

MINUTES

BUSINESS TAX FORUM

14:00 hrs, Friday 7th April 2006

HM Revenue and Customs, 4th Floor Board Room, 100 Parliament Street

ATTENDEES:

Revenue and Customs

Dave Hartnett * (DH - Director General)
John Connors (JC - Director, Large Business and
Employers)
Julie Hughff (JH - Large Business and
Employers)
Christine Mills (CM - BTF Secretary)
Rachel Radford (RR - Central Policy)
Ian Quelch (IQ - Central Policy)
Tim Locke (TL - CT & VAT)
Gordon Smith (GS - Debt Management and Banking)
Stuart Hounslow (SH - PAYE process manager)

HM Treasury

Judith Knott (JK - Budget, Policy, Finance)

Department of Trade and Industry

Bob fisher (BF - DTI Tax Advisor)

*Co-Chairmen

Apologies:
Philip Gillett (CBI)

Business

Jon Symonds * (JS - 100 Group)
Ian Menzies-Conacher (IMC - CBI)
Mervyn Woods (MW - CBI)
Sebastian Hordern (SH - CBI)
Adam Little (AL - 100Group)

1. Minutes of previous meeting & matters arising

All content.

2. Review of Links with Business

DH explained that Sir David Varney was to lead a further review. Business would be represented on the steering committee by CFO's, CEO's and Chairs.

JC confirmed that in addition to Jon Symonds, the following business leaders have agreed to join the review;

Richard Laphorne, Chairman - Cable and Wireless
Douglas Flint, CFO - HSBC
Ken Hannah, CFO - Cadbury Schweppes
Ken Lever, CFO - Tomkins
Rudy Markham, CFO - Unilever

AL expressed concern from the tax directors in general that any meaningful input would only be achievable if contact was made directly with the tax directors and not just through the CFO's. DH explained that contact would be made through the tax directors and advisers, but as the review is to be about the relationship between HMRC and business it will be important that discussions are wider than tax director level. It will be about relationships and interfaces so it will be necessary to address senior business leaders as well.

JC explained that the consultative committee, chaired by Sir David Varney will give a steer for the direction of the review and that detailed work (involving internal and external stakeholders) will be done through JC's office. The CBI and 100 Group are already involved and may provide subcommittees. JC explained that he is aware of certain operational issues which have been raised. The terms of reference will be about HMRC and their role in the administration of the tax system but there will be processes to communicate matters of relevance to HMT via Edward Troup who will be a member of the committee. There will be a review to assess where we are since the 2001 Hartnett Review when the BTF was initiated. The Review of Business Links and the KPMG Administrative Burden report all added to HMRC's picture of the business world.

DH explained that due to a change in Board level portfolios, he is now responsible for the Large Business Service (LBS) and Small and Medium Enterprises (SME) Customer Unit as well as compliance strategy and anti avoidance work.

DH explained that the Review of Powers document and the LBS operating model have both been pitched to aid business. He hoped that the initiatives would be welcome and that business would assist HMRC on working on burdens, tone, behaviours etc. He also hoped that, as LBS and the Steering Group goes forward,

tax advisers and directors would provide input. DH went on to explain that HMRC would be ceasing annual audits for some compliant groups.

JK hoped that the review would work on the administration and roles of HMRC and Treasury. Edward Troup will be on the steering group of the Varney review. There is currently work being undertaken regarding taxation of foreign profits (CFCs) and dividends.

JS explained that the BTF had been set up in 2001 to address the improvement of administration and consultation between the Inland Revenue and business. It is now time to take a fresh look, on a more macro level (ie. tone, style, competitiveness), elevating the input to make it more strategic. Tax directors still have a role but there are more issues surrounding taxation and business since 2001. JS stated that he wanted to see more indication of a genuine partnership, leading the review, and collective ownership of the outcome. The scope is rightly focussed on outputs rather than on topics. It is absolutely the right time but there is a need to ensure genuine improvements. The operation of the BTF will also need to be looked at - as has always been agreed since its inception. Policy development and competitiveness will also need to be considered.

JC explained that the officials on the review will be Sir David Varney, Dave Hartnett, John Connors, David Garlick, Edward Troup and then, depending on the issues raised, directors who will lead on the focus themes. A secretariat will be appointed.

3. Report back on discussions with business leaders

JH presented this agenda item using slides (attached).

DH had meetings with a number of large corporates from May until November 2005 to establish an understanding of CFO's views on taxation and attitudes towards avoidance. The main themes emerging were:

- Tax is important and needs to be managed as with other costs,
- Business does not want surprises
- Tax planning - there is an impact on reputation and brand
- Maximising returns for shareholders is the main priority

A number of UK plcs are competing in the global market and often a large proportion of their income is generated overseas. This means that there is much work done with foreign tax administrations and HMRC are not the only tax authority that they are dealing with. Nevertheless, relations with HMRC are still important. DH commented that the role of analysts is of interest to HMRC.

AL said that analysts try hard but tax is seen as a cost line. IMC stated that analysts are not interested in rates, unless outside a normal range and/or very different from expected.

