Delivering Long-term Prosperity - Reform of Business Taxation
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Foreword

The UK’s long-term prosperity depends on growing businesses who can provide the high-skilled, high-wage jobs we need to tackle the cost-of-living crisis. We need to compete as an open, innovative country, producing services and goods so that we can earn our way in the world. This is the route to ensuring that economic growth raises living standards for ordinary people.

To achieve this goal, we need a system of business taxation that attracts long-term investment in high-value industries. The tax system must support the risk-takers who invest for the long-term, setting businesses on the road towards sustainable growth. It must encourage innovation, making sure that people are given the opportunity to develop their ideas, and bring exciting new products and services to the global marketplace. It must be robust, capable of raising the revenues necessary to tackle the deficit, and also fair, providing the level playing field necessary for competition and the restoration of public trust. And it must underpin a broader economic plan that will provide businesses with the skilled workforce and world-class infrastructure that they need in order to succeed.

Labour will maintain the most competitive corporation tax rate in the G7, but that is not enough to deliver long-term prosperity. This document outlines the Labour Party’s approach to business tax reform, setting out four core principles. First, the tax system must attract long-term investment, without which we cannot create the growth necessary for a sustained recovery. Second, we need to kickstart a revival in British productivity by supporting enterprise and innovation, which will deliver improvements in living standards for all. Third, simplification of the tax system and greater predictability is vital if entrepreneurs are to respond to incentives to invest and innovate. And underpinning this all is a commitment to fairness: working both domestically and with our international partners to create a tax system that is transparent and robust, in which tax better reflects the location of economic activity.
The challenges facing the UK economy are formidable, but they are not insurmountable. We welcome views from businesses, trade unions, entrepreneurs, tax professionals, international partners and others on how to deliver this agenda, because reforming the business tax system according to these principles will put economic growth on to a more sustainable footing, and reconnect hard-working people’s pay and living standards to national prosperity.

Ed Balls MP and Shabana Mahmood MP
Introduction

The last Labour Government reformed business taxation in the UK to create a framework for sustainable prosperity. We placed entrepreneurial activity at the heart of the UK tax regime: for example, by introducing entrepreneurs’ relief, ensuring that people who invest their own time and resources in growing their businesses and creating jobs are properly rewarded for their efforts. We developed the Patent Box, allowing businesses to retain more of the proceeds generated by their inventions. We recognised the need for internationally competitive rates of corporate taxation, which is why we reduced the main rate down to a historic low of 28%. And we tackled tax avoidance in many forms – for example, by introducing legislation to crack down on the illegitimate use of managed service companies. While there was still more work to be done, overall we created a tax system that supported an open, innovative economy, ready to compete in a race to the top.

That remains our goal, although the challenges we face today have evolved. Globalisation, coupled with the financial crisis, has rendered the competition for investment even more acute. An integrated international economy provides less scrupulous businesses with opportunities for tax avoidance, exploiting natural resources in the developing world and public goods in the developed world without paying their fair share of tax in return. The internet has made it far easier to sell goods and services across borders, but far harder for national governments to tax these transactions consistently.

The Government has failed to deliver an adequate response to these challenges. Rather than equipping Britain to compete in a global race to the top, the Chancellor’s economic plan commits us to a race to the bottom, with an increase in insecure and low-paid jobs meaning that those on middle and low incomes do not share in the proceeds of national growth. The Chancellor has prioritised tax cuts for the richest over investment in deficit reduction, infrastructure, and skills. He has cut Corporation Tax in an effort to make Britain a cheaper place to do business, without simultaneously taking the steps necessary to bolster British competitiveness in quality and innovation. This may bring in overseas companies looking for tax breaks, but it will not attract the long-term investment we need in research, technology, and jobs.
Business investment in the UK economy has been too low, productivity has flatlined,1 exports remain below forecast, and savings have fallen. These are among the challenges that business tax reform must address.

