baker:** In a moment I will bring in Annie and Chris, who nodded along on a couple of those points, to elaborate on the bits where they agreed with you and perhaps differ if they would like to. Can I first ask you to elaborate on your point about GDP per capita? Can you explain the relationship between corporate taxes and the wellbeing of the public through that GDP per capita measure? What is the point you are getting at?

Tom Clougherty: The point I am getting at is that, if you have a competitive corporate tax system that is supportive of growth, you will tend to encourage more inward investment, more domestic business investment and more business activity. All these things boost the nation's income as a whole and will, over time, lead to higher living standards. GDP is not simply an economic statistic. It is also a big determinant of all sorts of social outcomes in the long run that are very important to people.

With that point, my co-authors at the Tax Foundation in the US have looked, with their economic model, at different approaches to corporation tax reform. They find that both cutting the corporation tax rate and making investment allowances more generous helps with growth but, per dollar of revenue you lose, you get about double the impact in growth terms from changes to investment allowances compared with changes to the rate. That is the important thing to focus on at this stage.

Q367 **Mr Baker:** I can see Alex has reacted strongly to that, but I wanted to bring in Annie, to elaborate on where you have been agreeing with Tom.

Annie Gascoyne: I agree with Tom on the growth point and the way that tax flows through to different actors in the economy. That is really important because, at the end of the day, the extent to which companies pass on different elements of cost, whether that is through tax or other operational costs, and ultimately the prices they charge to their consumers and through the supply chain, is determined by market forces. You have to assume that, in some cases, those costs will be passed on to consumers. Any change to the tax system does fall in different ways.

On that point about employment, there is a trade-off to some extent. When businesses look at the cost of employing somebody, they look at the total cost of employing somebody, whether that be their wages and salaries, the tax elements or the pension contributions. They look at it as an aggregate figure, not breaking it down by different bits. That is really important. You see that with things like the apprenticeship levy when that was introduced. When businesses looked at that, they said, "Well, that comes out of our training budget". Actually, the net impact of that on business investment in training is neutral because the money comes out of the same pot. That pot is decided by business based on what they think is reasonable and what they can afford within a year. Apprenticeship levy funding goes out of that. That is a levy, rather than a tax, but that is key.

Where the UK tax system performs really well, and it is worth calling out the corporate tax system, is on R&D, where, on average, the support that the UK offers to businesses through indirect tax incentives is around twice the OECD average in terms of generosity. The R&D tax credit is particularly generous and competitive for SMEs. Looking beyond the headline rates, there are some really important elements of the tax system for incentivising different types of business investment and growth activities that we want to support, like R&D.

Q368 **Mr Baker:** I only have two minutes left and I want to ask about reform. Chris, you can have a couple of words on this subject, then a response from Alex.

Chris Sanger: HMRC did a study in relation to the cost of reducing the corporate tax rate from 28% downwards. It showed that, even on its own numbers, 45% to 65% of that was automatically recovered back through other tax receipts into the economy. There is clear evidence pointing to the benefits of reducing the corporate tax rate.

Q369 **Mr Baker:** Alex, you reacted strongly to something Tom said. Do you want to just put that on the record for us, whatever it was?

Alex Cobham: There are very few things on which McKinsey, the International Monetary Fund and the Tax Justice Network all agree. One of them is that taxes and the corporate tax rate are just not a significant determinant of cross-border investment. The race to the bottom is something that lobbyists get very worked up about and, as you have heard from Annie, it just is not that significant for businesses and can be another way of multinational companies getting a tax subsidy against smaller domestic businesses. We just should not be looking in this place. We should be worried about the UK's long-term ability to attract investment, things like market access in trading and the quality of our education system.

Q370 **Mr Baker:** I do not want to cut you short, but I am running out of time. Turning to reform, if you were to look behind me, you would find the *Single Income Tax* report of the 2020 Tax Commission, which proposed abolishing taxes on business and replacing them with taxes on distributed income. I wondered if any of you had considered that idea and what you made of it. Tom, were you a signatory to that report? I forget.

Tom Clougherty: I was not a signatory, although the report has an awful lot to commend it. That idea in particular is similar to what they have done in Estonia and Latvia, effectively taxing business income when it is distributed to individuals. They do tax it at the corporate level because it is a withholding tax, but if profits are retained and reinvested no tax applies. You effectively have a zero marginal tax rate on new investment. That is a good thing for growth. That is one way of getting towards what is broadly termed full expensing, which is letting companies write off their capital expenditure in full and immediately, which I think, and many economists have said, would be one of the best ways to boost growth through the tax system.

Chris Sanger: It is really important to think about the corporate tax system more widely among the other tax systems. It also acts as a protection against people incorporating and effectively creating money boxes. You should not look at the corporate tax system on its own, and a single one that applied on withdrawals might have problems in that space.

Annie Gascoyne: In terms of reducing business taxes, there is no need to say, "Eradicate them completely". Businesses are comfortable paying taxes. In terms of future reform, it is about that marginal decision about where you can incentivise investment and growth.

Q371 **Mr Baker:** Alex, give me your top idea for reform of the corporate tax system.

Alex Cobham: If we have an issue with UK business structure, it is the missing middle. It is too easy for people to hide personal income as corporate income at the bottom end and too easy for multinationals to reduce their tax rates at the top end. That leaves the middle-sized companies struggling against both. We should be thinking about that and how we deal with the two extremes.

Q372 **Chair:** Chris, if corporate tax rates for smaller businesses were to be increased by the Chancellor—that is a possibility in the future if you listen to the mood music around the Treasury—at what level of rise would you, for example, start to impact the problem we have around the three-people issue? In other words, it becomes more tax efficient to work for a personal service company rather than be employed directly, which in turn leads to IR35 and all the issues and problems around that. Is this, perversely, an opportunity to iron that out if the Chancellor were to decide to increase taxes? Do you think you would have to do it so much that it would not make a difference if it was just a percentage or two?

Chris Sanger: One or two percentage points is not going to overcome the lack of paying national insurance that comes as a benefit of paying out dividends through a personal service company. You would need to go up quite a few percentage points to address that. Arguably, it may be better to look at the employment/self-employment divide that I know you have considered before, because that would then be taken into account into the IR35 calculation. On the question of raising it for small businesses, if you were going to go down that route, you would really have to distinguish between the avoidance you are trying to deal with rather than penalising smaller businesses because of the third-person problem.

Q373 **Julie Marson:** I would like to turn to the digital services tax specifically. Perhaps I could start with Chris; I will not let you draw breath. Can I get your view on how effective you think the digital services tax will be in ensuring that digital companies pay their fair share of tax in the UK?

Chris Sanger: If I look at the digital services tax and digitalised companies themselves, the digital services tax in the UK is focused on those businesses where the users participate in creating the type of profit that they are making, whereas in the past they would have had to be in the UK undertaking that activity and taxable in the first place. The reason I say that is that, when you compare that to digital taxes and where the OECD is going in reallocating who gets to tax the profits of digitalised companies, there is a big difference between the two. The UK's DST is focused on the search engines, the social networks and the platforms themselves, rather than addressing the ability for businesses to sell their own goods over the internet. There is a difference between those two.

The DST as it has been designed is really focused on that user participation and should generate the revenue that the Government were looking it. We are talking around about £400 million a year. It is not a number that is going to pay back the Covid-related debt, but it will act to generate that revenue. The question that arises is, "Who is actually suffering that?" Is that going to be passed on to consumers effectively as an indirect tax? It is indeed a turnover tax, so it is not taxing profit. It is giving rise to double tax somewhere else, although the UK does have a very positive innovation compared to other digital services taxes. If you are getting into very low margins or losses, you are not paying it. The UK version is definitely a better version if you are looking to get closer to taxing profits but, at the moment, it is targeted at a very different area than digitalised companies generally.

Q374 **Julie Marson:** Do you think it will deter investment in the UK? Is there a danger of that?

Chris Sanger: It will increase the price, effectively, of those businesses acting here in the UK. That then will determine whether that is a price that they can either bear themselves and therefore it will not affect the consumer or whether they pass it on. At the margin, it will deter investment. If the opportunity is there and the ability to sell online is so advantageous compared to physically, you can see that that will still happen, particularly as we have seen in the current environment.

Q375 **Julie Marson:** Could I ask the same question of Alex, please, in terms of the potential effectiveness of this tax?

Alex Cobham: We do not have a lot of time for this. The revenues, as Chris says, are very small. More than that, it does not address the fundamental problem here, which is not that there is turnover not being taxed. It is that these companies are exceptionally aggressive at shifting their profits out of the UK, even though they make so much of their sales here. The fact that it can be passed on to consumers will also make it regressive, rather than progressive, as it would be if it was on profit.

