

<b>Committee</b> Public Relations and Economic Development Sub Committee	<b>Dated:</b> 17 November 2020
<b>Subject:</b> City of London Corporation and tax policy activities	<b>Public</b>
<b>Report of:</b> Damian Nussbaum, Director of Innovation & Growth	<b>For information</b>
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### Summary

The City of London Corporation and TheCityUK have produced a private paper to Government on tax policy for the recovery. Its recommendations include focussing on sustainable, long-term economic growth and calling for any new tax policies to be clear, simple and digital-forward. Some aspects of the paper were included in the City Corporation's Comprehensive Spending Review submission.

The paper is part of a City Corporation body of work on shaping a regulatory environment for UK financial and professional services (FPS) firms. In particular, the paper supports our priority to enhance the UK's competitiveness as a global FPS centre in terms of tax policy. This document details the recommendations of the paper. It also outlines our subsequent tax policy work programme to support FPS competitiveness.

### Recommendation(s)

It is recommended that Members note the report.

### Main Report

#### Background

1. A strong and dynamic financial and professional services (FPS) industry is a driving force for overall economic growth. It will help business and communities get back on their feet post-pandemic. The industry contributes £10.50 of every £100 of tax paid to the exchequer. It is vital the Government ensures the tax system is set up to facilitate economic activity. This will support the UK's recovery from COVID-19. In turn it will increase tax revenues to fund public services.
2. Recently, the City of London Corporation and TheCityUK jointly produced a paper 'Tax Policy for the Recovery'. It sets out how the tax system can be enhanced to maximise its role in the UK's economic recovery. The paper is the result of stakeholder engagement with industry participants, international organisations, think tanks and academics. We hope the recommendations set out in the paper should inform the UK's approach to tax policy for the recovery.

3. The report supports a key outcome for IG: how tax policy can be optimised to enhance the UK's competitiveness as a global centre for FPS. A KPI of the paper and subsequent tax plan of work is the City Corporation's ability to influence tax policy for the benefit of the FPS industry.

### **Current Position**

4. The paper is a private paper to HMT and HMRC. The paper is available to be shared with Members on request. It has also been shared with a select group of other stakeholders. The key recommendations outlined in the paper are summarised below:
  - **Support sustainable, long-term economic growth:** The Government should focus on stimulating long-term, sustainable economic growth. It should avoid acting too quickly to rebuild public finances. This would strangle investment and limit the UK's ability to recover. Supporting solid growth will boost overall tax revenue in the long run. This will enable the FPS industry to support the replenishment of public-sector finances.
  - **Provide a clear pathway to achieving the Government's broader objectives:** The Government should develop a long-term, strategic approach to UK taxation. It could do this through a 'Tax Roadmap' to give taxpayers a clearer and longer outlook for managing tax affairs. This would support a stable, consistent approach to tax policy. In turn, this would positively impact inward investment and the overall attractiveness of the business environment.
  - **Be simple and clear on the extent and duration of any measures being introduced:** Simplification of the tax regime should be a priority. This would have a substantial positive impact on the competitiveness of the UK's tax regime. Clarity around the tax system will encourage businesses to operate in the UK. This would drive UK competitiveness and boost overall tax revenue.
  - **Prioritise intelligent, digital-forward design:** Design is vitally important. The Government should ensure anti-avoidance provisions are targeted. It should also consult with the FPS industry early on its Making Tax Digital initiative. This is to ensure it works efficiently and can be properly implemented.
  - **Consider the international nature of the UK FPS industry:** The Government should be consistent in approaching international tax issues. It should also try to overcome issues relating to taxing a more internationally mobile workforce. Brexit is another area where we should avoid unnecessary burden and complexity e.g. by seeking stability on cross-border social security issues.
5. In addition to the tax paper, IG has undertaken additional activities in the tax space. Firstly, we work with PwC to produce an annual report on the contribution of financial services to government tax receipts. The 2019 report found that across the country the sector employs around 3% of the UK workforce but contributed 11.6% of all UK employment taxes.
6. Secondly, we submitted a response to the Chancellor's call for submissions for the planned 3-year Comprehensive Spending Review (CSR). Post-submission, the CSR has been subsequently revoked. This was in favour of a more targeted

1-year Spending Review (announced by the Chancellor on 21 October). We will be writing to the Chancellor again in response to this Spending Review.

7. Looking forward, tax competitiveness in times of fiscal competitiveness will be a live issue for some time to come. Over the coming months, IG is planning to carry out the following activities. These will help position the City Corporation as a leader in the tax policy debate.
  - Contributing to the debate through events and private engagement.
  - Investigating how to improve the competitiveness of the UK financial services ecosystem by e.g. removing tax inefficiencies. This would be with the overall aim of using fiscal levers to grow the sector and increase overall tax-take.
  - Policy horizon scanning together with the Research team, following on from recent research on UK competitiveness.
  - Monitoring OECD digital tax negotiations which have been postponed to 2021 as well as developments around LIBOR.

### **Corporate & Strategic Implications**

8. Strategic implications – recent work undertaken by IG is complementary to the City Corporation Corporate Plan. Specifically, the recent HMT/HMRC paper provides recommendations for how the UK can ‘have the world’s best legal and regulatory framework and access to global markets’.

### **Conclusion**

9. The recent ‘Tax Policy for the Recovery’ paper to HMT/HMRC and other activities contribute directly to the City Corporation’s Corporate and Innovation & Growth business plans. Specifically, to support the UK financial and professional services global competitiveness. The report complements activity by the Research team around UK competitiveness benchmarking.

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