It is important that companies view Britain as a great place to do business, not just a cheap place to shift their profits. In order to deliver sustainable prosperity, we need to look at the bigger picture: at the range of incentives and obstacles that confront corporations in the tax system as a whole. The last Labour Government left Britain with the most competitive rate of corporation tax in the G7, and while we are committed to maintaining that position, we recognise that companies are just as concerned about other elements of the business tax regime, such as capital allowances and business rates. Business leaders need to know that their overall tax liabilities are going to be predictable, and that the tax that they pay will be invested in the skills and infrastructure necessary to drive productivity and profitability for years to come. Moreover, though we recognise that Britain is involved in global competition for investment, we do not believe that the right way to compete is through a beggar-thy-neighbour approach. Instead, we need to work with other countries to modernise the rules of the global tax system so they are transparent, fair to all, and so that tax more accurately reflects the location of economic activity.

Last year, as part of our policy review, we set out the Party’s emerging thinking on reform of the corporate tax system.2 We have since consulted widely: businesses, trade unions, entrepreneurs, tax professionals and others. Across the board, we have been struck by respondents’ deep appreciation of the challenges facing the British economy today, and their recognition that there are no simple solutions. As a result of this consultation process, we have developed an approach to business taxation that is guided by four fundamental principles:

- **Promoting long-term investment.** In the UK, the growth of cutting-edge companies has been hampered by systemic pressures that force too many businesses to focus on the short

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term. The pressure to turn a quick profit can be detrimental to the longer term development of companies and industries. We need to encourage long-term investment in companies and sectors with high growth potential. Only by promoting investment can we generate the high-skilled jobs needed to address the cost-of-living crisis.

- **Support for enterprise and innovation.** A dynamic economy must be constantly refreshed by new ideas and new businesses, creating the competitive pressures necessary to drive forward productivity and, ultimately, living standards. Yet, at present, the Government’s approach to business taxation burdens entrepreneurs and innovators starting out on new ventures or expanding their existing operations. A Labour Government will introduce reforms to help risk-takers develop into the business leaders.

- **Simplicity and predictability.** A tax system that genuinely incentivises investment, enterprise, and innovation must be sufficiently straightforward for businesses to be able to comprehend and respond to those incentives. Furthermore, companies need reassurance that the tax code is going to be predictable, avoiding ill-thought out policies introduced one year and rescinded the next. A straightforward and predictable tax code allows businesses to make long-term plans.

- **A commitment to fairness.** A robust tax system is vital to raising the revenue that the UK needs in order to pay off the deficit, and to deliver the skills and infrastructure necessary for sustainable prosperity. The Labour Party is committed to a system in which all individuals and businesses pay their fair share, creating a level playing field free from the distorting influence of tax avoidance, and restoring public trust.

We welcome feedback and ongoing dialogue as we continue to develop the ideas in this paper into a tax policy that will underpin long-term prosperity.
Promoting long-term investment

Long-term investment in innovative, high-growth industries is essential if we are to overcome the cost-of-living crisis. The Conservative-led Government has attempted to attract investment to the UK by focusing on headline rates of Corporation Tax, believing that if they simply cut these, investment will follow. We will maintain the most competitive Corporation Tax rate in the G7, but it is clear that recent cuts have failed to stimulate the business investment. Business investment fell from 8.2% of GDP in 2010 to 7.8% in 2013.³

![Business investment chart](http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/12-668-boosting-finance-options-for-business.pdf)

Participants in our consultation process regularly mentioned the short-termism endemic to the financial system as an obstacle to investment: banks that do not lend for the long-term, investors who treat innovative ideas with suspicion, shareholders who require immediate returns. Without access to patient finance, businesses constantly have to plan for the possibility that their credit will be withdrawn. In the UK today 55% of businesses admit to using credit cards to supplement their working capital requirements.⁴ These issues were examined by Sir George Cox

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³ Business investment data provided by the House of Commons Library.
in his independent review for the Labour Party on *Overcoming Short-termism within British Business*.\(^5\) He found that:

- Short-termism – the pressure to deliver quick results to the potential detriment of the longer-term development of a company – has become an entrenched feature of the UK business environment;
- Short-termism curtails ambition, inhibits strategic thinking and provides a disincentive to invest in research, new capabilities, products, training, recruitment and skills. It results in drastic cost-cutting and staff-shedding whenever revenue growth fails to keep up with expectations;
- Most importantly, short-termism militates against the development of the internationally competitive businesses and industries that are essential to the UK’s future economic prosperity.