Although it should not be a priority to get rid of this, it is not part of the long-term solution. We need to see the UK move in the direction that some of the OECD discussions have gone, although they have completely stalled, and cut through to assessing multinationals on the share of their global profits that aligns with the share of their activity in the UK. That is the only way to break this knot of profit shifting. At that stage, you do not need to worry about these workarounds like taxing turnover, which risk introducing distortions.

Q376 **Julie Marson:** Tom, the Government have been clear that this measure is pending international agreement and that it will be repealed if we get that. How likely is it that we will move on to enacting international measures on this basis?

Tom Clougherty: It is tough to say because, as Alex pointed out, the talks seem to have stalled. An international agreement is somewhat more likely after the US presidential elections than it was before. A Biden Administration might be more open to coming to the table on this issue. We should fool not ourselves into thinking that, just because it is Joe Biden perhaps taking a more diplomatic approach to international relations, an agreement will therefore be easy. The American trade Department and Treasury are pretty fierce in protecting their own interests.

The big problem here is that if the OECD pillar 1 negotiations are really focused on digital companies, we are largely talking about Europeans trying to get a slice of what are, at the moment, American tax revenues because that is where the big tech companies are. If there is a path to compromise and agreement, it is by a somewhat wider focus at the OECD negotiations, so that it is not simply about those big tech companies, but more broadly about how we look at the corporate tax base internationally. It is a pretty complicated thing. I do not imagine there will be immediate progress.

Q377 **Julie Marson:** Is it at least a better way of doing it, to levy something unilaterally on the basis that we have not achieved that consensus? It is a good move. It is a better move that doing nothing.

Tom Clougherty: I am afraid I disagree. There are problems with the digital services tax. The fact that it is levied on turnover is a problem. The fact that we are just targeting a specific industry and specific businesses within a specific industry is a problem. It sets a bad precedent for good tax policy in general. The real danger is not so much with the UK levying a relatively marginal minor tax unilaterally. The problem would come if lots of other countries follow in our footsteps and if the US continues to put in place retaliatory tariffs because it sees this as a move against American business interests.

The OECD modelled the impact of its various proposals in this area. Far and away the worst-case scenario—much worse than doing nothing—is if we get this escalation of tit-for-tat digital services taxes and tariffs, which the OECD thought could have a fairly significant impact on global GDP. That is something that we would really want to avoid.

Q378 **Julie Marson:** Perhaps I could go back to Chris and return to the US angle. Will it make it more difficult to reach a free trade agreement with the US, even given the difference between the outgoing and the incoming Administrations?

Chris Sanger: The US has shown itself willing to act in relation to trade for the digital services tax. We have tariffs being imposed on France for its DST, which is in place. Of course, there is a review by the US trade representative of eight countries, including the UK, in relation to the digital services tax. We do not know where that review is going to come out. The fact that the UK's one allows for a reduction where you have a low profit margin or, indeed, losses may mean that there is a way to distinguish the UK from the US. I am sure this is one of a long list of items that will appear on the negotiators' list between the UK and the US.

Q379 **Julie Marson:** Perhaps I could turn to Annie. The digital services companies have had quite a good time of the pandemic. We have turned to buying online and so on. Does that increase the case for both the tax and even widening it, in these circumstances? Will it help the high street? That is a really big part of this. Will it even the playing field for the high street?

Annie Gascoyne: Somebody raised earlier an important point about where the incidence of this tax ultimately falls. At the moment, the DST is a pretty small amount of revenue. It is a pretty low rate. There is the signalling impact in terms of wider competitiveness of the UK economy for investment in digitalisation of businesses. That spans tax and regulation, but tax is an important part of it.

We have seen announcements by some of the big players that are going to be affected by this tax, saying that they will pass this cost on to their customers. Remember, they are marketplaces, search engines and social media, so the customers who are getting charged are, in the main, a lot of SMEs. Around 80% of all businesses have some interaction with an online marketplace, social media company or search engine for the purposes of their business. As we have seen during the pandemic, even more SMEs are using those channels to sell their products and services to individuals because they have not been able to do so on physical premises.

There is a real question about the competitive environment where digital technologies allow those SMEs to set up and grow a business with basically no cost. There is no cost of property, no other costs of setup and minimal costs of online advertising and accessing consumers through social media and whatever. All the costs of this are ultimately going to be borne by those businesses. In a post-Covid world, that is something you need to be cautious of.

To your question about whether it is an effective way to capture the profits made by digital services companies, we know it is a revenue tax; it is not a profit tax. In that sense, it is not a good way of capturing more of the profits. As we know, the broader question is around where the UK's taxing rights are on those profits and where those profits are divided up among countries. The big game in town is having an international agreement which addresses the taxing rights of countries like the UK and others. Energy needs to be put into that if we are talking about capturing profits and not about revenue, which ultimately gets passed on through the supply chain, as the evidence shows.

Julie Marson: That is very interesting. Thank you very much.

Q380 **Harriett Baldwin:** Alex, you mentioned in your previous remarks that companies shift profits and that there is this base erosion and profit shifting that happens. What is the motivation for companies to shift profits?

Alex Cobham: Once you operate multinationally, under the current tax rules that date back to the 1930s, you are in a position to manipulate the prices on transactions within your multinational group in order to get the profits into the lowest or no-tax jurisdiction that you operate in. We see the effective tax rates on multinationals in places like the Netherlands, Luxembourg and Ireland as low as between 0% and 2%. It is a big wedge compared to, say, the UK's 19% or anybody else's 25% to 30% statutory rate. The incentives are big.

We have been working since 2013, with a G20 consensus, on a single goal. The goal is to reduce the misalignment between where the real activity of multinationals takes place—their employment and their sales—and where their profits are declared for tax purposes. Unfortunately, so far, those OECD negotiations really have not gone anywhere. That is why we are back in this position now.

Q381 **Harriett Baldwin:** You said in your opening answer to the Chair that you did not think the rate of corporation tax affected business decisions in terms of where they booked their profits, and that there was no Laffer curve or sensitivity to the headline rate of corporation tax.

Alex Cobham: The effective tax rate creates an incentive but the statutory rate does not, particularly for multinationals, because none of them pay the statutory rate. That is exactly the point. The difference between a UK statutory rate of 19% or 28% is fairly marginal if your alternative is an effective tax rate of 0% to 2%. For most multinationals, a lot of their profits, 40% or 50% globally, are being shifted to that type of rate. In that sense, the statutory rate does not matter. If we had international tax reforms to make the statutory rate effective, we would then start to see the possibility of a more competitive dynamic but, at the minute, the statutory rate just does not enter into that calculation.

Q382 **Harriett Baldwin:** Are there any poorer countries that are able to collect corporation tax because of this behaviour that benefits them?

Alex Cobham: Among the major profit-shifting jurisdictions, there are a couple that used to be lower-income countries. You can see the likes of

Mauritius getting a little bit into the game. Some of the Caribbean dependent territories have done okay out of this, but their benefits are greatly outweighed by the costs imposed on the rest of the world. We and the OECD estimate the annual revenue losses globally at something like $240 billion to $245 billion.

Q383 **Harriett Baldwin:** There are examples of poorer countries that have become better off from having lower rates of corporation tax.

Alex Cobham: There are some tax havens that have seen growth, but even there you see that that growth is not well shared. You have these massive inequalities in somewhere like Panama, which captures a little bit of profit shifting. There is an expatriate elite that does okay from higher incomes. Everyone else is largely left as they were. No, it is not the case even there, where you have some GDP increase.

Q384 **Harriett Baldwin:** Is there anything the UK Government are doing and should be doing more of to help poorer countries capture more tax revenue from corporations?

Alex Cobham: The main thing the UK Government can do immediately is to begin to require multinationals to publish their country-by-country reporting. This is a measure we created, which the OECD adopted five years ago now, that simply puts multinationals on a level playing field with domestic businesses. It says, "For each country where you operate, you should say your employment, sales figure, the profits you declare and the tax you pay". By giving that information into the public domain rather than holding it in the tax authority only, you allow for a country, whether it is Ghana or Bangladesh—

Q385 **Harriett Baldwin:** The UK has done a lot to help poorer countries do a lot of this. What more could the UK Government do to help poorer countries?

