

MINUTES

LARGE BUSINESS ADVISORY BOARD

15:00-16:30, Friday 9 March 2007
Room 2/51, 100 Parliament Street

Chair:	Paul Gray	HMRC (Chairman)
Attendees:	Richard Lapthorne Jon Symonds Rudy Markham Ken Lever Dave Hartnett Stephen Banyard Melanie Dawes Geoff Lloyd Mark Neale	Cable & Wireless AstraZeneca Unilever Tomkins HMRC (Director-General) HMRC (Business Customer Unit) HMRC (Large Business Service) HMRC (CT & VAT) HMT
Secretariat:	John Connors	HMRC
Apologies:	Douglas Flint Richard Lambert	HSBC CBI
Observers:	Peter Wharrad Angela Brown	HMRC HMRC

1. Welcome and introductions

- 1.1. Paul Gray welcomed members to the first meeting, and reiterated HMRC's commitment to delivering the Review proposals. HMRC is delivering on the first of these commitments by publishing the outline delivery plan at Budget 07. In addition to agreeing the Terms of Reference, the purpose of the meeting was to ensure the external members of the steering group were comfortable with the draft documents that had been circulated on Wednesday 6th March, due for publication on 21st March.

2. Terms of Reference

2.1. The following comments were made by the external members:

- i. The language is ambiguous in places –
 - “Risk” – is open to interpretation
 - “Competitiveness” – is a relative concept. Alternative suggestions were “attractiveness of the UK” and “improving the business environment”, although there is room for different terminology if used in the appropriate context.
- ii. The terms should include reference to the evaluation of outcomes and the process for measurement. Each meeting should start with an assessment of the position at the last meeting, to monitor directional successes. Employee attitude surveys are used by business as part of a rolling programme to measure cultural change; HMRC should translate these across to business representative bodies such as the CBI / 100 Group to assess the progress of business and HMRC moving towards a more common position.
- iii. Membership must include people with both operational and strategic experience, on both sides.
- iv. Communications must clearly signpost the overall objectives.

2.2. Paul Gray agreed that HMRC would revisit the terms to review the terminology, commit to measurability, and spell out a clear ambition. A revised draft would be circulated, and agreed by correspondence.

3. Review of Links – General discussion

- 3.1. The external members felt that HMRC had produced a good draft. The proposals were necessarily at different stages, and development would be an iterative process. It was acceptable to set out the different elements in the progression of each proposal and their likely impact. The summary material should be more explicit and dynamic in its messages. By acknowledging radical change, HMRC can also be realistic about the challenges.
- 3.2. The document should be more focused around the outcomes of greater certainty, clarity and consultation and speedier resolution which were well summarised in the in the outline delivery plan, as being measurable achievements.
- 3.3. The document should set the scene that the new risk and clearance processes, and the necessary culture change, are long term initiatives – change programmes can take up to 10 years. HMRC should ensure that staff understand that behavioural change is not expected overnight. HMRC need to understand where their staff are with the new policies, to be able to measure changes in attitude over time. HMRC must allow time for changes in their staff to mature – keep the new principles visible, build in some early successes (such as the SSE and SDLT pilots), and give people space to develop.

3.4. There was a key and very positive message here around the effectiveness of HMRC as an organisation and the document shouldn't be too circumspect about that.

4. Resource to Risk

4.1. External members made the following comments:

- i. HMRC's new agenda will be seen as a massive step forward by business, and HMRC must ensure that implementation meets business' expectations. HMRC are right to try and manage expectations internally and externally but should also be setting out its expectations of business.
- ii. Business will welcome a greater understanding of their tax risk management by HMRC, and the document should be aimed at the heart of the governance of a large business: it should be something that the senior management and audit teams want to read. The UK tax bill can be one of a company's largest outlays, yet represent the weakest stakeholder relationship.
- iii. 'Risk' needs much clearer definition – it can be attitudinal (reflecting the business appetite for risk) or interpretive (reflecting the business view of the law). HMRC must understand a company's appetite for risk, as that will determine their attitude. Companies will decide their acceptable level of tax risk and HMRC must do the same – be much clearer on definition and on the risk assessment process.
- iv. It is acceptable to set out the fact that HMRC are at the beginning of a long journey. Tax risk management is multi dimensional and it will take time for HMRC to understand how business make judgements and manage their risks. The document sets out a number of bold statements, and HMRC should be realistic about what will, in fact, be an evolving process.
- v. Business will be pleased to see individual risk ratings, but the 'carrot and stick' outcome hasn't been clearly communicated. HMRC should be clear and open about when it will use its powers, but ensure that they are used appropriately, and that recipient businesses understand and accept their high risk rating and are not caught unawares.
- vi. Tax risk is also multi dimensional for HMRC – businesses can operate in a complex environment with an appetite for inventive tax planning, yet be transparent and open. Businesses operate in many different environments and to different scales – all of which will affect their risk potential. HMRC's view of risk can depend on trust and openness, as well as differing views of the law. The document needs to be clear on how HMRC would view these differing circumstances across the risk spectrum.
- vii. HMRC are delivering more than they committed to and, although the summary and chapter 4 have set out the detail of what is being delivered, they have a good news story that should be given much more credit.

