The shape of things to come
Tax Director aspirations for the Business Tax Roadmap
Highlights

In February 2016, we surveyed Tax Directors to understand the challenges they would like to see addressed in the forthcoming Budget.

With the Business Tax Roadmap expected to be one of the key announcements, our 165 respondents provided insight around the impact it could have on their businesses. The key message was that the Business Tax Roadmap has the potential to bring real certainty that would facilitate the long-term planning needed for commercial success.

In delivering this year’s Budget the Chancellor has the opportunity to significantly differentiate the UK as a place to do business but the process is not without risk. It is crucial that the Government engages with business to understand how the new Roadmap will work in practice and to ensure that its potential is met.
The shape of things to come

Every year we ask Tax Directors about the challenges they are facing and the Budget announcements that would make the most difference to them. A key theme in recent years has been the Corporate Tax Roadmap (CTR), which has consistently been highlighted by our respondents as significantly contributing to the competitiveness of the UK.

As the Chancellor puts the final touches to the Business Tax Roadmap (BTR) widely expected to be announced in this year’s Budget, he may regret the absence of the high profile elements that made the CTR so effective. Key amongst these were the lowering of the mainstream corporation tax rate and the reform of the controlled foreign company regime to address the departure of companies from the UK.

If the Government is to maintain momentum on competitiveness, it’s important to build on the successes of the CTR. This report considers the BTR in the context of the businesses it is aimed at and highlights the factors the Chancellor should be taking into account as he plans his approach for the Budget and beyond.

With 165 responses across a range of organisations we believe our survey has ‘taken the pulse’ of the business community and the message is clear: this is not about rates of tax, it is about structuring the tax system in a way that enables businesses to operate more effectively.

A Tax Roadmap could make a vital difference to UK businesses

Respondents to our survey gave an unequivocal message around the prospect of a BTR with a significant majority stressing the important part it would play in their business.

In setting his objectives around the Budget and the BTR more specifically, the Chancellor would do well to note that at a most fundamental level, businesses see the BTR as a means of delivering certainty which in turn facilitates long-term planning. In a competitive marketplace, the BTR therefore has the potential to truly differentiate the UK as a place to do business. With so much at stake, it is crucial that this BTR achieves its potential and a key part of that process will be engaging with business to refine the detail.

Our survey assessed what Tax Directors see as the demands from the BTR if it is to act as a beacon to draw and retain investment in the UK and to understand their wider objectives from the Budget.
The objectives are simple

From a business perspective, more than a third reinforced the view that certainty is key. However, underpinning that is the need for less complexity and more competitiveness.

So how do the principal elements expected to form part of the BTR shape up in terms of meeting those objectives? These include:

- A strategy and timeline for implementation of the Base Erosion and Profit Shifting (BEPS) outcomes e.g. hybrids, interest, treaty aspects, transfer pricing
- A review of the approach to intellectual property taxation, over and above the patent box
- The outcome of the business rates review
- The outcome of the review of energy taxation
- Tax administration and the possible implementation of a cooperative compliance model for large businesses
- The 'making tax digital' initiative
- A refresh of the tax policy-making framework.
We asked the extent to which these issues were currently having an impact on UK businesses. The uncertainty and complexity associated with the implementation of the G20/OECD’s Action Plan on BEPS stood out with almost two thirds of respondents indicating that it is having a significant impact. Tax administration and the possible implementation of a cooperative compliance model for large businesses also ranked highly.

This reinforces the argument that businesses are seeking structure and certainty. Providing both should, therefore, be a priority for the Chancellor.

The range of responses at each end of the spectrum shows that businesses would perhaps prioritise some elements over others. Indeed, focusing on a few key elements rather than the full list – in the first stages at least – could bring clarity and simplicity to the Roadmap. With this in mind, the Chancellor could consider whether a phased approach to some of the proposals would be a workable solution. The elements to be included in each stage would need to be established as part of the ongoing debate with business but getting this right could bring real impact to the process.