Alex Cobham: The UK has tried, in its tax technical assistance, to help some countries be better at dealing with the current international rules. Those rules, ultimately, are based on this agreement back in the 1930s and simply do not work. Even for a country like the UK, it is very hard to protect itself against profit shifting. Oxford University estimates we lose about £25 billion a year from that. For lower-income countries with less capacity in their tax authorities, the losses, on average, are a bigger share of their current tax revenues. That is not something the UK is helping with.

Q386 **Harriett Baldwin:** Chris, can I turn to you and ask about the progress the UK has made since 2013 when this was launched at the OECD? Can you point to specific progress and success that the UK has achieved in this area?

Chris Sanger: The UK has been a key party to the BEPS project in delivering the 15 different actions that have been out there, and the four so-called minimum standards that have been adopted by the 137 nations included in the so-called inclusive framework on base erosion and profit shifting. We have seen that project remove the chances of double non-taxation. We talk about an international tax regime but we do not actually have one. We have a whole series of domestic tax regimes that tax international profit, which are all knitted together to create one system.

Prior to the BEPS project, there was not a project that looked across the piece to see how those all fitted together. The BEPS project did remove the chances for that double non-taxation and made sure that the treaties that apply between the UK and all our treaty partners check that the principal purpose of any relief is there because there is tax being paid somewhere else, rather than for an avoidance purpose. The UK has done quite a lot in that space.

Q387 **Harriett Baldwin:** Can you quantify it?

Chris Sanger: It is difficult to quantify the amounts because we are only just seeing the principal purpose test being delivered through treaties. A lot of the provisions that were in the OECD BEPS project are only just coming into force now, but we will see that happen over time.

Q388 **Harriett Baldwin:** Are there still actions left for the UK Government from that first phase?

Chris Sanger: The UK has done all the minimum standards, but it was already there in relation to some of its other provisions, such as items like its controlled foreign companies. It has introduced restrictions on the so-called hybrid entities. It has changed its transfer pricing rules to update them so that they cannot be misused.

Q389 **Harriett Baldwin:** The action list has been completed, has it?

Chris Sanger: There is more that can be done, particularly on action 1, which comes back to the previous question in relation to digital. It is one of the big areas where it comes down to saying who has the taxing rights. I would make one final comment, in relation to the comment Alex made about transfer pricing and the assumption that multinationals operate as a series of individual companies. The whole system is designed to make sure that it puts the multinational in the same position as any other business would do if it was transacting at arm's length. The alternative version is a form of formulary apportionment that would replace the system that we have today with what is effectively an arbitrary formulaic basis. There is very limited, if any, evidence to show that that would give you a system that would be better than the one we have today.

Q390 **Harriett Baldwin:** What should be in the second phase of the base erosion and profit shifting work?

Chris Sanger: At the moment, we have a focus on looking for those few types of companies for which transfer pricing is clearly challenging, which is the digitalised companies, and saying, "Is there a way that we can look at the super profits there and see if they can be reallocated?" That is what BEPS 2.0 pillar 1 is trying to do.

Q391 **Harriett Baldwin:** But should there be anything more in that?

Chris Sanger: There is definite need for that work to carry on. We saw on Monday the closure of the first stage of the consultation, and there is a public consultation in January. It is premature to say that that has run its course. We have the OECD and the G20 saying that they want to deliver this by mid-2021. There is still a real focus on getting to that stage.

Q392 **Harriett Baldwin:** There is nothing else that should be in phase 2. Is there anything additional that comes because we have left the European Union that should be included in this piece of work?

Chris Sanger: The EU is a member of the G20 alongside the UK and has been supporting the OECD. We are in a situation where we have those 137 countries all looking at what the opportunity is for reform. It really is important that we do this an international consensus to avoid getting back into a system where countries are going in different directions and we end up with the tax system not being aligned. That would give real problems for international investment. It is even more important for the UK today to have a clear and understandable tax system so people can invest knowing what they are going to be paying when they invest and make profits here.

Q393 **Ms Eagle:** Alex, one thing that really infuriates people, especially when times are tough, is to see companies like Starbucks, which has a very large turnover in the UK, pay virtually no corporation tax or company tax. Organisations like Amazon are the same. You have been hinting at what might be done to put this right, but can you give us a bit more information about how you think this problem could properly be dealt with?

Alex Cobham: The OECD process has identified the key issues. It just has not been able to get there because of all the lobbying against it so far. The issue is this. We have major multinational companies that make a large part of their global profits, often 10%, in the UK, but only declare perhaps 1% of their global profits here for tax purposes. We need a system that ensures that multinational companies, like domestic businesses, have to declare their profits in the same place that they make their money. The way to do that, which Chris mentioned, is a formulaic approach.

The second stage of the BEPS process, the one we are in now, began from the recognition that the old rules, the arm's-length principle, are not fit for purpose and that we need to take at least some piece of global profits and say, "This should be allocated according to where the activity is", so where the sales are and where the employment takes place.

This is what the G24 of developing countries and lower-income countries has come up with. I should have mentioned this in answer to Harriett. It has proposed that we take global profits and allocate them according purely to where the economic activity is. That would mean that Starbucks is paying tax in exactly the same way as the local coffee shop down the corner and, similarly, that Amazon is paying tax in the same way that a UK cloud tech business is paying tax. That is the level playing field answer that really cuts through the profit-shifting problem. It would also ensure that there is a much greater amount of revenues in the UK to put towards the public services we so desperately need to be investing in at the moment.

Q394 **Ms Eagle:** If I could wave a magic wand and that was all agreed internationally, which clearly is not going to happen because I am not quite that powerful, would that solve the problem? Would we need to think of things like taxing the level of activity, so turnover or other things? Do you think that getting agreement on that would solve the current issues about multinationals shifting their profit?

Alex Cobham: Pretty much. If we want to maintain the efficiency of corporate tax, we do need to keep it focused on profit, not on turnover that creates a distortion. We want companies to operate as efficiently as possible, and then take a share of that profit back to pay for the public services and infrastructure that they use. This is the name of the game. It is now a matter of time. The OECD has recognised we need to move in this direction, but it is a question of how we get there through the politics.

Ms Eagle: This work started many years ago—in 2013, in earnest—and here we are in 2020.

Alex Cobham: That is true.

Q395 **Ms Eagle:** Having been through a pandemic with huge debts on a lot of people's books, which will need financing, in terms of states, there is a need for more revenue raising and appropriate taxation. If it has not been agreed in the last seven years, are you optimistic that there will be any progress? Surely the alternative is to start going for things like turnover taxes, which have stalled.

Alex Cobham: That is a very good point. We are somewhat optimistic for two reasons.

Ms Eagle: "Somewhat optimistic" is an interesting phrase. Cheer me up. Go on.

Alex Cobham: In 2013, the OECD, at the behest of the UK and others, insisted on defending arm's-length pricing. That process was a patchwork attempt to fix things up. It is only since 2019 that it has said we need to go beyond arm's length pricing and look at formulary approaches. It is only two years that we have had this real potential for the kind of change that we need.

To get back to how we get there, let us not wait for the OECD. There is a lot of pressure now to move this to the United Nations, where you would have a genuinely globally representative process. That could really help but, in the meantime, we should take the model of the DSTs and take unilateral action that forces the process ahead. There is a proposal on the table that the UK could pick up tomorrow, effectively to impose a minimum tax rate with a formulary element.

In effect, you would say, "If you are shifting profits out of here that should be here because this is where your economic activity is, and you are not paying a reasonable rate of tax somewhere else, we will effectively claw that back and tax it here". That, at a stroke, would not eliminate the $240 billion of revenue losses globally or the UK's perhaps £25 billion, but it would take a lot of it out. You could do it unilaterally in a way that is consistent with current tax treaties. There is a lot of scope for an individual Government like the UK to act on this if they are serious about raising the revenues that they need.

Q396 **Ms Eagle:** There might be at least a reasonable amount of £240 billion of low-taxed or undertaxed losses to be used to lobby against that.

Alex Cobham: That is right. A Committee like this but also somebody like the Chancellor need to consider the voices they are hearing, which is the voice of, in a sense, professional advisers to business or the voice of a broader group of businesses that care about a level playing field and represent businesses of different sizes, and so on. There will always be political pressures on this kind of decision but, ultimately, we need to think about how we are coming through the pandemic and paying for the public services we need, addressing the inequalities that scar our societies. Corporate tax has to be a significant part of that and dealing with avoidance in particular.

Q397 **Ms Eagle:** What would you do about tax havens?

Alex Cobham: If you put this type of measure in place, and you make it impossible to divorce profits from where the real activity takes place, most of that issue is dealt with already because tax havens work by attracting profits that are not connected to economic activity there. The other piece the OECD is looking at is a global minimum tax that would make it impossible to have an effective tax rate below 15% or even 25%. That would also eliminate the incentive to shift profits, even if you still could. These two pieces are the answer to this question. It is how quickly we can get the political agreement to put them in place.