UK Corporation Tax currently reinforces this tendency to short-termism, with its bias in favour of debt and against equity. Interest payments are treated as a deductible expense for Corporation Tax purposes, but no such allowance is available for the cost of equity. This means that, all other things being equal, companies will prefer to finance their operations through debt rather than shareholder capital.

The financial crisis highlighted the dangers that debt-dependent businesses pose to economic stability. Without finance arrangements that match the timescales of investment decisions, companies are exposed to economic shocks that affect the willingness of banks and other institutions to lend. A sudden contraction in lending can cause highly leveraged but otherwise viable companies to collapse, as they find themselves unable to renew their credit facilities. By contrast, equity finance allows companies to plan for the long-term, making investments in assets and staff safe in the knowledge that the funding necessary for expansion will not suddenly be withdrawn.

The systemic bias in favour of debt and against equity in the tax system has been widely criticised. The Mirrlees Review commented that “it is

unclear why we should want the design of the corporate income tax to encourage companies to have more fragile balance sheets than they would otherwise choose", pointing out that this bias means that “more firms are likely to default in an economic downturn than would otherwise be the case". The House of Lords Economic Affairs Committee agreed that the present system “can lead to British businesses taking on excessive debt”. And the IMF observed that debt bias not only leads to “inefficiently high debt-to-equity ratios in corporations”, but furthermore “discriminates against innovative growth firms, impeding stronger growth”. One possibility, advocated by both the Mirrlees Review and the IMF, is the introduction of an ‘Allowance for Corporate Equity’ – effectively extending the tax relief available on debt finance to the notional return on equity.

Tackling the taxation system’s bias in favour of debt finance would not only lead to more robust businesses, able to act in the long-term interest, but would also combat tax avoidance, reducing the attractiveness of schemes intended to shift profits offshore in the form of interest payments. The IMF has noted that the current system “creates opportunities for debt shifting within multinational firms”, allowing them “to exploit cross-country tax arbitrage by adjusting capital structures”.

However, any reforms could also create significant challenges and costs for companies who have developed business plans based on the current tax incentives. Any reform package would also need to be revenue-neutral for the Exchequer. These effects need to be fully understood and balanced before significant changes could be made.

Capital allowances are also vitally important in the design of a tax system that rewards long-term investment. However, frequent changes have undermined this role, when investors need predictability in order to make investment decisions. That is why a clear roadmap is needed not

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6 *Tax by Design*, Sir James Mirrlees et al., IFS, September 2011.
only for headline rates of corporation tax, cut also for capital allowances (see below on Simplicity and Predictability).

In order to support long-termism in business, Labour will:

**Examine proposals to redress the systemic bias in favour of debt finance.** We are considering the case for introducing an Allowance for Corporate Equity, along the lines suggested in the Mirrlees Review. Such a scheme would offer a strong incentive for long-term investment, building more robust businesses that would be better able to plan for the future. However, it could also prove disruptive to companies’ existing funding strategies. We will consult with business and other stakeholders on the case for introducing this reform, and how it might be implemented.

**Explore the possibility of structural changes to the tax system to incentivise long-term investment.** In his report on short-termism in British business, Sir George Cox recommended a series of tax reforms designed to attract long-term investors back to the equities market. Under these proposals, capital gains tax on shares and income tax on dividends would be tapered, providing significantly lower or even zero rates of tax on investments that are held for ten years or more. This would complement an Allowance for Corporate Equity, by making long-term investment attractive to the investor as well as to the recipient of funding. Labour is consulting with industry on the potential impact of these and other recommendations of the Cox Review.

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Support for enterprise and innovation

According to the Office for Budget Responsibility, the cuts to the headline rate of Corporation Tax in this Parliament have cost around £12 billion. However, they have benefited only 80,000 companies – less than 2% of all British businesses. At the same time, business rates have increased by more than £1,850 on average since 2010, forming an ever more significant part of companies’ overall tax burden. The Institute for Fiscal Studies notes that Britain now has the highest rates of tax on business property in the OECD. This burden falls particularly heavily on start-ups which need retail outlets, workshops or offices, manufacturers that need factory space, and businesses that are taking their first steps towards expansion by growing existing sites or renting new premises.

