CBI

BUSINESS TAX ROADMAP:

A roadmap for 2024 and beyond

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Foreword

Now more than ever, businesses need confidence to invest. This demands a tax system that is competitive, proportionate and enables both long-term planning and sustainable funding for our public services. With a General Election on the horizon, at the CBI, we believe now is the time for us to secure political consensus for a UK business tax roadmap that gives firms and investors that confidence.

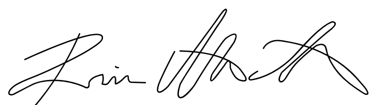
Economic conditions in the UK remain tough, with the cost-of-living crisis and our recovery slow. Spiralling costs coupled with a tight labour market are adding to business pressures and causing many to rethink investment plans.

Action to tackle these issues is essential if we are to secure more sustainable public finances in the UK and, crucially, raise living standards for all. For that, we need to boost business investment in our people, ideas, and the tools we use to produce our goods and services.

Here, we set out the CBI's proposal for a long-term UK business tax roadmap that could achieve this, built around the principles of certainty, simplicity, international competitiveness and also, proportionality. This last principle – although often overlooked – is vital to ensure that the administrative burden on taxpayers is limited to what is necessary to achieve policy aims and proportionate to the revenue raised.

To be truly effective, any long-term tax framework for business tax must cover more than just corporation tax, including, for example, benefits, credits and reliefs. It also requires much more than just a list of separate policy proposals. So, this roadmap considers the UK tax system holistically, with clear plans and a timeline to improve it.

This is how business and government together can generate the investment the UK needs to strengthen productivity, ease the pressures on firms and households, and drive sustainable growth for all.



Rain Newton-Smith
Director General, CBI

A roadmap for 2024 and beyond

There is widespread recognition that the UK needs to increase productivity and raise its level of sustainable growth. This will be fundamental to ensuring that the public finances are put on a sustainable footing and individuals can enjoy a higher standard of living. The UK's potential can only be unlocked through higher business investment across the board – in physical, intellectual and human capital. One of the key elements in creating the confidence for private sector investment to flourish is a tax system which is competitive, proportionate, simple and provides certainty.

The UK has been facing an extended period of economic instability. The international energy squeeze caused by Russia's invasion of Ukraine and the long tail of the pandemic have driven a period of high inflation and a cost-of-living crisis. Spiralling costs and a tight labour market are adding to pressures on business, with many firms having to reappraise their investment plans.

In this uncertain environment, and with an election on the horizon, now is the right time for broad political consensus around the need for a business tax roadmap for the UK, to give businesses and investors the confidence they need.

This report sets out a clear set of principles a roadmap should be based on. Many of these principles are the same as in previous business tax roadmaps: simplicity, certainty and international competitiveness. One essential principle that has been overlooked before is proportionality – the administrative burden on taxpayers should be limited to what is necessary to achieve policy aims and proportionate to the revenue raised.

It uses those principles to highlight key areas where a long-term plan is needed, and the steps policymakers should take to achieve that plan. This is more than a list of separate policy proposals: it considers the tax system holistically, looking at all business tax rates, reliefs and benefits, and sets out a route plan with transparent objectives in mind, against a clear timeline.

On behalf of our members, the CBI will look to work with all political parties and wider stakeholders over the coming months to develop specific policy recommendations in each of these areas adhering to the principles we have outlined here.

Statement of principles

1. **Certainty** – policy makers should set out their vision for the business tax system, and steps with clear timelines to achieve this, so that businesses can plan for the longer term. Certainty does not mean that tax rates and policy never change – it means that changes should be in line with a clearly articulated and coherent vision. Any changes should be signalled in good time and policy makers should be clear about the reasons behind them, so businesses can prepare and respond to make sure proposals are fit for purpose.