Q398 **Ms Eagle:** Of course, if you went to the UN, one country could veto. Tom Clougherty, you mentioned earlier your idea of an ideal tax. What is your idea of an ideal tax?

Tom Clougherty: Broadly speaking, an ideal tax would be a relatively flat, simple, straightforward, non-distortionary tax on consumption. Ultimately, all taxes, in a way, fall on consumption. They give people less money to spend and transfer some of that money to the Government, often for very good reasons. In the way that VAT taxes consumption, an income tax that allowed you to fully deduct savings and investments that you made, and a corporation tax that allowed you to fully expense your capital investments, would effectively be taxes on income when it is consumed. That is the best and least distortionary way—the most pro-growth way, if you like—to run a tax system. Instead, we have all sorts of taxes, tax bases and enormous amounts of complexity, all gradually leading towards that same end. I would just cut to the chase and radically simplify it along those lines.

Q399 **Ms Eagle:** That is not going to do very much for redistribution, though, is it, which is also a perfectly reasonable reason for having a tax system and a state?

Tom Clougherty: It is, absolutely.

Ms Eagle: Perhaps you do not believe in having a state.

Tom Clougherty: No, of course I do. When we look at progressivity, we should also think about the things that the state spends money on. It is not simply about how it raises its money; it is also about how it spends it. When you look at benefits and taxes combined, there is often a great deal more progressivity than simply looking at the tax system in isolation would suggests. I said that a flatter tax system would be my ideal. We do not have to go in that direction. You can tax consumption in a progressive way. There are lots of fairly economic and theoretical ideas, admittedly, about that out there. If you are talking about ideals, that would certainly be the direction I would want to move in.

Q400 **Ms Eagle:** Very quickly, because I know I am getting out of time, I would like to ask both Annie and Chris whether you also believe that the ideas Alex was talking about could deal with the problem of the tax haven and the loss of this £245 billion in untaxed profits.

Chris Sanger: As I mentioned previously, the challenge with a formulary apportionment basis is that you swap something that is much more akin to the definition of what profit is and the profits being made in the country with something that is absolutely arbitrary. For example, if you are going to do things by the number of personnel you have employed, whether a business employs or outsources certain activities will change whether the profits would be attributable to the country. There are as many, if not more, problems in a formulary apportionment perspective than there are in the current arm's-length element. That is why the OECD process is looking at that in the few places where it thinks that the arm's-length rate does not work. It is a subset rather than the full number of businesses that that is looking at.

Annie Gascoyne: I would pick up on something that Alex said in terms of the UK Government's ability to act unilaterally. I would just flag that this is probably the third time we are having that discussion. If you remember, with BEPS, the UK Government decided that it did not go far enough so they introduced the diverted profits tax. Not happy with the speed of the progress on the current project at OECD, we introduced the digital services tax. Neither of them really fixed the issues that we are talking about here about taxing rights and the UK share of global profits. They just add complexity. The challenge with complexity is that, if you add complexity over an essentially non-functioning system, it is always going to create gaps in the system somewhere. We keep coming back to the fact that the only way to truly fix the problem and address some of the challenges we are seeing is international agreement, and to go back and agree something across countries. We need to put our time and energy in that.

There are gains from doing that beyond just capturing more of the tax revenue. We can do away with some of those unilateral measures. We can really simplify some of the measures that have been brought in since 2013, which are patches on a broken system. That removes the gaps that might be occurring within the system. It also enables things like simplification and digitalisation of the tax administration, which is pretty much impossible at the moment given the complexity of the tax law. From our perspective, focus energies on the real solution, which is the international agreement, rather than getting side-tracked by the side show that is potential unilateral action. We have tried that before and it does not fundamentally fix the problem.

Q401 **Chair:** Alex, why does the diverted profits tax not address the issue of profit shifting and, therefore, avoiding tax in the way that you quite rightly described earlier? Why is it not effective enough?

Alex Cobham: It is a very crude workaround to target turnover. It opens up the immediate ability just to pass that on, effectively as another sales tax—another regressive element—rather than targeting the actual profits of the company. We need to say, "If you have 10% of your turnover here, 10% of your profits should be subject to our existing corporate tax system". That is how you cut through. You do not allow it then to be passed on in the same way because it is focused specifically on profits.

Q402 **Siobhain McDonagh:** My first question is to Alex. Given that some companies have done well as a result of the pandemic, is there a case for a windfall or excess profits tax?

Alex Cobham: Yes, absolutely. The case is this. The last year has seen this completely unprecedented state intervention in economies all around the world, including the UK. Some multinational companies in particular, through no virtue of their own, have done exceptionally well from that. They have made vast unearned profits simply because their smaller, local competitors have been locked down for long periods. The entirety of that profit is an unearned rent captured from these state interventions. Ideally, 100% of that would come back into the public purse to pay for some of the other costs of that intervention. We probably cannot get 100%, but that is okay. We can identify the excess profit at the global level, then apportion the appropriate share to the UK on the basis of economic activity here and take something between 75% and 95% of that.

That would still leave those companies having done better in the pandemic than they would have done and better than any of their competitors, but it would also make a significant contribution to UK revenues and would prevent this exacerbation of the monopoly problem that we already have in those sectors. Everyone is a winner.

Q403 **Siobhain McDonagh:** Are there any particular sectors or industries that you would wish to target? Would you limit it to large businesses or tax a proportion of all windfall tax profits?

Alex Cobham: We have seen small businesses in the UK respond extremely well and often very creatively to the pandemic. That is not where you are looking to hit with this. You are looking at these businesses where the profits are genuinely unearned, the likes of Amazon that have been able to do very well simply because they were there when the state shut everyone else down. It is the unearned profits we need to go after. I would not target it by sector, but certainly by size. It is multinational companies that have really been able to do well, at everyone else's expense and not from their own efforts, but just because of the state's intervention.

Q404 **Siobhain McDonagh:** Tom, what is your view? A number of businesses voluntarily repaid business rate relief and others did not claim support that they would have been entitled to. Does this suggest that they may not object to a windfall tax?

Tom Clougherty: No. On the contrary, part of the reason they returned that money or did not take it in the first place is perhaps that they did not want to be subject to a windfall tax. They did not want to have the argument that they were profiting at the taxpayer's expense aimed at them. Frankly, I cannot blame them. Personally, I have completely the opposite view on this issue from Alex. It would be wholly unjust to punish basically those businesses that have helped make the last year barely tolerable for all of us, by providing essential goods and services when we could not get them in the way that we did before.

I know that Alex is using unearned income and rents in an economic terminology sense but, more colloquially, to describe, say, the money that Amazon is making as unearned when it has invested enormous amounts of money, training and employment in setting up an extraordinary logistics operation that can cater to the British consumer's almost every need without them leaving their home is extraordinary. That should be commended rather than punished. It is also important to remember that, if companies make big profits, they are going to pay corporation tax. We should not be looking at additional retrospective taxes on top of that.

Q405 **Siobhain McDonagh:** Chris, you were involved in advising the Labour

Government in 1997-98 on the windfall tax on utilities. What did you learn from that and did you regard it as a success?

Chris Sanger: Yes, I was involved in the design of the windfall tax.

Siobhain McDonagh: I remember it as a success, by the way.

Chris Sanger: Actually, you are not the only one to do so. The IFS produced a study afterwards and said it was straightforward, levied on those that expected to be included and raised the total amount expected. That is probably a good sign for what makes a success. It also said that it was very clear that this was a one-off tax and would not be repeated. The concerns Tom expressed about windfall tax more generally definitely apply. If businesses think that, when they make money in the UK, a retrospective tax is going to come and claw back some of those profits, they will embed that into their thinking about what the corporate tax rate is in the UK. It can therefore undermine the investment proposition for the UK as opposed to somewhere else. That was one of the key things that came out from the windfall tax in 1997.

It also was voted upon, in that it was included in the Labour manifesto. There were a lot of clear things identifying the rationale for it. It was also a very simple tax to introduce. I worry about bringing a complex calculation of what is super profit. Again, the IFS report said basically it could have been made into a more targeted tax, but that would have made it more complex without yielding any benefit. It is that level of certainty and absolute clarity that it is a one-off, and making sure that it does not embed itself into fears of future taxation.

Q406 **Siobhain McDonagh:** Annie, I am happy for you to answer that, but I have a slightly different question for you. What is your view? Is there a case for introducing an enhanced loss relief carry-back to three years as we saw in the financial crises of 2008 and the early 1990s?