By shifting the tax base towards business costs rather than profits, the Conservative-led Government risks stifling entrepreneurial endeavour. Labour will prioritise cuts to Business Rates, helping businesses willing to take risks and reducing their outgoings during the difficult period before they begin to turn a profit, over further cuts to the main rate of Corporation Tax. This is an important step in removing the current tax bias against bricks and mortar companies, both large and small, which will play a vital part in rebalancing the economy and revitalising our communities.

Support for innovation is a central part of our industrial strategy. The last Labour Government provided long-term certainty on the Science Budget, to safeguard the future of British research. We set up the Technology Strategy Board, because we recognised the need for an independent body to oversee innovation in the UK. We developed the Patent Box, allowing businesses to retain more of the proceeds generated by their inventions. And it was Labour who proposed Catapult Centres, which now play a vital role in the UK’s innovation ecosystem.

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11 Analysis by the House of Commons Library.
We recognise that more is needed if Britain is to generate the productivity growth necessary to address the cost of living crisis.\textsuperscript{14} We need to ensure that the financial incentives we offer for enterprise and innovation are going to companies that make a genuine contribution to the competitive advantage of our country.\textsuperscript{15} We need to ensure that the UK economy offers the right conditions in which new ideas can be converted into viable businesses. And we need to ensure that start-up businesses have the support they need to grow.

In order to encourage innovation and enterprise, Labour will:

\textit{Provide tax breaks to growing businesses.} The additional cut in the main rate of Corporation Tax which the Conservative-led Government has planned for 2015 will benefit fewer than 2\% of UK firms. Labour has pledged instead to cut business rates in 2015-16 and freeze them in 2016-17 for any business – small or large – occupying premises with a rateable value of less than £50,000. This will benefit the occupants of over 1.5 million business properties. This will be an important step in reducing the burden of business rates, which the CBI has rightly criticised for arbitrarily penalising bricks and mortar companies such as manufacturers and retailers.\textsuperscript{16} To rebalance the economy, we need to encourage companies to develop their physical presence in our communities, opening new offices and branches, and creating better jobs.

\textit{Examine ways of improving the targeting of research and development tax credits.} The targeting of Research and Development (R&D) tax credits has been criticised in recent years, with experts such as the Institute for Fiscal Studies noting the high deadweight cost of the scheme.\textsuperscript{17} In the most recent year for which figures are available, the Government spent £1.15 billion on R&D tax credits, and it is crucial that this money achieves its aim, encouraging innovative companies to invest

\textsuperscript{14} According to Nesta, 63\% of UK productivity growth in the period 2000-2008 arose either directly or indirectly from innovation. See \textit{Plan I: The case for innovation-led growth}, Nesta, September 2012 (http://www.nesta.org.uk/sites/default/files/plan_i.pdf).
\textsuperscript{15} \textit{The Entrepreneurial State}, Mariana Mazzucato, Demos 2011 (http://www.demos.co.uk/files/Entrepreneurial_State_-_web.pdf).
\textsuperscript{16} \textit{Tax in a Global Economy}, CBI, July 2013.
\textsuperscript{17} ‘Productivity and Government Policy Towards R&D’, Laura Abramovsky, IFS, March 2007 (www.ifs.org.uk/conferences/productivity_abramovsky.ppt).
in expanding the UK’s research base.\textsuperscript{18} We will ensure that the system of R&D tax credits has the highest impact possible: rewarding genuine contributions to national research capacity, rather than activities that are outsourced overseas.

Enhancing simplicity and predictability

Support for investment, enterprise and innovation are essential elements of our economic strategy, and our approach to business tax reform. However, in order for the tax system to provide effective incentives for businesses, these incentives must be contained within a tax code that is simple to comprehend and easy to apply.

