

**Written evidence submitted by Professor Emma Borg (Professor of Philosophy & Director of the Reading Centre for Cognition Research at University of Reading);
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Questions:

- “What more can the UK do to protect its tax base from erosion as a result of globalisation?”
- “What is the best way to tackle tax reform?”

The research project “A Social Licence for Business” (PI Prof. Emma Borg, held at the Philosophy Department of the University of Reading, UK, and funded by the British Academy), explores whether new regulation and reporting mechanisms are needed to ensure the private sector delivers on what it owes to society. Specifically, the project asks whether a social licence for business could deliver an effective framework for underpinning changes to the relationship between society and businesses after the COVID-19 pandemic.

Further details of the project are available at:

<https://research.reading.ac.uk/social-licence-for-business/>

Also relevant is the project’s consultation document:

[Social Licence for Business: a framework for reshaping the private sector in a post-pandemic world.](#)

Our research group welcomes the work of the ‘Tax After Coronavirus’ inquiry and fully supports the Committee’s work to re-examine the UK tax system in light of the fallout from the Covid-19 pandemic. However, it is imperative that any moves to reform the tax system carry the full confidence of the public (in order to avoid erosion of the tax base amongst UK taxpayers), together with the confidence of multinational organisations (to avoid erosion of the transnational tax base). Ensuring such confidence is likely to be particularly difficult at the current time, when, e.g., UK public trust in both government and private sector organisations is extremely low (source: [Edelman Trust Barometer](#) 2020) and many multinationals with a UK footprint are facing significant structural change both due to the pandemic and to the UK’s new relationship with the EU.

To counter these difficulties, we recommend that:

The Committee make clear the centrality of inter-generational justice in any revision of the UK tax landscape.

Today’s coronavirus financial support schemes have been funded with the money of future taxpayers, and thus inter-generational justice must be a guiding principle in any moves to reform UK taxation.

To ensure that money is used in ways that lead to long-term benefits it is not enough to place conditions on firms accessing governmental financial support schemes (such as the requirement that firms which have accessed the Covid Corporate Financing Facility show restraint in paying dividends and bonuses), as these conditions are, by their nature, temporary. A new taxation framework, in contrast, can ensure appropriate recompense for

future generations beyond the next few years, guaranteeing that businesses pay back the support received at the current time via meeting appropriate forms and levels of taxation in the future. This would set the UK up for a future in which businesses can be seen as true partners in creating and maintaining the public good.

The Committee make explicit the basis for any changes to the UK tax framework.

Any change to the taxation system must be couched in a framework which makes explicit what grounds the legitimacy both of taxation in general and the specific changes being recommended in particular. We suggest that this must involve making more transparent the range of goods firms enjoy, such as the protections of a well-functioning legal system – including limited liability for corporations, access to an educated workforce, reliable transport links, etc. In addition, certain kinds of organisation, such as banks, enjoy additional benefits: for instance, banks are granted licences to take and hold deposits. Finally, it should be stressed that in both the financial crisis of 2007-8 and in the response to the current pandemic, the state has stepped in as buyer and lender of last resort for private sector firms, taking on huge debt for future taxpayers.

This range of support for the private sector should, we suggest, be shown to ground a constraint on business operations, in line with social contract theory, requiring firms to meet certain general social goods as a cost of doing business in society. A primary constraint generated by the social contract for businesses, then, is the requirement to pay appropriate levels of taxation (for further discussion, see [‘The thesis of “doux commerce” and the social licence to operate’](#)).

The Committee recognise that, without appropriate grounding in a wider framework concerning the relationship between the private sector and the state, changes risk eroding the transnational tax base.

The Committee should recognise that without framing any changes to tax regulation in this broader setting, there is a substantial risk that the desired levels of revenue and compliance will not be achieved. This is because regulation on its own does not inspire best practice. Businesses may try to find ways around regulations or to follow the letter of the rules without embracing a general ethical attitude (e.g. expending huge sums trying to absolutely minimise their tax liabilities, instigating an expensive and ultimately futile ‘arms race’ between the tax arms of private sector organisations and HMRC). Providing the kind of framing indicated above will make it harder for firms to avoid doing the right thing around taxation (by creating a public and employee environment that is informed about, and hostile to, tax avoidance, and potentially by motivating reforms, such as a mandatory Social Licence strategy).

The Committee explore all the levers available to government to prevent aggressive tax avoidance by multinationals.

Such levers include:

1. Providing a platform for greater publicity around tax avoidance, increasing the risk of reputational damage associated with such moves and supporting consumer activism in response.
2. Utilise government contracts to ensure that all companies involved in the supply chain for government projects are in receipt of the best ‘bill of health’ from HMRC, and make

clear to companies that not engaging in aggressive tax avoidance is a requirement for bidding for government contracts.

3. If a wider social licence model were to be adopted, the Government should reserve the right not to issue, or to withdraw, a firm's Social Licence to Operate and associated legal licences, precluding it from operating within the Government's jurisdiction. A fundamental commitment to this sort of ultimate sanction would help to demonstrate that the UK government was serious about tackling the behaviour of multinational corporations in relation to national taxation.

We would be delighted to discuss any of these recommendations, or our project's research more widely, if this were deemed helpful to the Committee.

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