AL commented that everything has changed over the last few years. DH said that there is a need to understand the internal "engines" of tax in individual companies. There is a need to understand this and ensure this understanding is shared with colleagues throughout HMRC. JS described a conversation that he had with non-executives about how they approach tax. It is beyond the technical element only. We need to see what drives taxes and the difference between tax planning and taking advantage of international tax rates. Discussions are needed on how using effective tax rates, due to location, is not avoidance. The business wants discussions and this review is simple, clear, and gives a real and valid picture of what business thinks.

MW reminded the forum that prior to the Hartnett Review he had stressed the importance of a possible joint training programme. DH commented that there is more joint working than there use to be and that HMRC has improved - everyone has commented that relations with tax advisors has developed.

4. Tax Administration Issues from the 2006 Budget

DH introduced this item as an opportunity for business to ask the questions.

IMC responded that the biggest issue is personal tax benefits for mobile phones/computers. How will personal tax be calculated following the change in legislation?

MW said that concern had been raised by employers and mobile phone providers about policy and practice. The feeling is that the impact of this legislation does not fit with the efforts by HMRC to reduce the compliance and administrative burdens. There had been no conversation about the measure and much of it is unclear - such as whether a Blackberry is a computer or a telephone.

DH answered that HMRC are looking at the issues and trying to gain information. There is acute awareness of the exasperation felt and the need for guidance.

MW also commented that the material produced on Budget day is difficult to use. It came up during the Better Regulation meeting that a comprehensive index with key words would be useful. Is it necessary to have all the different notes, resolutions and the red book?

RR expressed sympathy with the situation and said that the department is interested in hearing views. When the Inland Revenue, and Customs & Excise merged, it has, for example, been recognised that there is a lack of consistency in the

supplementary Budget documents produced by HMRC on indirect and direct tax issues. HMRC are looking to make improvements and are interested to know what business want. However in return, business needs to understand that the Budget is very pressured time, with late decisions being made and it is not possible to produce a comprehensive index in the time available.

DH commented that HMRC do not control the presentation of the Budget, but can influence evident information on some occasions. He asked the business to write with their suggestions so that HMRC could consider it.

JK said that she would feed directly back to HMT. Whilst there is an appetite in business for detailed information, this may not always be appreciated by HMT/HMRC. MW expressed appreciation for JK's visit to the CBI on Budget day to explain the details.

DH pointed out that there had been some difficulties with printing on Budget Day. IMC commented that this was even more reason why it would be useful for business to receive drafts - particularly on matters regarding avoidance and financial products. Often business find out that things are flawed and it is too late to rectify them once they have seen them in the Budget papers.

DH replied that on this occasion we would have liked to do so but the mischief made with avoidance was so aggressive that it dictated the timing of the release of information. JK suggested that PBR is an easier time to carry out consultations. During the Budget, regulations have to be published immediately and the time between the Budget and the Finance Bill is too short for consultation.

5. Co-ordination of HMRC reviews

MW said that this issue had already been raised elsewhere. There are so many parallel and overlapping reviews that business had lost track. There are currently - - the powers review, the SME review, the KPMG administrative burden review and Robina Dyall's new taxes management study on top of several overlapping surveys/face to face interviews and now the Varney Review.

DH asked if MW had read the powers review? MW replied that he had. DH continued that HMRC has set out a strategy for addressing taxpayers and tax credit claimants, right through the spectrum from compliant to criminal. It works on the assumption that when we see things looking odd we will assume that it is a mistake, if the taxpayer is generally compliant and vice versa if the taxpayer is generally non-compliant. We need to build a suite of powers to cover this. The basic obligations of compliance come under powers and not management which is what Robina is working on. The Administrative Burdens work is being carried out by Sara Woollard with Teresa Graham chairing a consultation group. DH will articulate shortly on how all the reviews fit together as his Directorates carried out most of them.

6. Contacting HMRC

JC explained that a map of the organisation had been circulated at a previous meeting. There is nothing more up-to-date at the moment.

7. Termination of Local Agreements

DH explained that there is less local discretion to establish local agreements and as the structural issues in the department become clearer, it will happen even less. The situation needs to be modernised and made clearer.

8. Mandatory Electronic Payments

Presentation given by Gordon Smith and Stuart Hounslow. Following a detailed response from AL on the penalty position confronting firms, i.e. looking at payroll totals rather than the amount of tax paid late, MW stressed that this was not an isolated case. Business as a whole was extremely concerned about disproportionate penalties. It was a shared view that the primary legislation needed to be revised if that was what was necessary to rectify the situation.

9. AOB

JC mentioned Tax in the Boardroom and the results of the survey of the 500 Chairmen. It will be available on 10/11 April, with letters going out to contributors. It is relevant to all the themes of discussion occurring at the BTF. The outcomes demonstrate that senior figures in large corporates are interested in dialogue. HMRC are gaining a consistent picture from the various reviews and are seeing again that there is a call for changes in tone and behaviour. There was a 30% response rate which is considered good for a tax survey.

JS asked if this will now be the end of the reviews? IMC asked where they would be published on the website? JC responded that hyperlink details will be included in the letters out to businesses. DH commented that HMRC will now give surveys a rest but will be more aware of the clumsy way in which reviews have, up to now, been conducted.

JS concluded that there have been too many questionnaires and many of them were not very good. However, HMRC now have good material and should analyse it.

END