The Conservative-led Government, despite its supposed commitment to tax simplification, is responsible for the longest Finance Bill in UK history. Having set up an Office of Tax Simplification, the Treasury has resisted its findings, in some instances making the proposed simplifications more complicated than the measures they are intended to replace. According to the ICAEW, the UK now has the longest tax code in the world. This additional complexity imposes extra compliance costs on British businesses, and increases the burden on HMRC’s limited resources.

The Chancellor’s policy U-turns have undermined the certainty needed for businesses investing in the long-term as well as introducing further layers of complexity. In 2011, the Government announced the introduction of the Carbon Price Floor, which was implemented in 2013 despite widespread criticism from both industry and environmental groups. The justification for the measure was that it provided long-term certainty for businesses looking to invest. However, the mistakes made in its design and implementation meant that just twelve months later the trajectory for Carbon Price Support had to be changed. Commenting on the changes to the Carbon Price Floor, the director of the Institute for Fiscal Studies observed that “this is no way to foster the sort of policy stability which is so important for investment”.

A similar approach has undermined the predictability of the capital allowances system. Allowances play an important role in supporting investment for the long-term, and they must be predictable in order to be

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fully effective. But the Conservative-led Government have both cut and regularly changed allowances.

In 2010, the Chancellor cut the main capital allowance rate, and reduced the Annual Investment Allowance to just a quarter of its previous level, costing businesses nearly £3 billion per year. However, in the 2012 Autumn Statement the Government changed tack, increasing the Annual Investment Allowance again but only on a temporary basis, with a further temporary extension announced in 2014. Such unpredictability and complexity makes it difficult for businesses to plan the long-term investments which allowances are intended to support.

The result is that the UK is now a less attractive destination for capital-intensive businesses: a recent study by the Oxford Centre for Business Taxation ranked the UK 28th out of 41 competitor countries in terms of allowances available for plant and machinery.\(^{21}\) This is particularly harmful from the perspective of advanced manufacturing, a sector where companies must constantly invest in cutting-edge technology in order to maintain their competitive advantage. Yet it is precisely these businesses that Britain must attract if we are to rebalance the economy, and increase the number of high-skilled and well-paid jobs based in the UK.

In order to enhance simplicity and predictability, Labour will:

*Support simplification.* We are committed to a straightforward tax system, striving for the minimal level of complexity needed for a robust regime that supports investment, enterprise and innovation. This means a considered and clearly signposted approach to tax reform, based on open-ended consultation with business. Added to this, a Labour Government will review the work of the Office of Tax Simplification, assessing its achievements to date, and evaluating whether it might be more effective as a truly independent body with its own dedicated staff and resources, established outside the framework of the Treasury.

*Draw up a roadmap for capital allowances.* Labour will set out a clear roadmap for capital allowances, as well as headline rates of corporation

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tax. This will assess the capital allowances available on plant and machinery in the UK against those offered by competitor countries and provide much-needed policy stability by showing what allowances will be available over the lifetime of the next Parliament, at what rates and for how long, supporting businesses to make long-term investment decisions.
A commitment to fairness

At a time when the public is facing a cost-of-living crisis and the deficit remains high it is more important than ever that tax avoidance is tackled. High profile cases of large multinationals paying little or no UK Corporation Tax despite extensive British-based operations, parent companies that operate out of tax havens, and complex transfer-pricing arrangements which shift profits overseas have undermined public trust in the business taxation.

HMRC’s latest estimate of the UK tax gap was £35 billion,\(^{22}\) though tax campaigners have suggested the true figure could be much higher due to the volume of activity in the shadow economy.\(^ {23}\) It is clear that the revenue lost to avoidance and evasion is very significant: a level of revenue that could materially reduce the UK deficit. It will not be easy to collect these revenues, but ensuring that everyone pays their fair share is not just fiscally responsible – it is also morally right.

There are legitimate reasons why companies might pay a reduced level of Corporation Tax – for example, where they have previously incurred significant losses, or where they have made long-term investments in research, assets and staff – but it is vital that the system is not abused. A level playing field is needed not only to restore public trust, but also so that businesses do not find themselves disadvantaged relative to tax-avoiding competitors. However, the Conservative-led Government has too often failed to act on loopholes such as the Quoted Eurobond Exemption (see box).


