

Funding the Future

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Labour has now published its new corporation tax policy, in four parts, each of which I consider in turn:

1. HMRC

Both the administration and enforcement of the tax rules have been impacted by cuts to HMRC resources, with the Chancellor pushing through over £2 billion of deep cuts. The Government plans to cut a further 10,000 HMRC staff, which risk being a false economy, as there has to be a limit to HMRC's capacity to do more with less. Despite all the rhetoric about tackling tax avoidance, the progress made by this Government is limited at best. The deal struck with Switzerland is less transparent than a similar deal struck with Liechtenstein by the last government.

The latest NAO report has shown what can be achieved when a government is serious about tax avoidance and praises Labour's disclosure laws for closing down avoidance opportunities and bringing in £12bn of extra tax since they were introduced. But HMRC needs to be given sufficient resources to do its job effectively.

We will consider what powers HMRC might be given to strengthen the corporate tax regime in the UK, within international frameworks, and how Corporation Tax could be better administered and collected.

I unambiguously welcome this move. It is timely, right and necessary.

2. General Anti-Abuse Rule

The current government has introduced a General Anti-Abuse Rule (GAAR) targeted, by its own admission, to tackle only the most egregiously abusive tax avoidance schemes.

Although the Government sets great store by this measure, if it means that fewer efforts are made to update targeted anti-avoidance measures, or it is a mere fig-leaf for the withdrawal of resources from HMRC, then we will not see any reduction in aggressive and abusive schemes.

We will look at how the GAAR can be strengthened to ensure there is a reduction in

aggressive, abusive schemes, as well as what additional measures might be required.

We will also consider how we can ensure that tax avoidance activities not covered by the GAAR aren't, by implication, deemed acceptable.

Again, this is appropriate and welcome. I can support this move and the commitment to see how the General Anti-Abuse Rule works before deciding next steps is fair. And if the last means a clearance system, it's better still.

3. Transparency

We need an end to tax secrecy. At the moment it is too easy to set up complex networks of companies within a group, some of which can be based in tax havens, and move profits between them. This can make it very difficult to assess the overall amount of tax paid. Multinational groups can and should be able to structure however they wish, but there is no reason why they should not have to produce a simple statement of the amount of corporation tax they pay in the UK, in a way that all of us can understand, experts and non-experts alike.

To make that happen the government should put concrete proposals on the table for the G8 to deliver internationally agreed action on tax transparency.

There are a number of immediate areas where we should be showing leadership:

- i. Pursuing a new system of disclosure for multinational companies, that will require information to be published that will be of practical benefit to the revenue authorities in developing countries where they operate. An approach based on Intelligent Transparency will deliver real benefits without imposing a heavy administrative burden on companies or creating masses of data that developing country revenue authorities simply cannot use;
- ii. Extending the Disclosure of Tax Avoidance Schemes regime, which Labour introduced, to global transactions;
- iii. Opening up tax havens, with requirements to pass on information about the individuals operating through networks of company or trust structures;
- iv. Assessing the impact of changes to the Controlled Foreign Company rules on the UK and developing countries.

If multilateral agreement takes too long to be achieved, we need to examine how the necessary transparency of revenues, profits, and taxes paid can be delivered through UK government action, to provide leadership in the international community.

Companies will have a strong incentive to pay their fair share of tax when it's clear to everyone where rules are unfairly being manipulated.

So Labour will consider how best to publish a simple statement of the amount of Corporation Tax paid by a company, or group of companies, in the UK. We will also look at what other transparency measures might be necessary to assess whether companies and individuals are paying the right amount of tax in the UK, as well as how international transparency can help ensure a sustainable tax base in the UK and the developing world.

I'll be candid: I'm disappointed here. The words that are missing are 'country-by-country reporting'. They reached the papers. Ed Miliband clearly said them. I'm baffled why they can't be included here. And what is proposed is not good enough:

- a) A statement of tax paid in the UK without statements on sales, costs, labour spend, profit and investment. Accounting information is only valid in comparison. This statement will be of very little value as a result.
- b) There's no point having a statement for the UK and nowhere else: we need everywhere (especially tax havens) to make sense of whether the tax paid here is fair, or not.
- c) We do, of course, need data for developing countries. But we need it here in the UK too.
- d) Country-by-country reporting is not an admin burden: every company has to have this data anyway. And any developing country tax administration that can read accounts could use country-by-country reporting data. Saying they'd be over-burdened with data is just wrong as a result.
- e) I admit, I have never seen how extending DOTAS internationally could work. I can't see how HMRC could know if they got accurate data, or none at all and as such can see no way such a scheme could be enforced in which case I admit I can't see how it could ever be workable.
- f) Tax haven transparency is vital and I am pleased it is explicitly referred to: but let's be clear about the fact we also have to know this data in the UK and we're a long way from doing so right now.
- g) Assessing the impact of all tax policy on developing countries is, I agree essential.

Now maybe I'm being too critical: the words used to brief the press have been stronger than this policy paper. In that case I would be pleased. And I note that this is exploratory: if Labour want me to advise, I'm happy to do so.

4. Domestic reform

This isn't just about individual companies. We are going to have to reform the current rules that allow companies to make profits in Britain but pay no tax. That means reform

of our Corporation Tax system. In the 21st Century value is now often in brands, intellectual property, customer loyalty and ideas which can be traded globally between different parts of a corporate group. The rules need to be clearer, tighter and properly enforced.

Labour will examine the international lessons to be learned on how we can improve UK rules, particularly from countries where rules are more strictly applied. We will also consider whether transfer pricing rules can be improved and if there are better ways to assess the value of intangible assets being moved within corporate groups.

With the Coalition Government full of tough talk but still failing to act on tax avoidance, either at home or abroad, One Nation Labour will deliver the tax fairness and transparency required for a system that can support a recovery made by the many, not just for a few at the top.

These commitments are good: the direction of travel is right. But there's no mention of moving on from arm's length pricing towards better ways of allocating profits between states, and that is essential. Transfer pricing can't, eventually be improved: it's an intellectually flawed system.

So, this paper is a welcome step forward, but the bullet point summary Labour obviously supplied to the Observer today was so much better. **It said Labour would:**

- â- Pursue a new global system where multinationals must publish their revenues, profits and other key corporate information useful to revenue authorities in each country in which they operate.**
- â- Force multinationals to publish such information in the UK even if international agreement cannot be found on the issue, as they do in Denmark.**
- â- Make it a legal requirement for multinationals operating in the UK to disclose details of any tax avoidance schemes they are using globally.**
- â- Seek reforms to "transfer pricing" rules to stop companies from shuffling money to other parts of their firm based in tax havens in return for spurious services.**
- â- Open up the ownership of companies sited in Britain's tax havens to the UK revenue authorities, but also seek to allow developing countries access to such information.**

That's the sort of language we really need. I'll hang on to that list. And offer Labour help any time they want it on these issues.