Annie Gascoyne: Yes. In answer to that question, there is. The thing about the concept of a windfall tax is that it is all well and good if there are profits to tax. You need to look at corporate profitability, what has happened over this crisis and the effort of introducing a one-off tax, which is never very certain it will be one-off. If you look through history, the ability of Governments to repeal taxes once they have introduced them is questionable. Corporate profitability has taken a hit. A loss carry-back would give those firms that have struggled through the crisis from a cashflow perspective, and which are now potentially saddled with higher levels of debt, a vital cash injection to then grow and invest out of this crisis.

I talk to businesses that have taken coronavirus business interruption loans or loans from the other schemes, which has shifted their debt-equity mix. They say, "The only reasonable way we can look at repaying some of that debt, whether it is through the Government-funded schemes or privately financed, is to grow and invest, but we simply do not have the cash to do that in the near term". That is important in terms of economic recovery and thinking about where we can create pro-growth and investment policies.

Chris Sanger: One real benefit of a loss carry-back for those three years is that you are supporting businesses that have made profits here in the UK and, indeed, have paid tax here. It fits with the mantra of supporting those who have contributed to the UK. A three-year loss carry-back seems to be a very sensible approach.

Q407 **Felicity Buchan:** My questions are on business rates. Annie, let me start with you because you have written on business rates. You have called for Government to reduce the burden of business rates. Can you elaborate on your thinking? Clearly, Treasury has a big hole at the moment. What would you like to see put up in order for business rates to be reduced?

Annie Gascoyne: In terms of the rationale for reforming business rates, the first thing to note is that, when we talk about a sustainable tax base, business rates is evidently not one. It is now at a tax rate of around 50% because Governments of various iterations have been trying to maintain that revenue with a declining tax base. It is at a point now where it is unsustainable. We are seeing it deter investment and growth in companies across a range of sectors, whether it is retail, manufacturing or the service sector, to invest in commercial property and premises.

As part of the overall business investment picture, in the UK we have one of the highest rates of property taxation in the G7. It is around 4% of GDP compared to 1% in Germany. There is a real competitiveness question about business rates. I hear examples of manufacturers saying, when they look at where to invest in efficiency, cost reduction and productivity, that the business case for doing that in properties and sites in the UK is really poor compared to other European countries, because of the incremental costs that it would incur in terms of business rates.

You also see that in energy efficiency improvements. A simple thing like installing energy-efficient lighting increases the operating costs of businesses. In a world of constrained public finances, if we are looking for the best bang for our buck in lowering the burden on businesses, to stimulate investment in physical assets that are going to be there over the long term, business rates has to be top of the list.

In terms of your question about how you balance that, you are absolutely right: the challenges of public finances are clear as day for everybody to see. The tax base is large and there are a few different levers that the Government could pull. It needs to be part of a broader fiscal policy strategy. We need to have some clear fiscal rules about what we are trying to achieve in terms of deficit and debt reduction, not just in a single year but over a lifetime. The Institute for Fiscal Studies has also said that bringing the public finances back into balance is not something that can be achieved in a couple of years. This is probably now, given where the UK is in terms of level of debt, a multi-decade problem.

There are areas that clearly are in need of reform. Business rates is one, who probably leads to a reduction in revenues, but fuel duty is another area where there is a question of sustainability of the tax base. We have also had this conversation about corporate tax and corporate tax reforms. There are some areas of reform that the Government could look at and we have also mentioned employment taxes previously. It is not just business taxes, of course, but I only speak to the business taxes. My argument would be that, if you are going to spend on investment incentives, business rates are a really good place to do it at this point.

Q408 **Felicity Buchan:** Let me move to Tom. Our Treasury has clearly had a consultation on business rates. What would you like to see Treasury come out with in spring 2021?

Tom Clougherty: Annie is absolutely right about the fact that the UK taxes commercial property much more heavily than pretty much any other country. That suggests that cutting the burden of business rates would be a sensible move. However, it would be a mistake, or at least a big missed opportunity, to simply cut business rates without reforming the way tax works in an underlying fashion. To me, the biggest problem with business rates is that, if companies invest in their premises—in many cases to try to make themselves more productive or more competitive—they can end up being clobbered with a bigger tax bill as a result. That is entirely the wrong incentive to send. There is the famous case of Port Talbot investing hundreds of thousands of pounds in a new blast furnace and then losing an enormous amount of money through a higher business rates bill. We need to avoid those kinds of things happening in future.

For me, the ideal reform would be to reduce the burden of business rates, not just by cutting the rate but by stripping out a lot of the business rates tax base, so that it does not apply to improvements that the businesses make to their property, but to the value of the underlying site. Not quite a land value tax, which I am sure is something you often hear in tax inquiries, but something edging more in that direction would be a fairer and more efficient way to tax business property. It would be very good both for manufacturing firms and for high streets, particularly in areas that are struggling economically. I will admit that this probably would not do wonders for central London but, looking at the country as a whole, it has significant benefits.

Simply cutting businesses rates can be very well intentioned and helpful to businesses in the short term but, if you only cut the rates, there is a good chance that the real beneficiaries in about five years' time will be commercial landlords, who feel able to charge higher rents, and the businesses end up where they started in fairly short order. Reform is necessary as well as simply a reduction in the tax rate.

Q409 **Felicity Buchan:** Let me follow up on your proposal, because it sounds as though it is quite complicated to me. There could be quite a lot of disagreement as to what the value of the site is as opposed to the premises on the site. How do you navigate through that and ensure that you do not have years and years of court cases?

Tom Clougherty: Admittedly, it is a big administrative challenge. All I can say in response is that there are many other countries and subnational jurisdictions in countries that operate their local property tax systems on this site value basis. It clearly is possible. It is challenging because it is different from how we have traditionally done things in the UK. I do not mean this at all to sound like a cop-out, but I think that technology, with advances in artificial intelligence and our ability to analyse and use data, makes this a much easier and more automatable process that it would have been if we were talking about the same reform 10 years ago. Some hope comes from that.

Q410 **Felicity Buchan:** Is it only business premises? Would you also want to include residential buildings as part of this tax?

Tom Clougherty: Not now. In the short term, looking at council tax and business rates as separate things makes sense. Longer term, if we are looking at the property tax system, there may be a more comprehensive and coherent view. It becomes more realistic. In the short term, there is a little bit of a problem with the distinction between business rates and council tax. We are rightly encouraging a lot of commercial properties to be converted into residential ones but, when you go from paying very high business rates to relatively low council tax, that could be a big tax windfall for the owners of those properties.

Effectively, you end up with a situation where the Government might be more or less paying landlords to switch out of commercial and into residential, which may be good for meeting the housing crisis needs but may also be problematic because we are going to continue to need commercial space in our towns and cities. There may be an issue there about the margin between those two taxes that we ought to look at in short order.

Q411 **Felicity Buchan:** Let me move to Chris. Are you concerned about the absolute level of business rates or are you more concerned about some of the technicalities like the frequency of the revaluations and the downward transitional phasing?

Chris Sanger: There is a mixture of the two. One of the reasons why, as Annie said, we have such a high rate of tax is that the property did not increase in value in line with the amount that the rate was indexed between valuations. That meant that, when you reset at the same level of revenue, instead of going back to what has been the average over the last three or four revaluations of about 41%, we ended up going back to about 47.9% or 48%, so a real sudden uplift in the rates. The rate has now been indexed on top of that, so we are at the 50-plus per cent that Annie was talking about.

We need to look at business rates in the whole. Tom mentioned this as well. We have to think about what this is for. We often think of this as a property tax but, when it was designed back in the same consultation that brought in the poll tax, we looked at this as a tax on business collected by means of property. If you believe that is the case rather than just being a tax based on the level of your property, you have to look at the different sectors and try to think about which sectors are paying it.

If we look across the economy as a whole, for example, retail is about 5% of the economy as a whole but pays about 24% of the overall business rates, which is massively out of kilter compared to its share of the economy. Manufacturing is 10% of the economy and is paying 15% or almost 16% of business rates. If you are going to look at it, there is a matter of seeing whether there is an ability to reduce the burden on those particular sectors, which seem to be paying far more than their fair share if you believe it is meant to be a business tax. That is on top of the fact that this is what I would call a colour-blind tax. You are paying it whether you are in the red or the black. It does not vary with profits. There are some real things to think about at the fundamentals of business rates.

Q412 **Felicity Buchan:** Can I just bring in Alex? Have you any thoughts on business rates? It is a catch-all question.