\(^{23}\) In the shade: the UK’s missing economy, Richard Murphy, May 2014 (http://www.taxresearch.org.uk/Documents/Intheshadesummary.pdf).
Quoted Eurobond Exemption

What is it?

The Quoted Eurobond Exemption excludes corporate debt listed on recognised stock exchanges from UK withholding tax. It was originally implemented to make it easier for companies to obtain finance from the international bond markets – a legitimate objective that the Labour Party supports. It is also legitimately used by investors seeking to minimise the administrative burden that would arise from their individual investors having to file separate rebate claims under the terms of double taxation treaties.

However, the exemption can also be used for tax avoidance purposes, allowing companies to shift profits out of the UK in the form of interest payments. As HMRC has itself noted, “in recent years a number of groups have issued Eurobonds between companies in the same group, and listed them on stock exchanges in territories such as the Channel Islands and Cayman Islands, where they are not actually traded. In effect, the conversion of existing inter-company debt into quoted Eurobonds enables a company to make gross payments of interest out of the UK to a fellow group company, where otherwise deduction of tax would be required” (‘Possible changes to income tax rules on interest’, HMRC, March 2012). HMRC recently proposed removal of the exemption where Eurobonds were not actively traded, but did not proceed with changes.

What would Labour do to address this problem?

Rather than look at whether bonds are actively traded, we would focus on instances where bonds have been issued to connected parties (such as where a subsidiary issues a bond to a corporate parent or its private equity fund owners, or where the bonds are acquired by them). HMRC does not presently compile data regarding the prevalence of this form of financing mechanism, so obtaining this information and assessing the likely behavioural response of companies to closure of this loophole would be an important first step. To minimise disruption to funds using the mechanism to simplify investors’ rebate claims under double taxation treaties, we would explore streamlining the withholding tax rebate process.
Where companies are able to shift profits and operations between countries, these issues need to be tackled at an international, as well as a national, level. Labour will work across borders to address these issues in partnership with other countries, through initiatives such as the OECD’s Base Erosion and Profit Shifting (BEPS) project. BEPS was launched in 2013, and aims to combat the artificial relocation of corporate profits to jurisdictions where they will receive a more favourable tax treatment. Reporting over the course of 2014 and 2015, BEPS will address issues such as transfer pricing, Controlled Foreign Companies rules, and hybrid mismatch arrangements. If successful, it could mean that the taxes paid by multinational corporations will better reflect the actual location of economic activity. However, this process is currently being conducted without the proper involvement of developing countries, who should have an active role in the decisions which will shape a global tax system. Too often, it is developing countries that are directly harmed by tax avoidance, which strips profits out of locally-based operations such as natural resource extraction. They should have a seat at the table when decisions are being made on global reforms.  

While international action is needed to tackle avoidance, multilateralism must not be used as a pretext for inaction. Knowing who ultimately owns and controls companies and how much tax they are paying, particularly in tax havens, is essential to tackling tax avoidance. As the CBI said in their statement of tax principles, we should aim ‘to increase public understanding in the tax system in order to build public trust in that system’ by companies explaining ‘more fully to the public their economic contribution and taxes paid in the UK’. The Conservative-led Government also claimed to have forced the UK’s Overseas Territories and Crown Dependencies to increase transparency with the establishment of lists of beneficial ownership. But they have failed to deliver on this promise, with key Territories and Dependencies stalling through open-ended or inconclusive consultations.

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There is also more to be done to tackle disguised employment, particularly in the construction industry. Low rates of Corporation Tax for small companies under the last Labour Government encouraged enterprise, by supporting the creation of thousands of small and medium-sized businesses. The introduction of Personal Service Companies provided a simple and flexible structure through which people genuinely in business on their own account can operate, and we will continue to support small businesses that choose to operate in this way. However, in Government we also had to act to prevent tax avoidance and potential erosion of employment rights through ‘disguised employment’. Disguised employment undermines businesses and workers who do the right thing and play by the rules, leading to a race to the bottom and lower living standards.