4.2. Paul Gray summarised: the draft document is not explicit enough on the different levels of risk and the time and attention they would invoke in HMRC. The document

needs to build a more complex picture that leads through to impact on the relationship between the business and HMRC. The summary material needs to contain more dynamic messages (particularly about risk), be more radical about the vision and the length of the journey to achieve it, and realistic about the challenges. The risk document should be central to the whole, not buried in the middle.

5. Consultation

5.1. External members made the following comments:

- i. HMRC should recognise the value of representative groups such as the CBI / 100 Group, and make more use of these as vehicles to reach a wider number of businesses. HMRC must be mindful of the terms of reference of the representative groups – for example, the CBI and 100 group will have differing remits. However, HMRC still need to speak to individual businesses, and maintain that visibility.
- ii. Reference to ‘advisors’ should be removed, as they are not fundamental to the relationship between business and HMRC – their role is to advise business.
- iii. HMRC should take issues to the Boards of one or two FTSE 100 companies, alongside the audit committee, as presentations on both the high level vision and how HMRC would like business to respond. This will raise the profile of strategic issues, and can change the way business engages with HMRC.
- iv. The vision has been set out at the end of the document – this should be a high profile message at the front. Consultation should not be “good”, but appropriate and adequate
- v. Unsure about the term ‘customer’ in this context as HMRC was responsible for delivering Government policy as well as dealing with business and individuals. If business are influencing the design of systems, they will also want to influence predictability in the system. Consultation is about avoiding surprise, without restricting Government policy. There is a trade off to be had with the benefits of predictability, and the inherent returns for business, against freedom on policy issues.

6. Guidance

6.1. The external members made the following comments:

- i. Section 5 needs a preamble about the new process and the change in approach to developing guidance within HMRC.
- ii. There should be a link to consultation – what initiates new guidance? How does HMRC know what the issues of relevance to business are? This section should set out how guidance will be developed in partnership with business.

7. Clearances

7.1. The external members made the following comments.

- i. The new process is a fundamental policy change for HMRC, and the headline messages should credit this.
 - ii. Statements of clear intent are helpful, and it is acceptable to say that first attempts may not be successful, but the drive and commitment are there, and that HMRC will need business assistance if they are to deliver a process that works for both sides.
 - iii. There should be a loop between a business' clearance applications and its risk profile.
- 7.2. Dave Hartnett commented that HMRC and business will need to work together – HMRC receive a lot of clearance applications from advisors and lawyers, and business must influence these intermediaries into being completely transparent in their disclosures. At present the detail of transactions can be retained by their advising lawyers, leaving the business in a position where it only need disclose the outcome. Jon Symonds agreed that companies shouldn't delegate responsibility for clearances to advisors, when that role should only be to provide sub-contracted assistance. The LBAB should set the tone for a new approach, and the Business tax Forum help design the system.
- 7.3. It was agreed that the clearances table should be annexed and another page inserted that sets out HMRC's ambition for the new clearance process.

8. Seoul Declaration

- 8.1. Dave Hartnett requested the help of business leaders (suggesting CFOs and key members of their audit committees) to support him in Paris on 21/22 June by bringing the voice of big business to the OECD meeting with commissioners of the 35 tax administrations involved in the follow up to the Seoul declaration on the role of intermediaries in responsible tax planning.
- 8.2. The UK want to avoid repetition of the recent battles in the US with intermediaries, and to take best practice from the tax administrations in India and China, who are developing very positive relationships with their intermediaries.
- 8.3. A draft study is to be delivered by November 2007, and the challenge will be to combine the views of 35 tax commissioners. He would welcome the contribution and support of three or four influential business leaders at the Paris event to scope the study, working alongside a core group of commissioners from South Africa, US, France, UK, Ireland and Spain (possibly one or two others).
- 8.4. He suggested members contact him independently to discuss.

9. AOB

- 9.1. Paul Gray felt that the LBAB had a role to play in the presentation and reception of the document externally. He requested that members be available to support HMRC at Budget 07 with positive messages and press comments.

9.2. He summarised the action points:

- HMRC will redraft the TOR and circulate for agreement by correspondence
- HMRC will redraft the document following the comments received at today's meeting, but will not refer back to members before publication.
- Members will assist HMRC with the communication of positive messages after publication
- Members will continue to provide comments and a steer informally between meetings.