Alex Cobham: In general, moving towards something that reflects the value of land makes a lot of sense but the real question on the business side is about the relative treatment of smaller domestic and larger international businesses. Fixing business rates can be a part of that at one end, but we cannot think that will deal with the problem of multinationals profit shifting at the other end. Maybe it is part of the package, but it cannot be all we do.

Q413 **Anthony Browne:** My questions will be about tax strategy and certainty, and in particular the corporation tax roadmap, which went down very well in 2010, and whether we should bring that back. You touched earlier on tax certainty being very important for international competitiveness. Are there other reasons to bring in a corporation tax roadmap and set out a long-term strategy, rather than tax policies being seen to be rather ad hoc? Annie, you talked about the importance of certainty. What are the arguments for a tax strategy or tax roadmap other than certainty?

Annie Gascoyne: As I said, certainty is a really important part of a competitive tax system, not only for attracting international investment but for business planning and thinking about investment decisions. You have to think about the way companies operate. For their five-year strategy and their investment decisions going forward, they think about what the central scenario is. When we have a tax roadmap, it is really useful. It needs to be both specific and realistic for firms to be able to buy into it and plan that into their investment decisions.

The other area is a broader tax roadmap. We have had a very specific corporation tax roadmap. That is useful but it might also be useful to have a broader tax roadmap that starts to indicate where the

Government are likely to look at future tax reform. One area of that is thinking about how the tax system supports and delivers net zero, and what things within the tax system need to be looked at to achieve that. The tax roadmap also needs to have regard to the broader fiscal strategy, which, at the moment, is somewhat uncertain because of the impact of the pandemic.

A tax roadmap that perhaps learns the valuable lessons from the one we had, but perhaps goes even broader, starts to give an indication, also to wider society, about the sorts of areas that we believe are the right places to tax and raise revenue in order to fund vital public services. It also helps Government to plan that little bit better in terms of thinking about where those revenues are going to come from in the future.

Q414 **Anthony Browne:** You said it needs to be specific but realistic. How specific does it need to be? You could not expect the Chancellor to set out exactly what tax changes there are going to be in future Budgets. Presumably it has to be at a certain high level.

Annie Gascoyne: Yes, there are principles. Take corporation tax as the clear and obvious examples of where we have had a roadmap before. What are the principles of what we want that tax system to achieve? That is useful. It is useful where the Government can provide clarity over the future progress of rates or, indeed, where decisions on rates are going to be made. If you look across other elements of the tax system, for example, there are instances where Government have provided an indication two years in advance of where tax rates are going to be. For example, the carbon price law is one where Government give indicative rates two years in advance and then set them. That is really useful.

Q415 **Anthony Browne:** You would prefer to see five years generally, from what you are saying.

Annie Gascoyne: Yes. Rates is a useful area, as well as those broad principles.

Q416 **Anthony Browne:** Chris, would you like to see another corporation tax roadmap? What would you like to see in it that would actually make a real difference to business?

Chris Sanger: I really would like to see a corporate tax roadmap. That was very successful in the 2010 era because we were partway through a longer-term transition to being a truly territorial regime and one that had a competitive tax rate. Those types of things lend themselves to being included in this type of roadmap, such as saying, "We believe that businesses should get a tax deduction for every legitimate amount of expense and that we should get rid of areas where there is no tax relief. We believe that we should have a tax regime that is competitive and that should have a rate competitive within the G20". Those are the ones I have mentioned.

I would contrast the corporate tax roadmap with the one that came after it, which was a business tax roadmap. That sought to get close to what Annie is mentioning there. To my mind, that was much more of a travel journal, if you like, about what had happened in the past rather than a roadmap for the future. It is really trying to make sure that the future roadmap that Government produce would set out those clear criteria about how they are going to make those judgments.

You are absolutely right: it is not right to ask the Chancellor to set something in stone, but set a sense of direction. A stability of direction is what is needed by companies when they are looking to invest and that is something that can be included in a roadmap. Indeed, one that applies to the end of the Parliament is good but one that also sets the aspirations ready to be included in manifestos post one Parliament is also very helpful.

Q417 **Anthony Browne:** It is obviously very difficult for one Parliament to try to tie the hands of future Parliaments, because there are elections in between, but I get the long-term ambition. Tom, would you like to see a corporation tax roadmap? Again, what do you think should be in it that would make a real difference to businesses and to growth?

Tom Clougherty: I would certainly like to see a corporation tax roadmap. I would like to see it focus again on growth and competitiveness, but this time pay more attention to things like capital allowances, annual investment allowance and so on, moves that could really boost business investment. That is the best way to promote growth through business tax reform. Ideally, lay out a path to full expensing, basically treating capital investment like other forms of business expenditure rather than depreciating them over long periods, during the course of which they lose a lot of their value to the businesses.

Annie's point about a broader tax roadmap would be great as well. It is a curiosity of the way we do economic policy in Britain that we have these big events of political theatre once or twice a year, where the Chancellor feels compelled to pull a rabbit out of the hat and generate some headlines. It is great for people who love Westminster but not so good for the quality of long-term tax-making. Setting out the principles you want to drive tax reform and the ambitions you want to head towards but may not be able to do right away, whether for revenue or other reasons, would be enormously welcome.

The broad principles for me, although other people will have different priorities, would be to make our tax system much more supportive of economic growth, and to try to shift the burden towards consumption and, indeed, towards pollution, and away from those good things we want to see more of, like investment, profit and earnings. That would be my way to approach a tax roadmap.

Q418 **Anthony Browne:** Can I just pick up one point you mentioned earlier on about full expensing of investments? You said it was the biggest change that would promote growth in businesses. What are the arguments against it? Would it be revenue negative for the Treasury?

Tom Clougherty: The biggest argument against is that, in the short term, it could cost an awful lot of money depending on how exactly you implement it. Those costs fall fairly rapidly over time and you would expect it to generate growth benefits. On the five to 10-year time horizon, it is not nearly as costly as it looks up front, but there is potentially enormous sticker shock there.

I have suggested in previous work that we build on what we have at the moment. We maybe make that £1 million annual investment allowance, which has just been extended, permanent. Maybe we make it a little bigger so that more stuff can be written off right away, instead of going through this complex system of capital allowances. Maybe then we can also adjust by inflation the amount of the outstanding investments that have not been written off yet, which are rolled forward to future years. You have what people have called neutral cost recovery so that those investment deductions maintain their value over time. They are not eaten away at by inflation and other issues.

There are ways to make the cost less in the short term but, in general, this is probably one of the biggest areas in which we could make progress on the tax system. The US has done it. Places like Estonia and Latvia in other ways have done it. This seems to me to be where the action is going to be in corporation tax going forward.

Q419 **Anthony Browne:** Alex, would you like to see a corporation tax roadmap? What would you like in it?

Alex Cobham: If we are going to have one, we need to be clear about the accountability. This is not Government accountable to corporates. It is Government accountable to us, the citizens. In that case, you would be thinking about a different kind of content. You would want to see Government making a commitment to the share of GDP they are going to take in corporate taxation, in order to hold them to that; a commitment to the way that they are going to reduce revenue losses to profit shifting; and how they are going to make that public and make themselves accountable by having companies publish their country-by-country reporting, something the Government have had on the books since 2016 but have yet to use. There is a question there about transparency and accountability to the public.

Importantly, going back to the points Annie has raised, think about a commitment that says we are going to reduce, to zero or below, the extent to which there is an effective tax subsidy for multinational companies against the smaller domestic businesses that are so much more important for our economic growth, employment and so on. That is the type of accountability that could be useful in a roadmap.

Anthony Browne: Most of what you mentioned there is not incompatible with what some of the others are saying, so presumably you could have a roadmap that covers both sides.

Q420 **Alison Thewliss:** I would like to ask some questions about greening the business tax system and what opportunities there may be on this, coming out of the pandemic. Annie Gascoyne, do you think that additional carbon taxes would be a way of generating revenue while also incentivising the change to a low-carbon economy?

Annie Gascoyne: Yes. Carbon tax is an interesting one because in a post-Brexit world what exactly our carbon tax system looks like is a bit confusing. We have the legacy of the EU emissions trading system, whether we carry that forward, the carbon price law and, on the statute, the ability to bring in a new carbon tax. One thing that probably needs to be done first on carbon taxes is to decide exactly what kind of tax we want and where we are going to tax it because, at the moment, there is a risk of lots of taxes trying to price carbon in different ways. There is a simplification thing that we can do there.

