

Read online or download at:

[www.IPPR.org/research/publications/fair-dues](http://www.IPPR.org/research/publications/fair-dues)

## Summary

The system of business taxation should seek to be fair in its impact on different kinds of businesses and on different kinds of taxpayers, while supporting employment, wages and investment. The system we have today fails these tests in important respects. The principal rate of corporation tax in the UK has fallen from 30 per cent in 2008 to just 19 per cent in 2018, and the proliferation of reliefs and allowances has eroded its base. At the same time, the rate of employers' National Insurance contributions has increased. These changes have shifted the burden of taxation away from profitable but low-employment businesses to those with more staff but lower profits. The vast majority of businesses pay their taxes, but some multinationals have been increasingly able to avoid tax altogether through 'profit shifting' to low-tax jurisdictions, requiring more of the burden of taxation overall to be borne by domestic companies which cannot avoid tax in this way.

This report sets out a series of reforms to address these issues. First, it proposes a fiscally-neutral rebalancing of the two principal business taxes. It recommends an increase in the rate of corporation tax from 19 to 24 per cent, alongside a reduction in employers' National Insurance contributions from 13.8 to 11.8 per cent. This would ensure that the burden of business taxation falls primarily on shareholders rather than workers, and allow for an increase in wages. A higher rate of corporation tax would also raise the value of investment allowances, creating a larger incentive for investment. Second, an Alternative Minimum Corporation Tax (AMCT) should be introduced in order to reduce tax avoidance through profit shifting. This would be levied on a portion of a multinational firm's global profits based on its sales or turnover in the UK. Third, reliefs and allowances for corporation tax should be reviewed and reduced. Fourth, the UK should support international efforts to combat tax avoidance, including by implementing all the recommendations of the Base Erosion and Profit Shifting (BEPS) programme and clamping down on tax avoidance in the UK's crown dependencies and overseas territories.

The IPPR Commission on Economic Justice seeks a system of business taxation which raises revenues in a way that is fair for different kinds of businesses and different kinds of taxpayers, while supporting employment, wages and investment.

The UK's system of business taxation does not now meet these criteria. Over the last 10 years, the rate of corporation tax has fallen, while the rate of employers' national insurance contributions has risen. The aggregate impact of these changes has been to shift the overall burden of business taxation: it has benefited profitable but low-employment businesses, and increased the share paid by less profitable businesses with more workers. Given the international evidence on the incidence of different types of tax, this has had the effect of shifting the burden of taxation from shareholders to employees.

Meanwhile, the proliferation of reliefs and allowances over the last 10 years has led to the erosion of the base for corporation tax and facilitated tax avoidance. On introducing the Corporate Tax Road Map in 2010, the Government argued that cuts to corporation tax would have the effect of raising revenues, both by encouraging more businesses to locate in the UK and by incentivising investment. Neither of these effects has materialised: when adjusted for changes in the business cycle corporation tax receipts are in secular decline.

These changes have taken place in the context of increasing concerns that multinational corporations are able to avoid corporate income taxation in the UK and around the world. This is widely perceived within the business community as unfair, effectively requiring domestic businesses that cannot avoid tax in these ways to pay more in tax in order to compensate for the foregone revenues. The recently concluded Base Erosion and Profit Shifting (BEPS) negotiations were meant to address many of these concerns, but are widely agreed to have fallen short of their aims. Recent changes to the US system of corporate income taxation make international

cooperation even more imperative in order to prevent a ‘race to the bottom’ between competing jurisdictions which will result in lower tax revenues everywhere.

This policy paper argues that the UK business tax system should be rebalanced. It proposes a fiscally-neutral shift, raising the main rate of corporation tax and reducing employers’ national insurance contributions. At the same time, we propose that mechanisms are put in place to prevent profit shifting and to make it more difficult for multinationals to game the international tax system. We recommend the following.

- 1. The corporation tax rate should be increased, and the proceeds used to fund a reduction in employers’ national insurance contributions (ENICs). We model a rise in corporation tax from 19 to 24 per cent, which would allow a reduction in ENICs from 13.8 to 11.8 per cent.** This change will ensure that shareholders bear a greater portion of the burden of corporate taxation, allowing the proceeds to be passed on to workers through wage increases or additional employment. A higher rate of corporation tax would also raise the value of investment allowances, creating a larger incentive for investment. The changes would shift the burden of taxation away from less profitable businesses with high input costs onto more profitable ones.
- 2. An Alternative Minimum Corporation Tax (AMCT) should be introduced.** We propose the introduction of an AMCT that apportions a firm’s global profits to the UK based on its sales or turnover in the UK. This would ensure that the way multinational corporations are taxed maps more accurately onto the geographical distribution of their business activities.
- 3. Reliefs and allowances for corporation tax should be reduced.** We support the Office of Tax Simplification (OTS) in its call for a ‘roadmap’ for the simplification of the corporation tax system, with a view to increasing the base. We argue that the annual investment allowance should be maintained at current levels. There is a strong case for the removal or reduction in the value of reliefs including the Patent Box and research and development (R&D) tax reliefs, the deductibility of corporate debt interest and the depreciation of write-down allowances. There should also be a presumption against introducing any additional reliefs, with a requirement to demonstrate that the desired effect could not be achieved through spending measures.
- 4. The UK should engage proactively in international attempts to reduce tax avoidance.** The first priority should be the ratification and implementation of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS, including those the UK has not yet agreed to implement. The UK should also immediately introduce publicly available country-by-country reporting, extend the public register of company beneficial ownership to cover overseas territories and crown dependencies, share with developing countries any tax and company data relevant to their tax affairs, and push for a new generation of global tax reforms to reduce avoidance and evasion still further.

A strong and broad tax base is critical to ensure that the UK can afford to pay for the public investment and service provision that society demands. Our reforms would improve the UK’s system of corporation tax, raise revenues, and make the system fairer for both businesses and citizens, at both national and international levels.

The IPPR Commission on Economic Justice is a landmark initiative to rethink economic policy for post-Brexit Britain

Permission to share: This document is published under a creative commons licence: Attribution-NonCommercial-NoDerivs 2.0 UK  
<http://creativecommons.org/licenses/by-nc-nd/2.0/uk/>

Institute for Public Policy Research | The progressive policy thinktank

IPPR, 14 Buckingham Street, London WC2N 6DF | [www.IPPR.org](http://www.IPPR.org) | [@IPPR](https://twitter.com/IPPR)

**IPPR Commission on Economic Justice**

