



*Inspiring business*

**Business Manifesto Part III**

A wide-angle photograph of the London skyline at sunset. The River Thames flows in the foreground, with several boats, including a large glass-fronted tour boat and smaller ferries. The Houses of Parliament and the Elizabeth Tower (Big Ben) are the central focus, their spires and clock face illuminated by the warm, golden light of the setting sun. The sky is a clear, pale blue, and the overall scene is bathed in a soft, warm glow.

# A Tax Code for an Enterprising Country

Election  
2017

***Let's push  
things forward*** >>>

# Overview

In the white heat of an election campaign, it is perhaps inevitable that the tax priorities of the wider electorate take prominence ahead of those with a more specific business focus. However, it is businesses that create jobs and drive economic growth and a new Parliament offers the time and political scope to embark on much-needed but often time-consuming reform to ensure our tax code is as competitive as it can be in the 21st century.

## Proposals for all parties:

### 1. Initiate a 'day one' consultation into reforming business rates

The incoming government needs to accept that the existing business rating system is not responsive to the modern economy and needs broad-based, affordable reform focussed upon smaller and medium-sized businesses. The system is wildly complex, certainly unfair to SMEs and will need real consultation to ensure we get it right, and the new Government should move forward as soon as possible.

### 2. Create a level playing field for employed and self-employed individuals by reforming National Insurance Contributions

Alongside the Taylor Review on modern employment practices, the increasingly flexible labour market has inevitably led the Government to focus upon the taxation and, especially, the national insurance treatment of different business structures. However, reforms to create a more level playing field will not be easy and care will be necessary to ensure that they support an increasingly flexible labour market both as it is today and it will need to be in the future.

### 3. Launch a review of the tax reliefs available to SMEs

Our members often comment that the corporation tax reforms introduced recent governments have overwhelmingly focussed upon multinational and listed companies (and, to a lesser extent, microcompanies) rather than medium sized companies. Post GE2017, the incoming government should focus on this key sector for the UK economy, especially as they continue to deal with measures including Pensions Auto-Enrolment, the Immigration Skills Charge, minimum wage increases and the Apprenticeship Levy. The starting point should be to challenge whether the same tax paid by our largest listed companies and multinational companies is appropriate for start-ups, scale-ups and other entrepreneurial companies.

### 4. Develop a tax planning 'white list' to remove confusion from the tax code

Although there has been an understandable focus, of which the IoD has been supportive, upon global initiatives to combat tax abuse aggressive tax avoidance, the incoming government needs to accept that there will always be tax competition between countries and that authentic tax planning arrangements should be accepted and, indeed, encourage.

### 5. Simplify the business and personal tax regimes, with a target set to reduce the complexity of the tax code by the end of the Parliament

The UK's tax system is excessively complex and is ridden with inconsistencies, disincentives and politically driven reliefs and anomalies. The incoming government ought to address these issues and implement reforms after, where appropriate, genuine consultation with taxpayers.

## Reform of Business Rates

The reaction from many businesses to the implementation of the business rating revaluation was to be expected as no business welcomes a significant hike in its cost base. Nevertheless, this should not disguise that the dissatisfaction with the existing business rating system is well founded and the UK will be damaged if the authentic criticisms are not addressed by the incoming government. The imperative for reforms must however recognise that the Chancellor of the incoming government will wish to ensure that business rates reforms are affordable in the context of the £27 billion currently collected and the UK's persistent fiscal deficit.

introducing more frequent adjustments needs to be re-examined.

- Many traditional business models (such as high street retailers and locally focussed businesses) suffer in comparison to businesses in the new economy which can locate their business premises in lower rated areas regardless of where their customers are based. There are strong arguments for creating a more level playing field by introducing additional rating reliefs for smaller and medium-sized businesses denied this option

### Our proposals:

- Although microbusinesses benefit from appropriate reliefs from business rates, the reliefs obtained by other start-up, scale-up and medium-sized businesses are woefully inadequate and ought to be much more generous
- The existing rating business rates revaluation system, based upon a five year revaluation (seven years for the most recent revaluation), is not responsive to today's much faster changing economy and the scope for

# Reform of National Insurance Contributions

In our opinion, the incidence of tax and national insurance liabilities should not be overly dependent upon the form of business entity chosen by the business owners and managers. The decision between the business structures should be driven by the broader commercial and legal considerations, not by taxation policy.