There is definitely a case for reforming that and thinking about what a reasonable price of carbon is and who should bear that cost. At the moment, it is on the production side. In the past, there have been discussions about whether consumers should take more account of that, whether that impacts on pricing if it is visible, the carbon cost of what they are consuming and whether that has a more significant behavioural change than imposing a carbon cost higher up the supply chain. That essentially incentivises businesses to operate in a different way but does not necessarily incentivise consumers to operate in a different way because they are not directly exposed to the cost. There is something there.

The other thing is broader incentivisation. There are multiple areas where there needs to be behavioural change in order to achieve net zero. One is on consumer behaviours. The Committee on Climate Change has recently published its analysis on this, showing where the changes need to happen in order to meet net zero. Consumer behaviour is a big one, so that is a question for carbon taxation, but so is industrial energy efficiency and investment. This comes back to what we have already talked about.

Carbon taxation is one but there is a broader thing that we need to look at. For example, we talked about business rates. That is a key area where there is an opportunity to use that system to incentivise particular types of energy efficiency investment. You can also look at fuel duty reform and vehicle excise duty to affect consumer and business investment behaviour, both in the production of vehicles and in the consumption of accompanying cars as well. There are a number of changes you can go for there.

We have talked a bit about capital allowances and that sort of thing. We got rid of enhanced capital allowances because they were not very effective. They were very technology-specific, dictated by Government as to what technology was good. We are more interested in outcomes. We need the tax system to both penalise bad outcomes and reward good outcomes. If companies and individuals are choosing products that are more energy efficient and lower carbon, that should be rewarded. Where they are not, that needs to be penalised. In answer to your direct question, yes, carbon taxation definitely needed reform but there is a wider tax reform question.

Q421 **Alison Thewliss:** If behavioural change happens as a result of these tax incentives or otherwise, what happens down the line?

Annie Gascoyne: It is a very good point. Ultimately, tax-negative externalities are not hugely sustainable in the long term. That said, one of the interesting things about providing exemptions within tax systems to incentivise investment, say the business rates regime, is that it does not need to last forever. It could be a time-limited relief. With the investment you get off the back of that and the growth you get in the new areas of economic activity, you can look at how that tax base has grown and reintroduce that at a later stage. Yes, you need to think about whether there are gaps, whether the activity being lost is being created elsewhere and whether the tax system is appropriately capturing the benefits to the public of that new economic activity.

Q422 **Alison Thewliss:** Tom, do you feel that green taxes and making changes to those just now would damage business or drive forward that growth or innovation?

Tom Clougherty: There is a mixture of both issues at play. I certainly favour a green shift in taxation and the kinds of things that Annie has just talked about. There is scope for huge simplification because we have lots of different taxes on environmental ills at the moment. Replacing them with a comprehensive carbon tax would be a great move. Road pricing, as a way of dealing with the diminishing returns from fuel duty and addressing congestion issues, is a great idea.

Now, there is the revenue issue because, if you change behaviour, you get less revenue in the long run. That is a downside. You have to be realistic about how much you can expect from these things. There is also the danger—and it is worth thinking about, although not being defeatist about—that you simply outsource your carbon emissions to another country that maybe is not as interested in these issues. You then reimport goods and services and, globally, you are not achieving any real reduction in greenhouse gas emissions but you are hobbling domestic businesses.

The big challenge is how we deal with that. There is a lot of good ongoing work in this area, stuff around border adjusting carbon taxes for example, which to my mind is still fearsomely complex but is a direction that people are going to head down. The challenge will always be, yes, that we would want our carbon taxes to reflect imported emissions and to deal with those, not to disadvantage domestic businesses unnecessarily.

At the same time, we have to be very careful about erecting any massive structure of anti-trade tariffs. Without trying to dodge the question, it is very complicated and you have to balance these competing objectives. Broadly speaking, this green shift in the tax system is something that we should push forward.

Q423 **Alison Thewliss:** Chris, you talked earlier about the need for certainty in looking ahead. What kinds of things on this agenda would you be looking for in green taxation to give that certainty for businesses planning ahead?

Chris Sanger: One of the key things here is to make sure that we are absolutely clear about the incentives we are trying to encourage. If I look at one of the taxes that is being consulted on now, and consultation is a great way of sorting out the challenges in this, the plastic packaging tax is intended to reduce plastic packaging waste by imposing a tax if you have less than 30% of recycled plastic. At first blush, this looks like a really good incentive.

However, at the moment, there are elements of food packaging that are 100% new plastic, which can then be completely and utterly recycled. If you were to change those to make those able to have recycled plastic, first of all, there are regulation problems that might make it more difficult. Even if you manage to overcome those, your newly packaged item is much harder to recycle. In that example, you have gone from an item that effectively creates no plastic waste because it is fully recycled, to an item that goes almost 100% to plastic waste and uses up more recyclate.

There is a key element in here of making sure that we understand and engage with industry to look at the behavioural response to this, and that businesses and the consumer particularly have the ability to respond. I am conscious of the ultra-low-sulphur petrol shift, where the Government introduced a lower rate on ultra-low-sulphur petrol. When it was introduced, overnight the petrol stations changed over to this new form of petrol. Many consumers did not even notice that it was happening, but it created a massive benefit for the environment. It is those kinds of low-hanging fruit we should be going for first and looking at making sure that these things are implementable.

Alex Cobham: The element that is missing from this discussion is the impact on inequality in how this plays out. A lot of these taxes on consumption or emission end up being passed through in pretty regressive ways. That not only worsens the inequalities in our societies, but it imperils the political support, as we see with things like the gilets jaunes movement in France. The conference we had on this last week was a big international event and this was one of the key issues: how you combine climate transition with addressing inequality.

One idea that is worth looking at is the carbon dividend, where you would say, "We will capture the revenue that comes in from taxes on carbon and pass that back out to people". Even if you are paying a bit more for your petrol, say, because you as a poor household do not have a choice about using the car, you will get more than that back in the dividend. Your personal incentives are still better, but you are not made worse off. Indeed, you may be better off if you are a low-income household, while the costs are borne at the top end. You get both elements of addressing inequality and reducing carbon emissions.

That is the kind of scheme we need to be more creative in thinking about, to make sure that we have the long-term political support but also that we are getting the social outcomes we want, not just a bit of a green effect.

Q424 **Alison Thewliss:** That is useful. If done right, presumably there will be more jobs within the green sectors as well.

Alex Cobham: Yes, absolutely. We can think of all sorts of ways in which something like this can be put in place that generates a lot of high-skilled employment or that does not. We need to be clear about those broader social impacts and not just thinking what a single efficient tax move is.

Q425 **Rushanara Ali:** Good afternoon. The title of my section is, "Corporate tax avoidance, what more to be done (if anything)". You have probably covered most of the ground but this is your opportunity to think through what else we could do. I am going to start off with Alex. Do you agree with HMRC's definition of tax avoidance as "bending the rules of the tax system to gain a tax advantage that Parliament never intended"?

Alex Cobham: That is fine, but it is not measurable. We have probably moved beyond that in the international discussions. Since 2013, we have had this goal to reduce the misalignment between where profits are declared and where the real economic activity takes place. If we say that that misalignment is the problem, whether we call it avoidance or, in some cases, edging into evasion is less important than that our aim is to eliminate it. That is the agenda now: how do we eliminate that misalignment and, at the same time, perhaps deal with the professional adviser companies whose businesses are built on selling schemes to widen that misalignment?

Q426 **Rushanara Ali:** You mentioned earlier that the UK alone loses about £25 billion a year. In the research that your organisation produced, which was the subject of an article in November, you referred to £427 billion a year of lost incomes because of avoidance by companies and rich individuals. You have talked about country-by-country reporting and the challenges in trying to close that gap. Could you say more about what else could be done, building on what you have talked about before, to tackle this problem?

Alex Cobham: In the "State of Tax Justice" report 2020, we find that the UK and its dependent territories between them are responsible for about $160 billion of revenue losses worldwide. That is more than a third of the total. That is losses to both multinational companies' profit shifting and individuals' offshore tax evasion. In both areas, the UK has this entirely disproportionate legacy, but the UK is also suffering revenue losses itself because, of course, other people play this game too. There is a potential for the UK to impose better conditions and standards across its own territories and here, while, at the same time, benefiting by seeing lower losses.

That would start with transparency measures. We have seen progress in the automatic exchange of information about financial accounts but we need more information in the public domain. We need lower-income countries included. We have seen country-by-country reporting—one of our own proposals—introduced but the data is held privately. We need that to be public. We have seen, where some of that data is made public—for example for European banks and financial institutions—an increase of about 10% annually in the amount of tax paid, so significant amounts of money simply from a transparency measure. That is on the UK's legislation already but the Treasury chooses not to enact it—an obvious step.

