

THE GREAT BUSINESS DEBATE

FACTSHEET: PAYING TAX

Business pays its way in tax, making a major contribution to supporting our society. But in tough times, there is a loud debate underway about how businesses manage their tax affairs and whether they are making the 'right' contribution.

KEY FACTS

£172bn

taxes paid by business in the UK – 30% of total government tax revenues¹

£35bn

'tax gap' between taxes the government thinks should be collected and the total amount actually collected²

£2.86

paid by business in other taxes for every £1 of corporation tax³



£283.7bn

in taxes collected for government by business 2013/14⁴

73%

of 100 Group finance directors agree that multinationals should be more open about tax⁵

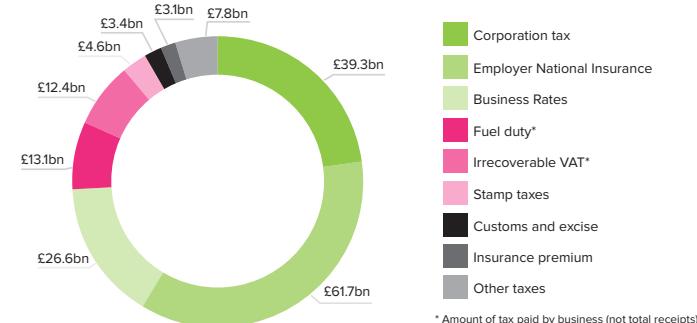
75%

of 100 Group finance directors agree that the CBI's *Statement of Tax Principles* will help lead to more trust in business⁶

Business is paying its way in tax

- Businesses in the UK paid £172bn in tax in 2013/14, which is 30% of all the taxes the government collects. It's also more than the budgets for the Department of Health and the Department for Education put together.⁷
- Much of the debate around the amount of tax that business pays has focused on corporation tax – the tax on profits made by companies. But as well as paying tax on their profits, businesses also pay tax based on their roles as property owners, employers, consumers of goods and services, and on the environmental impact of their business.

Taxes that businesses pay 2013/14 (£bn)⁸



- On top of the taxes it pays, business helps the tax system run smoothly by collecting VAT and income tax and national insurance from its employees. Businesses collected £283.7bn worth of taxes for the government last year.⁹
- Looking at the bigger picture, the contribution that business makes should be viewed alongside the wider economic role of business – creating jobs, paying wages, helping to fund retirement and supplying the goods and services we all need and use.



But in tough times, there is still a loud debate underway about how business manages its tax affairs

- There is a loud debate underway about whether businesses pay their fair share of tax. When many people are still feeling the squeeze of the recession, people are concerned that businesses either abuse the system or even evade paying their proper contribution. Last year corporate tax avoidance topped the list of company behaviour most in need of changing according to a public opinion poll.¹⁰

Issues of company behaviour most in need of changing

- Corporate tax avoidance
- Executive pay
- Whistleblowing
- Bribery and corruption
- Discrimination

Source: IBE 2013

- There is still a great deal of misunderstanding about how businesses manage their taxes. One of the reasons for this concern is that the tax system is incredibly complicated and technical – the UK has one of the largest tax rulebooks in the world.¹¹

The vast majority of businesses pay the right amount of tax

- Non-abusive tax management is a legitimate business function – it means making decisions on the basis of existing and often complicated tax laws – including the use of government tax reliefs, credits and incentives, like tax relief for investing in research and development (R&D).
- Government uses tax reliefs to incentivise businesses to invest in a certain way. But these schemes have recently been in the spotlight, with some arguing that the numerous schemes make the tax system more complicated and are too often exploited by firms and individuals looking to pay as little tax as possible.

- Businesses also want the tax system to be simpler but lots of government tax reliefs encourage investment and help firms to expand and create jobs:

- In one example, GlaxoSmithKline announced it would spend £500m more on R&D and create 1000 jobs in the UK after the introduction of a lower rate of corporation tax for profits earned on patented innovations.¹²
- And changes to rules about the taxation of controlled foreign companies mean that firms like WPP and UBM, who left the UK have re-located their headquarters here. The UK tax regime has also been a factor in decisions of US firms like ENSCO moving their headquarters to the UK. In all cases supporting our economy by creating jobs, paying wages and buying services in the UK.
- However, the total amount of tax that the government collects every year from individuals and organisations is smaller than the amount the government expects to collect. This is known as the tax gap. Over the last decade the tax gap has been shrinking – the latest government figure suggests it is around £35bn – 7% of total tax revenues.¹³

Businesses want the tax system to be simpler but lots of government tax reliefs and incentives help to make the UK a more attractive place for business.

They encourage investment and help firms to expand and create jobs.



PAYING TAX FACTSHEET

Business is taking action to respond to public concerns

- Business accepts there is a need to be more open about its tax affairs and to find new ways of explaining them to the public. Almost three quarters (73%) of finance directors surveyed think that greater tax transparency from multinational companies is needed to inform the debate on how much business contributes in taxes.¹⁴
- Companies are thinking about their reputations when it comes to tax matters. They are committed to becoming clearer, promoting tax transparency at a UK and international level.
- For example, through its **Statement of Tax Principles**, the CBI encourages all companies to explain why they pay what they do in a straightforward way, ideally on their website. It does not condone the use of abusive avoidance schemes, even if they are legal.
- Three quarters (75%) of finance directors surveyed agree that the CBI's *statement of tax principles* will help lead to a better understanding by the public of company tax policies and an improvement in the level of trust.¹⁵
- And at an international level, business has supported the important work of the international development organisation, the OECD, to update some of the international tax rules which have not kept up with globalisation and modern business practices.

SOME QUESTIONS TO CONSIDER

- What more can companies do to explain their tax affairs to the public?
- Whose responsibility is it to make sure that companies pay the right amount of tax?
- Should tax be a moral issue?

- But with just under half (49%) of the 100 biggest listed companies in the UK explaining their approach to tax and only a quarter (24%) providing details of their total tax contribution, there is an urgent need for more companies to do a better job of explaining their tax affairs to the public.¹⁶

SOURCES

¹HMRC analysis | ²HMRC, Measuring tax gaps 2013 edition: Tax gap estimates for 2011-12, October 2013 | ³PwC, Total Tax Contribution and the wider economic impact Surveying the 100 Group, 2013 | ⁴CBI analysis of HMRC data 2014 | ⁵PwC, Total Tax Contribution and the wider economic impact Surveying the 100 Group, 2013 | ⁶ibid | ⁷Department of Health budget £108.3bn; Department for Education £53.5bn | ⁸CBI analysis of HMRC data 2014 | ⁹CBI analysis of HMRC data 2014 | ¹⁰PSOS Mori / IBE 2013 | ¹¹Office for Tax Simplification Dec 2012 | ¹²For more information please see <http://www.hmrc.gov.uk/ct/forms-rates/claims/patent-box.htm> | ¹³HMRC, Measuring tax gaps 2013 edition: Tax gap estimates for 2011-12, October 2013 | ¹⁴PwC, Total Tax Contribution and the wider economic impact Surveying the 100 Group, 2013 | ¹⁵PwC, Tax transparency - what are the UK's biggest listed companies reporting? May 2014 | ¹⁶ibid