<table>
<thead>
<tr>
<th>Element</th>
<th>High impact</th>
<th>Neutral</th>
<th>Low impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>A strategy and timeline for implementation of the BEPS outcomes</td>
<td>65%</td>
<td>14%</td>
<td>19%</td>
</tr>
<tr>
<td>Tax administration &amp; the possible implementation of a cooperative compliance model</td>
<td>52%</td>
<td>25%</td>
<td>18%</td>
</tr>
<tr>
<td>The outcome of the business rates review</td>
<td>46%</td>
<td>32%</td>
<td>19%</td>
</tr>
<tr>
<td>A refresh of the tax policymaking framework</td>
<td>31%</td>
<td>37%</td>
<td>24%</td>
</tr>
<tr>
<td>The 'making tax digital' initiative</td>
<td>36%</td>
<td>29%</td>
<td>28%</td>
</tr>
<tr>
<td>The outcome of the review of energy taxation</td>
<td>24%</td>
<td>15%</td>
<td>21%</td>
</tr>
<tr>
<td>A review of the approach to IP taxation, over and above the patent box</td>
<td>60%</td>
<td>19%</td>
<td>21%</td>
</tr>
</tbody>
</table>
It is a time for careful consideration

To better understand the concerns around the implementation of BEPS proposals, we analysed in more detail the strength of feeling with response to recommendations on interest restrictions (BEPS Action 4). Specifically, we asked what approach should be taken to their implementation in the UK. While there was a spread of responses, it is clear that, for the Tax Directors we surveyed, taking the lead in implementing the interest restriction recommendations would be a real cause for concern.

In fact, with so many of our survey respondents calling for caution, we urge the Government to consider carefully the impact on UK competitiveness of going beyond the requirements of the BEPS proposals.

We also asked respondents how the Chancellor should respond to the European Commission’s draft anti-avoidance directive, in part looking to implement the OECD’s BEPS recommendations and in part pursuing a broader tax avoidance agenda. That only 4% of respondents supported implementation of the proposals without question again demonstrates that the Government should proceed with caution to ensure that implementation supports UK competitiveness.

To benefit from the long-term planning facilitated by the BTR, businesses need to know that the individual elements are part of a considered and constructive plan. This is reflected in the volume of respondents who are clearly concerned about the added complexity likely to arise if an additional layer of anti-avoidance regulations were to overlay the implementation of BEPS.
Reviewing the relationship with large businesses

A key element in the BTR and key to the certainty agenda is much anticipated publication of the Framework for Cooperative Compliance. As discussed in our recent report ‘Building the balance: Cooperative compliance in practice’, Tax Directors place significant value on the existing Customer Relationship Manager (CRM) model. In fact, when we asked respondents to identify the top three things they would most like to see as part of the new framework, a total of 58% ranked it first, second or third.

However, the other factors that ranked highly in terms of things respondents would like to see in the new framework, show the areas of the CRM model that are working less effectively. These include:

- Proper risk based intervention/non-intervention
- Transparency of processes within HMRC
- More clarity around clearance rulings

The Framework for Cooperative Compliance has the potential to truly differentiate the UK as a place to do business. However, the success of this initiative will depend on the extent to which the Government is able to resolve issues with the existing engagement model.

The message is clear

With all this in mind, it should come as no surprise that uncertainty is back at the top of the list of the biggest threats to UK competitiveness. This reflects the ongoing pace of change in the UK tax agenda. The fact that BEPS has not changed from its fifth place position is more surprising.

The message to the Chancellor, is therefore, a simple one. The BTR could form a key element of this year’s Budget and beyond. As such, it stands to be a differentiating factor in terms of UK competitiveness. However, the absence of clear winning strategies like the rate reductions that formed the basis of the CTR mean that the detail is more important than ever.

The route to an effective BTR is engagement with business.

What do you consider to be the biggest threat to UK competitiveness and/or investment in the UK?

<table>
<thead>
<tr>
<th>Threat</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncertainty</td>
<td>1</td>
</tr>
<tr>
<td>Complexity</td>
<td>2</td>
</tr>
<tr>
<td>Political change</td>
<td>3</td>
</tr>
<tr>
<td>Costs of employment</td>
<td>4</td>
</tr>
<tr>
<td>BEPS</td>
<td>5</td>
</tr>
<tr>
<td>Fair tax</td>
<td>6</td>
</tr>
<tr>
<td>Compliance burden</td>
<td>7</td>
</tr>
</tbody>
</table>

(Change from 2015)

1 (5)  2 (2)  3 (5 joint)  4 (5 joint)  5 (5 joint)  6 (4)  7 (5 joint)
Further information

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Survey details
- Our survey had 165 respondents from a broad range of sectors
- 44% were from organisations with turnover in excess of £1bn
- 47% of respondents were Tax Directors or CFOs

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