## Our proposals:

- The forthcoming report by the Taylor Review on modern employment practices provides an opportunity for the incoming to consult upon reforming national insurance contributions (and taxation) to establish a broadly level playing field in the medium term
- The additional burdens placed upon both unincorporated businesses and self-employed consultants to comply with taxation and government regulations should be recognised by an appropriate fixed allowance which is simple to determine and claim
- Any reform of NICs must be, at the worst from the taxpayer's perspective, fiscally neutral as the UK economy is certainly not under-taxed in comparison to most other globally successful economies

## A Focus on Reliefs for SMEs & the Annual Investment Allowance

There has been a failure by recent governments (including the Conservative Government and its Coalition and Labour predecessors) to focus tax reforms and reliefs on the neglected mid-market sector of the UK economy. The cuts in corporation tax and reliefs such as that for patent boxes disproportionately benefit the largest listed and multinational corporations. Whilst the UK economy has been successful in securing start-up businesses, the same cannot be said about incentivising scale-up businesses by focussed tax reforms.

and scale-ups to secure equity capital for their businesses

- Corporation tax has become increasingly complex to be responsive to the needs of largest multinational corporations but also to curtail opportunities for aggressive tax avoidance by such corporations. The incoming government should consult on how corporation tax could be reformed and simplified (or replaced) for smaller and mid-sized companies

### Our proposals:

- The Annual Investment Allowance ('AIA') was fixed after the 2015 General Election for the current Parliament at £200,000. The AIA should again be fixed by the incoming government for the next Parliament but raised to £1 million to promote capital investment and thereby boost productivity in this sector
- The incoming government should look to expand, liberalise, democratise and simplifying the existing tax reliefs (including the Enterprise Investment Scheme, the Seed Enterprise Investment Scheme and Venture Capital Trust) to boost the opportunities for start-ups

## Tax Competition

It is imperative that the incoming government recognises that tax competition between economies will almost always be a more powerful driver in tax policy than the actual (or perceived) benefits of international harmonisation. In global terms, the recently announced US tax reforms proposed by the incoming administration will procure responses by other leading economies as soon as (or even before) those reforms pass through Congress. The UK government must not fall behind its major global competitors in providing attractive rates and reliefs for its businesses.

### Our proposals:

- Taxation competition between often focuses upon the 'headline' corporation tax rate but global businesses also consider the reliefs available for investment and the taxation borne by their executives and employees. The UK tax system must be competitive from all aspects.
- The incoming government should introduce an enhanced tax relief for longer term capital invested in businesses following the Patient Capital Review, which should continue after the election
- It is important that the outcomes of the OECD/G20's initiatives to prevent aggressive tax avoidance by international corporations are implemented but equally important that they are not 'gold-plated' by the incoming government thereby making the UK less attractive for in-bound foreign direct investment.

## Simplifying both Personal & Business Taxation

Despite the sensible recommendations, many of which have been implemented, by the Office of Tax Simplification, the UK tax system has too many inconsistencies, disincentives and anomalies, often prompted by ill-thought through political promises. There is clearly a significant risk that during the remainder of the GE2017 campaign, politicians succumb to extravagant taxation promises and commitments which prevent broad-based reform and simplification. The IoD consider that the UK is certainly not under-taxed but few areas of tax reform and simplification do not involve any element of tax adjustments between different taxpayers.

- The incoming government should look to simplifying capital taxation by aligning – or, indeed, merging - capital gains tax and inheritance tax whilst protecting, simplifying and enhancing the key reliefs for businesses and business assets

### Our proposals:

- The incoming government should prioritise removing the punitive and disincentivising income tax rates of 60% from the thresholds where the tax reliefs are progressively withdrawn (at £50,000 for child benefit and at £100,000 for personal allowances)
- The previous political consensus for a top income rate of 40% should be restored in the next parliament by abolishing the fiscally efficient 45% additional income tax rate

## Author



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Stephen leads the IoD's work on reforming and simplifying the UK's tax system and reducing tax both for businesses and individuals.