

Institute for
Fiscal Studies



Business taxation

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Taxation of companies' foreign profits

- Currently: tax foreign income with credit
 - UK multinational brings income into UK → pays corporation tax
- Finance Bill 2009: move to exemption
 - UK multinational brings income into UK → no tax
 - Includes most income
 - Widely supported

Exemption: a good move?

- Currently, UK based parent firms disadvantaged
 - Distortion removed under exemption
 - Increase after tax returns for some investments
- Capital ownership neutrality
 - Tax on assets unrelated to ownership
 - Assets in each country held by those using them most productively
 - Occur when all countries have exemption
 - Most European countries operate exemption

Anti-avoidance

- Currently operate a *Controlled Foreign Companies (CFC)* regime
- Exemption creates an incentive to shift income artificially to lower tax area and remit back to the UK tax free
- Original proposals to overhaul system were controversial and abandoned
- Add measures to current *CFC* regime
 - e.g. Worldwide debt cap to limit tax deductions on interest

Job done?

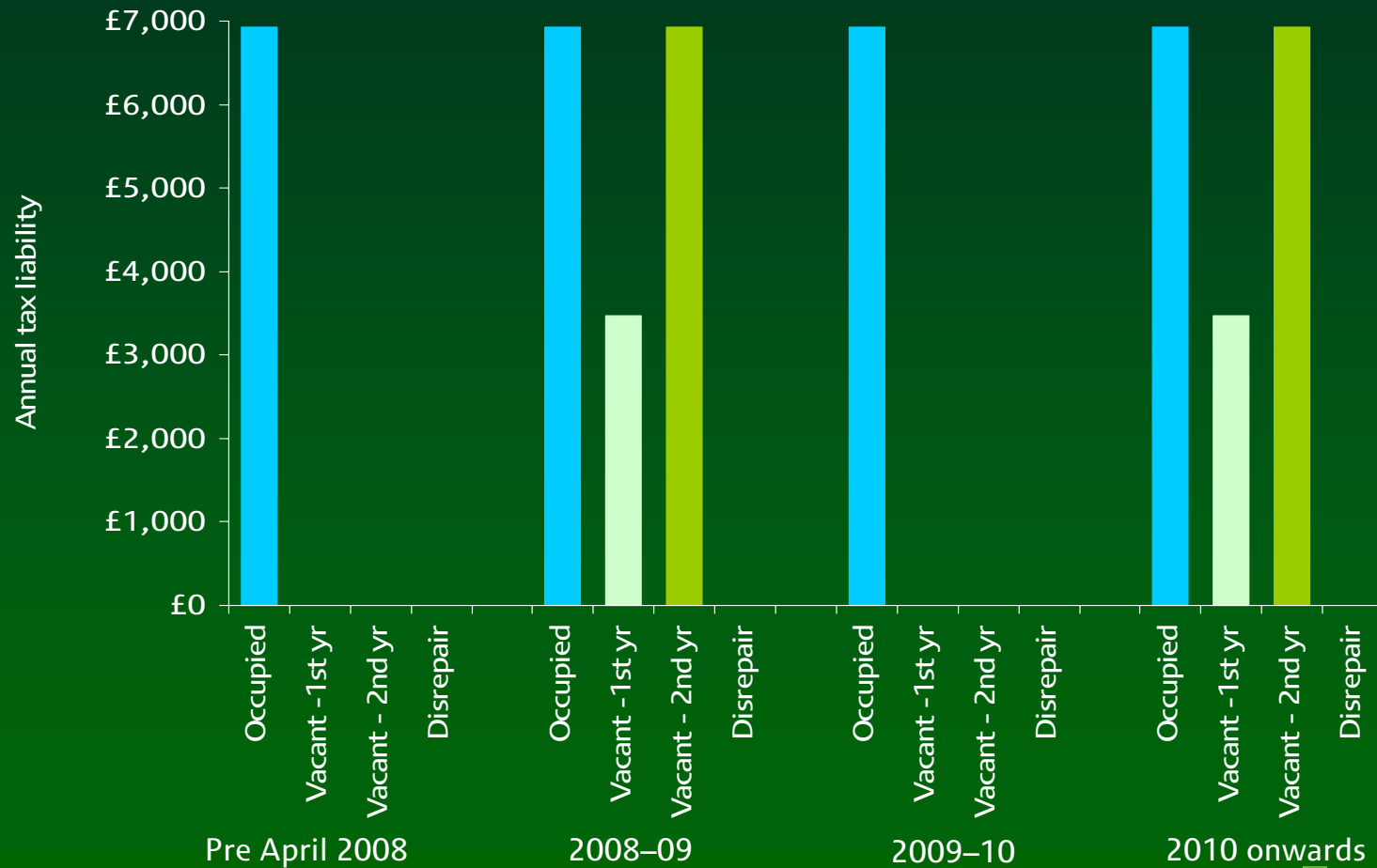
- Exemption is a step in the right direction
- Issues still to resolve
 - Draft legislation
 - e.g. how to treat small companies?
- There's more work to do

Small companies' corporation tax rate

- Planned increase to 22% in 2009 deferred to 2010
- Rate increase will reduce distortion
 - Incentives for self employed to incorporate for tax purposes
- Idea: don't increase tax on business as moving into recession
- Unlikely to give significant help to businesses
 - Businesses make long term decisions → little effect on investment
 - Delay to financial benefits -> doesn't help credit constraints
 - Adds uncertainty

Business rates on property

Regimes of business rates by occupation status: industrial property valued below £15000



Temporary change to business rates

- Will do little to change the incentive to demolish empty property
- Adds uncertainty
- Unlikely to be well targeted at those facing credit constraints
- Conclusions:
 - It's good to consult
 - Once a good decision is made, stick to it