We are then looking into thinking about how you change the tax system and what we have talked about before. What are the unilateral measures that you could put in place to make sure that the profits that multinational companies declared for tax purposes in the UK align with the proportion of their economic activity that is here? The current international rules do not come close to that and HMRC's measure does not capture that difference at all. They always seem to present these very small numbers when the scale appears to be much bigger.

Q427 **Rushanara Ali:** Chris Sanger, picking up on any of those points, whether about definition or transparency, how would you assess the success of the Government's overall approach to tax avoidance in light of these figures that we have just talked about?

Chris Sanger: We have to be careful on the definition of tax avoidance. What Alex is talking about is effectively a gap in the system we have where profits are correctly attributable, under the systems that exist today, to countries outside the UK where he would argue they would be assessable in the UK. That is a result of the system as it is today rather than the behaviour of companies themselves.

When we look at tax avoidance as defined by HMRC in its tax gap, as you quite rightly quoted, that is much more about changes that are contrary to the intent of Parliament in that space. We have seen significant reductions in corporate tax avoidance. Indeed, of the overall avoidance part in HMRC's tax gap, corporate tax is pretty small in that space. Back in 2005, we saw the introduction of the disclosure regime. We have seen that changed over time. We have seen the introduction of the general anti-abuse rule that was brought into corporate tax. Alex mentioned the automatic exchange of information that is available now under our double-tax treaties. We have seen quite a lot of activity in this space.

If you were to look back through the Red Book over the last few Budgets, you would see that we are getting lower amounts being ascribed to tackling avoidance. That is because the system is becoming far more robust.

Q428 **Rushanara Ali:** Overall, as you rightly say, compared to the numbers we are talking about in Alex's report, it is about £4.4 billion, which is still a lot of billions: £2.6 billion in small business and then just under a billion for large and medium-sized ones. Would you say that, while HMRC has done a lot of work on this, the focus, alongside continuing to bear down on the gap, needs to be on these big numbers and the international angle? Do you agree that the Treasury needs to respond to the point Alex has made about publishing, not leaving it private and so on?

Chris Sanger: On the question about country-by-country reporting, to be clear, that information is going back into the hands of the tax authorities. HMRC already has all the information it needs to identify where it wants to inquire. The country-by-country reports that were included as action 13 of the BEPS project we talked about before are designed to be given to tax authorities that already have a lot of other information. They are an aggregation of the activities that are undertaken on a country basis. Therefore, if you were to put those broadly into public, they would be pretty misleading.

If we see what companies have been doing themselves, a number of them have volunteered to publish their own country-by-country reports, giving more information to allow them to be properly understood. There is the initiative next year of the GRI companies: the Global Reporting Initiative. From 2021, companies for which tax is material will be reporting country by country. That information will become available in the future. There is definitely a trend in companies taking the actions themselves, but tax authorities already have that information with which to respond.

Tom Clougherty: In terms of stuff we could look at to reduce corporate tax avoidance, one thing is the deductibility of debt interest expenses. I have spoken a lot—perhaps too much—about my desire to see a more generous approach to business investment in the UK tax system. Part of letting businesses write off investment costs more quickly and fully is that you would want to get rid of or at least significantly dial down the deductibility of debt interest. One of the key ways that companies are able to shift profits around the world is by making loans from one part of a company to another, then paying off the loan and claiming back the interest expense to reduce their tax liability. There is a potential win-win there from both a tax avoidance and a growth standpoint.

Another thing, and this is a bit more pie in the sky, is that the US in 2017 came very close to shifting to a destination basis for its corporation tax, effectively taxing where the consumption happens rather than where the production happens. Taxing where production happened made a lot of sense in an industrial economy, going back decades. Whether it makes sense going forward when things are increasingly digital and intangible is open for question. Although it would be a very radical move, whether we want to think about really redefining the corporate tax base in that way is an interesting prospect.

Annie Gascoyne: On the transparency point and the publication of country-by-country reports, I would agree with what Chris said. How useful is that information when the tax authority already has that information and it is very technical in nature? In the UK, we have tax strategies that companies have to publish. If we feel that they are insufficient in giving the public the information they need about corporate tax behaviours, that is the better place to look, rather than yet another thing that needs to be published. I am thinking about the admin cost of that but also the fact that it could well be misleading information if it is only about UK affairs when it is a global company. Thinking about explaining behaviours, why things are the way they are and transparency through the tax strategies is more useful than technical data, which is often misrepresented.

Q429 **Rushanara Ali:** While I have you got you, it is slightly off topic but I just wondered if you have views on the FinCEN papers and the Panama papers. There was a reference to Panama earlier. I know it is not directly linked to this but there is a wider issue about how we address this, in relation to the wider agenda around avoidance and evasion.

Alex Cobham: These things are related. The FinCEN papers provide a good example of one issue where you have data but you have perhaps deliberately underfunded the regulator so that, in fact, it cannot deal with that data. It is only when you get a group like the ICIJ putting in some capacity that you find out there was a lot in there. Similarly, with country-by-country reporting, we know that a tax authority can use it in an individual audit but, when that data is in the public domain, as it is for European banks, you get many eyes on it. You get a public accountability. You also get an accountability of the tax authority to the public because the public can see whether they are addressing profit shifting. There is a lot of value to that data being in the public domain and not just held by tax authorities.

Chris mentioned the GRI standard. I worked very closely in the technical group in developing that, which I would say immodestly is part of the reason why it is a much more technically robust standard than the OECD one. I would certainly like to see that made the basis for public reporting, but at the minute the OECD standard is what we have. We really need that in the public domain. There would be zero compliance cost to doing it.

If I could ask Chris a question, it would be: what share of EY's revenues come from providing tax advice and what kind of changes to the international tax rules would we need to see happen before that advice stopped being a big part of their business model?

Q430 **Rushanara Ali:** Chris, maybe you could address my point as well as Alex's question.

Chris Sanger: If we look at what is happening with the country-by-country reporting, as Alex was saying, there is a real need to make sure that information that is being put out in the public domain is actually valuable. Alex says it draws more eyes, the point being that information provided to one tax authority is then available to all tax authorities, so there is a huge amount of capacity for tax authorities to look at the information. It is not just one tax authority that, if it chooses not to look at it, then will not see other things.

The role of EY is to help our clients comply with the tax regime. Indeed, that is the whole nature of the work we do. While it is a complex tax regime, that will require complex responses and advice. Our aim is to make sure that we help our clients comply with their obligations.

Q431 **Rushanara Ali:** Are there any other reflections on the last question about the FinCEN papers and the Panama papers?

Tom Clougherty: I am happy to leave that one to Chris and Alex. They covered my points between them.

Annie Gascoyne: I agree with Chris that it is more useful that information is in the hands of tax authorities that can actually act and investigate off the back of it. Within things like the Panama papers, there was a lot around personal tax arrangements, which I do not comment on. It is not always about business. There is clearly a broader thing there about the treatment of personal taxation, which those sorts of evidence are tribute to.

Chair: That brings us to the end of this session. Can I thank our witnesses very much indeed for appearing before us today? I wanted to reflect on two things, on which you have already given some submissions to the Committee, I am sure, but which you might want to go away and reflect on. We welcome your views.

The first is around tax avoidance. The discussion we have had this afternoon has been fairly clear, in and around this issue, as to whether our international tax regime is fit for the 21st century and how we most effectively tax value creation in the United Kingdom. That was a fairly clear part of the discussion. On the avoidance in terms of shifting profits, for example, or the suggestion by Tom about moving money around and shifting interests, I was less clear why the actions the UK Government have taken through time are not addressing those points. For example, why is the diverted profits tax not mopping up profit shifting the way it should do? Secondly, turning to Tom's point, why is the corporation interest restriction not being as effective as it might be? The Committee would be very interested in that.

Secondly, lots of our discussions were about how we could provide more money from the Treasury to increase investments and growth, et cetera.

Three of the four panellists at least would like to see corporation tax where it is or even lower. The Chancellor is likely to have to take some very tough decisions in which he may well look to the business and corporate sector for more tax rather than less. The Committee would be very interested in hearing from you about which areas would be least damaging in that context. If the Treasury is going to raise some billions per year, not immediately but at some point in the future, what is the least damaging way from businesses' point of view for it to do that? We would be very interested in that as well.

Thanks again for all that you have contributed today. That has been a very wide-ranging, interesting and helpful discussion. That concludes this session.