An effective and skilled HMRC is also a prerequisite of a robust tax system, yet the Conservative-led Government has diverted resources to the administration of needlessly complex schemes, such as cuts in child benefit. With many highly-skilled staff set to retire and new staff being brought in at much lower grades, the organisation faces a demographic timebomb. The pressure to do more with less is greater than ever, with 2012-13 seeing the highest number of senior civil servants quitting the organisation for five years.26

In order to develop a robust and fair tax system, Labour will:

*Take the lead on tax transparency.* A multilateral agreement on enhanced corporate reporting of tax liabilities in different jurisdictions would enhance transparency and reduce the risk of companies intent on avoiding tax relocating to territories with less exacting disclosure requirements. Nevertheless, even if international agreement is not forthcoming, we will work with business to create a disclosure regime that will increase transparency about what taxes are being paid and where, and bolster public confidence that companies are contributing their fair share. Furthermore, we will force UK Overseas Territories and Crown Dependencies to deliver on their promise to make the names of

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the beneficial owners of companies based in their jurisdictions publicly available, and extend this to trusts.

End Exploitation of the Quoted Eurobond Exemption. A Labour Government will make it harder for companies to shift profits off-shore by addressing tax loopholes such as the Quoted Eurobond Exemption (see panel). HMRC themselves have identified the problem, but have failed to act. Those businesses legitimately using the exemption to obtain finance from international bond markets would be able to continue to do so. But those who use it as a loophole to move profits to connected companies in tax havens will be prevented from doing so.

Tackle dormant companies. It has been estimated that 30% of all UK companies are not asked to submit tax returns. One explanation given is that these companies are either dormant or not liable to tax in the UK as they are exclusively trading overseas. Once companies have declared themselves to be dormant, there is an exemption from filing a Corporation Tax return for five years. For some companies, this five-year window could be an opportunity to trade with tax impunity. Labour will require the annual confirmation of dormancy and explore the possibility of banks automatically informing HMRC when there is activity in supposedly-dormant accounts.

Encourage stronger independent scrutiny of the tax system and the government’s efforts to tackle tax avoidance. Labour will affirm and strengthen the powers of the National Audit Office to scrutinise tax reliefs and, in particular, where they are abused to avoid tax. The Chancellor and the Chief Executive of HMRC should also be expected to give evidence to the Treasury Select Committee each year on the Government’s efforts to tackle tax avoidance and evasion and the progress made on reducing the tax gap.

Ensure developing countries are fully involved in international efforts to tackle tax avoidance such as the OECD’s Base Erosion and Profit Shifting project. Too often, the developing countries that are directly harmed by tax avoidance – such as stripping profits out of countries where natural resources are extracted – do not have a seat at the table when decisions are made on global reforms.
Combat disguised employment in the construction industry. We will finalise the proposals which we were developing in government to deem construction workers as employed for tax purposes if they meet criteria which most people would regard as obvious signs of employment.

Ensure HMRC has the expertise it needs to work effectively. It is crucial that HMRC’s specialist investigation, enforcement, compliance and anti-avoidance units have the expertise they need if we are to reduce the tax gap. We will make sure that resources in HMRC are deployed more efficiently: for example, by liberating resources currently tied up in administering the Government’s “shares for rights” scheme.
Conclusion

The Conservative-led Government has failed to provide a business tax system which supports firms to grow and create the high-skilled and high-paid jobs needed to raise living standards and tackle the cost-of-living crisis. It fails to provide the right incentives for long-term investment and constant changes to investment incentives have not provided the simplicity and predictability which businesses need. More needs to be done to support enterprise and innovation, while the whole system needs to be underpinned by fairness so that public trust is restored and businesses are not undermined by those who avoid tax.

Labour will maintain the most competitive Corporation Tax rate in the G7, but also develop a business tax system that promotes long-term investment, supports enterprise and innovation, provides a stable and predictable policy framework for business, and which is founded on fairness. With this approach Britain can compete in a race to the top, with a highly skilled, productive workforce directly benefiting from sustainable economic growth.

Labour will continue to work with businesses, trade unions, entrepreneurs, tax professionals, international partners and others to build a system that lives up to our aims. We welcome feedback and responses on this document to yourbritain@labour.org.uk