***BRIEFING:***

***THE CITY’S STANCE ON INTERNATIONAL CORPORATE AND PERSONAL TAXATION AND ON PUBLIC REGISTERS OF CORPORATE OWNERSHIP***

**Taxation**

In promoting the economic interests of the City, London and the UK as a whole, it is reasonable that CoLC should take a view on the application of the tax system, its impact on the UK’s economic and trade competitiveness, and the efficiency with which it collects revenue. It is important that any views expressed –

* Are based on evidence;
* Acknowledge the right of government (regardless of Party affiliation) to apply any revenue measures that Parliament approves;
* Accept that the payment of tax by individuals and corporates is the subscription for civil society, meets the cost of services that the state provides, and in broad terms should reflect the ability of the taxpayer to meet the obligation.

We must also acknowledge that -

* The great majority of UK companies and individuals contribute - economically and socially - as of course they should - by paying their taxes, and they in turn benefit from the services for which these taxes pay;
* Companies will always seek competitive jurisdictions - and it is reasonable for firms to seek to use whatever legal and ethical efficiencies are allowed by the system government has put into place, in order to pay tax efficiently;
* However, for any revenue and regulatory system to function there should be a level playing-field, and all participants must play by the rules: there must not be differential and lenient treatment for firms or individuals who deliberately flout the law;
* Taxes are only part of the contribution which companies make to the public good. Legitimate businesses pay wages (taxed in the hands of individuals) distribute dividends (often taxed again in the hands of the individuals and institutions which receive them) buy and sell goods and services which may be subject to VAT, duties and other taxes, and frequently occupy property on which business rates are paid (NB CoLC collects over £700m in business rates, of which only a minority is retained to fund local services and the remainder is redistributed nationally via the Treasury);
* The UK financial services industry overall continues to make a stable and significant tax contribution to the wider national economy (this year’s edition of “Total Tax Contribution”, prepared by PwC, gives a figure of £65.6bn, or 11.5% of total tax receipts); and
* The vast majority of those working in the UK financial services sector recognise that areas of the sector’s reputation need to be rebuilt, that the trust of the public relies on integrity and common values being upheld in respect of fiscal as well as regulatory requirements, and most firms and individuals work hard to do exactly this:
* Meanwhile the OECD, in its 2014 progress report of the “Global Forum on Transparency and the Exchange of Information for Tax Purposes”, expressed satisfaction with the progress on building a global structure to enforce tax compliance

Based on the points above, CoLC’s attitude to overseas (“offshore”) financial centres under UK administration or jurisdiction acknowledges their role as conduits for capital and legitimate business subject to certain conditions as follows –

* Such territories have a right to offer services to international business and to individuals. In some cases, the provision of business services generates revenues which could not be obtained any other way;
* Businesses and individuals have a right to use the services offered by such centres if, by doing so, they do not break the laws – criminal, fiscal or regulatory – made by sovereign governments; and that
* The territories themselves ensure that their “know your client”, anti-money laundering and corporate supervision systems are fit for purpose and compliant with global (Financial Action Task Force and other) standards; and that
* They sign up to “exchange of information” agreements with other revenue authorities (as all the Crown Dependencies – the Channel Islands and Isle of Man - have done, while pressure is being applied by HMG on other UK dependent territories so to do).

**Public registers**

This issue is frequently regarded as being primarily one of maximising revenue. The requirement for companies to maintain Public Registers setting out details of the ultimate beneficial ownership of their shares are contained in the Small Business, Enterprise and Employment Bill, which is likely to become law before Parliament is prorogued. CoLC shares some of the concerns expressed about the requirement by City trade bodies and practitioners. In summary, they are -

* There is little enthusiasm for the measure from civil servants in HMT and BIS who would have to administer it. The conclusions of the cost-benefit analysis undertaken by HMG – up to £2bn of administration and compliance costs taken on mainly by business against negligible measureable benefit – have not been challenged;
* The requirement to maintain public registers of ultimate beneficial ownership will only apply to onshore British companies. They can easily be circumvented by using an offshore entity to make an investment in the UK. We were told that a “Delaware LLC” would be a popular vehicle, but that at least the USA had a settled and basically common law-based system – other jurisdictions sometimes did not and would not necessarily be co-operative in replying to enquiries about ownership;
* The system will rely on self-reported information. There is no provision for systematic verification. Those using a company for fraudulent purposes, or a vehicle for tax evasion, will be unlikely to make true and honest declarations. Honest and legitimate businesses will face additional costs and demands on management time from the requirement to prepare and maintain public registers. Only a minority of businesses view the public registers measure as an asset for them in identifying who, ultimately, owns the companies they are trading with;
* There is a likelihood that the requirement for public disclosure of beneficial ownership would inhibit overseas investment into the UK, with a consequent impact on the creation of jobs and commercial opportunities. This was not restricted to purchases of real property. It could work against (for instance) investment in infrastructure projects. Advocates of public registers may argue that the state and the public are entitled to know who ultimately owns a corporate asset, but the counter-argument is that there are legitimate reasons why some overseas entities (companies, family offices, some varieties of Sovereign Wealth Funds) need and can justify the use of a corporate entity providing anonymity in the normal course of business;
* The arguments put forward over the position of trusts are separate from but allied to this. One legitimate purpose of a trust is to protect the interests of people who may not be able to protect themselves, who are minors, who cannot be trusted to manage an asset in which they have a beneficial interest, or are vulnerable to abduction, fraud, terrorism or illegal confiscation of assets by governments. There is no justification in the public interest for revealing the identities of such people.

However, there will be a real opportunity for change after the primary legislation is passed. Secondary legislation will need to be drafted and proposed under a new government after the May Election, in what is likely to be a very crowded Parliamentary timetable. The Act gives the Secretary of State power to delay full implementation for up to three years. During that time, of course, revenue and law enforcement agencies will continue to have the power to probe trusts and nominee companies to establish ultimate ownership if there is suspicion of crime including tax fraud or tax evasion, and the Secretary of State can make disclosure orders.

So in sum -

* The public register requirement may satisfy some demands for transparency, but will not *of itself* lead to the detection and punishment of crime nor, necessarily, the recovery of a greater volume of tax otherwise evaded;
* It is likely to impose costs and use up management time in companies, especially smaller companies, which could otherwise be growing business and jobs (and therefore potentially paying higher volumes of tax);
* Like many similar regulatory measures, it needs international application to be truly effective. There is little evidence that other jurisdictions will implement similar measures. Unilateral action by the UK may look admirable but is not necessarily therefore effective;
* By inhibiting inward flows of capital, the measure will damage productive investment (in infrastructure, research and development, small company growth) and again, jobs and tax receipts may therefore suffer;
* It would neither serve CoLC’s business stakeholders, nor the wider national economic interest, for us to become advocates of the Bill as it stands. But we can commit to helping make a practical success of it if full implementation is delayed, during which time the Secretary of State, regulators and law enforcement agencies will be able to access ultimate ownership information.

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**EDO**

**19 February 2015**