

MINUTES

BUSINESS TAX FORUM

15. 00 - 17.00, Monday 1 November 2010
Board Room, 1 Horse Guards Road

Chair:	Julian Heslop Melanie Dawes	(GlaxoSmithKline) (HMRC)	
Secretariat:	Kate Ramm Lidia Otero Vanessa Woodward	(HMRC) (HMRC) (HMRC)	Business Customer Unit Business Customer Unit Business Customer Unit
Attendees:	John Connors Paul Morton Abdul Nabi Jean Sharp Ian Menzies-Conacher Mike Sufrin Tim Voak Kirsten White Freda Chaloner Ian Valentine Ed Hagger Judith Knott Sue Walton James Dunstan Jon Sherman Erin Robinson	(Vodafone) (Reed Elsevier) (Marks & Spencer) (Aviva) (Barclays) (Rolls Royce) (Tesco) (Shell) (HMRC) (HMRC) (HMRC) (HMRC) (HMRC) (HMRC) (HMT) (BIS)	100 Group 100 Group 100 Group 100 Group CBI CBI CBI CBI Large Business Service CT&VAT Central Compliance Business International Anti Avoidance Group Business Customer Unit Business & Indirect Tax
Apologies:	Ian Brimicombe Jim Harra Keith Cartwright	(100 Group) (HMRC) (HMRC)	Business Secretariat CT&VAT Local Compliance

1. Welcome

Welcome and introductions.

2. Report back from international sub-group

HM Revenue & Customs (HMRC) reported back from the international sub-group meeting. The topics covered were controlled foreign companies, consultation, clearances, advanced pricing agreements and treaty negotiations. Business consider the meetings to be useful as international issues can be discussed in detail. They found the discussion of treaty issues particularly useful and suggested this should be a standing item.

HMRC thanked business for their involvement in the business awareness day held in June which was a great success. The possibility of organising a similar day was being considered.

3. Brief update on spending review

HMRC provided an update on the spending review published on the 20 October. Efficiencies of 25 per cent will have to be made over the next four years. This will result in a net 15 per cent reduction for HMRC after the £900 million reinvestment. Large business should expect a continuation and development of the current strategy as the relationship management model has been shown to be a cost effective way of improving tax compliance and customer experience. Efficiencies will be made through; being more joined up and removing duplication; improving information management systems and using the information to resource to the biggest risks; working issues more quickly and improving dispute resolution; moving to working more issues in real time.

Business raised concerns over what the spending review figures meant for them. HMRC explained that only a small part of the reinvestment figure was likely to be attributed to large business and therefore a significant part of the additional £7 billion revenue would come from elsewhere ie dealing with fraud and evasion in the mass market.

4. Tax gap

HMRC delivered a presentation on the tax gap. The tax gap is difficult to measure and although work to measure it has been going on for the past 15 years we only published our estimates for the first time last year with the intention of publishing updates annually. The tax gap is defined as the difference between tax paid and tax that HMRC considers should be paid in accordance with the spirit as well as the letter of the law. Certain elements of the tax gap calculation, including some of the amounts estimated to relate to large business are less robust than others, which is why HMRC don't publish an overall tax gap for large businesses.

There was a discussion of the difference between legal interpretation and avoidance and how this fed through into the tax gap. The role of debt was also explained and that the gap is net of compliance yield.

There are a number of reasons for measuring the tax gap; it is a way of showing the impact of compliance work; understanding the components of the tax gap is an important part of strategy development; and there is also a public interest aspect. There are however limits in the coverage, accuracy and timeliness of the figures. The latest estimate of the UK tax gap was published in September 2010, the net tax gap after HMRC compliance activities is £42 billion and is broken down by customer behaviour.

Few countries have published estimates of their tax gaps, the UK compares favourably to those that do even though HMRC uses a wider definition of the tax gap for instance by including avoidance and legal interpretation in the definition. Overall the tax gap fell in percentage terms between 2004-05 and 2007-08. It rose again in 2008/09 largely as a result of the increasing VAT gap driven by payment problems arising out of the recession.

The differing methods for measuring the indirect tax gap and direct tax gap were explained and discussed.

HMRC explained that their challenge is to improve the quality and accuracy of the calculations and hoped that business could provide information that would assist in this. For instance on VAT, some of the information used to calculate the top down estimate is now quite old. Additionally HMRC thought that it would be useful to explore whether a bottom up calculation would provide a clearer picture of how the VAT gap is split between customer segments.

On CT, there was a discussion of whether the bottom up estimate could be supported by a top down measure and the role that effective tax rates might play. Business suggested that HMRC would need to look at the cash tax rate and offered to work with HMRC, to provide better data particularly in relation to the VAT gap estimate.

5. New low risk guide

HMRC provided an update on the new low risk guide and explained that the draft had been circulated. The guidance is now clear that a business cannot be low risk if participating in avoidance schemes. Business were concerned that this would mean a change in the risk rating for a number of groups. However, this does not appear to be borne out by the business risk reviews that taken place since the guidance was issued. The risk rating has only changed in 11 businesses, 4 of which have moved from low risk to non low risk and 7 of which have actually moved from non low to low risk.

Business were also concerned that the guidance had gained a harder edge around the language and tone. This was not what HMRC had intended and so they requested feedback on areas where this was thought to be an issue.

Business felt there were still areas of confusion regarding tax planning and some thought that the benefit of being transparent had been diluted. HMRC agreed to consider this further. However business were happy that the emphasis was still on the relationship but suggested that the benefits of being low risk were not clear. HMRC thought that the benefit of being low risk was that HMRC would trust the business to raise any tax issues so this enabled low risk businesses to set the agenda.

6. Consultation

HMT gave a brief update on consultation and the CT road map. The draft finance bill is likely to be published in early December and the new approach to impact assessments is being developed. The timetable on Corporation Tax is challenging but the aim is to get a detailed roadmap out in late November. It will provide a long term picture of CFC reform, branch exemption and Intellectual property reform.

HMRC provided an update on the discussions on a General Anti Avoidance Rule (GAAR). The coalition government made a commitment to provide greater stability, predictability and to strategically improve defences on tax avoidance with an emphasis on prevention rather than cure. In that context, there has been consultation with various groups over the summer on whether there is a case for a GAAR in the UK. The responses have been more positive than expected, however, the underlying assumptions of those consulted are that a GAAR would need to be linked to greater simplification and that there would need to be a clearance mechanism.

Business responded by stating that their main priority is certainty, they would prefer a certain but complex system over one that is simple and uncertain.

7. Any other business

Business requested an update on the Office of Tax Simplification. HMRC and HMT explained that it had just started and there had been a couple of meetings. It is expected that the focus of the OTS will initially be on areas affecting Small and Medium Enterprises.

Meeting organiser: Beverley Duncan on Tel 020 7147 3286