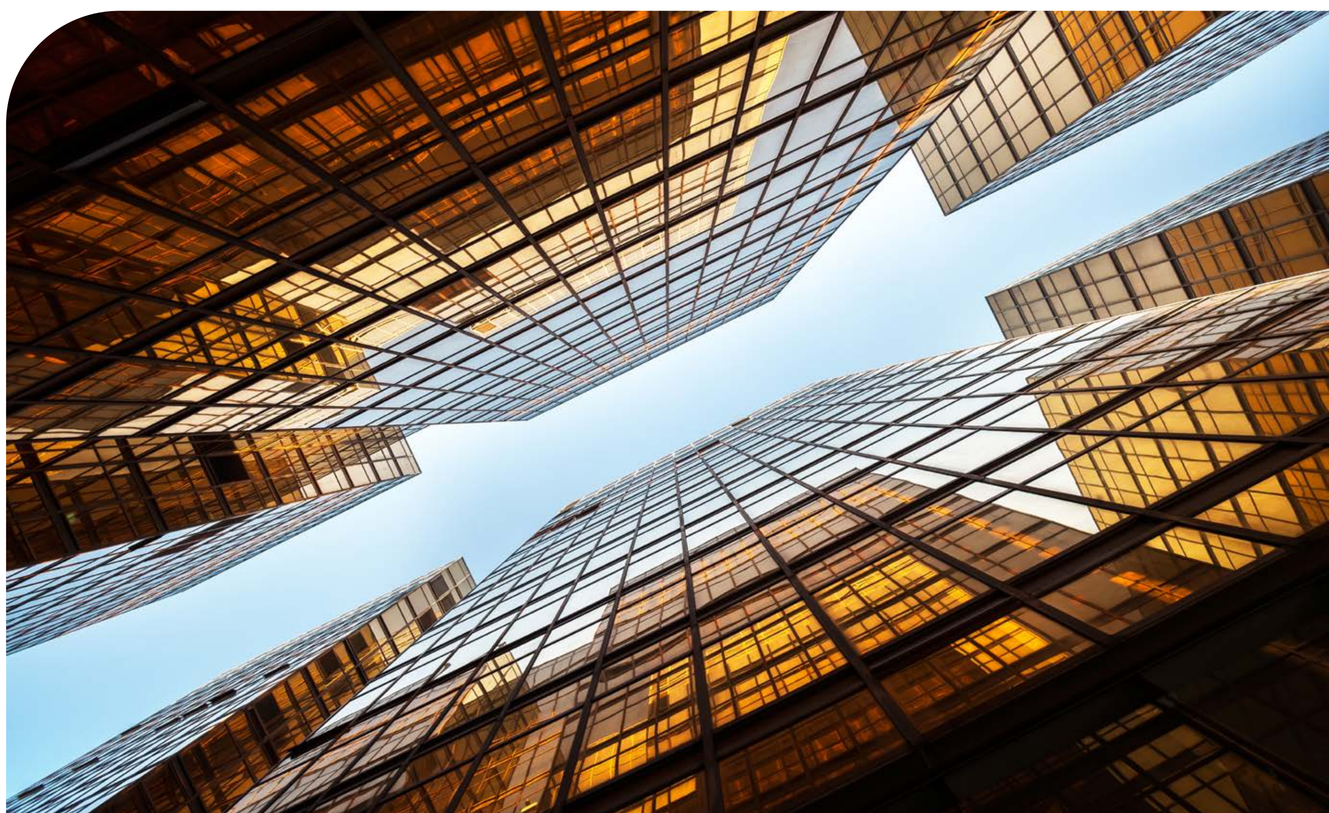
2. **Simplicity** – simplicity should be a guiding principle throughout the tax system. It should be backed up by a comprehensive, transparent and independent system for assessing whether existing or proposed tax measures add or reduce complexity, and whether any additional compliance burden introduced is proportionate to the additional revenue generated. Alignment with international norms is a key form of simplification, particularly for multinational groups and international investors.

3. **Proportionality** – businesses pay two costs in relation to tax: the tax itself and the business time and financial burden of understanding and applying the rules – including time spent engaging with the tax authorities. Tax policy design needs to take into account these compliance costs as they affect the UK's attractiveness as a place to build and invest in businesses.

4. **International Competitiveness** – the UK competes for business investment with many other world economies and tax is a key lever that affects the attractiveness of the UK. The overall business tax system in the UK falls behind OECD and G7 competitors already in terms of innovation and green investment support, with high levels of property taxes a particular issue. Changes should be made where possible to make the UK more competitive. Even where the UK currently leads, policymakers must continue to monitor to ensure it does not fall behind if norms shift.

These principles should be applied to how tax policy is made and how tax is administered to achieve four key aims, which form the basis of this report:

1. **Facing the challenges of a changing world** – The tax system needs to keep pace with a changing world, including rapid and ongoing shifts in working patterns and supporting the transition to net zero. As an aging population relies more on its local communities, a new model is also needed to ensure all businesses pay into their area in a fair way. Over the next decade, changes to the tax system should be strategic and comprehensive, aimed at addressing the key challenges the UK faces and adapting to keep up with – and support – encouraging trends in business and individual behaviours. The changes should ensure the system strikes the right balance between ensuring sustainable government revenues and incentivising these behaviours.
2. **Digitalisation** – Digital transformation is driving increased productivity and improving customer experience across the economy. The public sector should be leading the way in this space, pulling through innovative digital solutions and delivering significant benefits, including increased efficiency, to the public sector and taxpayers. Tax technology, data collection and publication, and digitalisation should be used – wherever possible – to reduce, rather than add to, complexity for business, with realistic lead-in times for businesses to implement new regimes. HMRC's technological capacity and man-power to support data processing should be factored in and the use to which data will be put explained fully to affected taxpayers when deciding whether to expand the scope or nature of data collection.



3. **Simplification** – The last time the tax code was consolidated was nearly fifteen years ago. Since then, the UK tax code has doubled in length and successive finance acts have added new business taxes to the statute book. With the closure of the Office of Tax Simplification (**OTS**) in favour of a government-wide mandate to simplify the UK tax system, the system is ripe for another root-and-branch review. Policy makers should consider transparent metrics to measure complexity, taking into account compliance costs, and apply them holistically both to the current tax code and any new policy proposals.

4. **Collaborative policy design and administration** – The UK tax policy consultation process often works well as long as enough time is allowed for taxpayers and stakeholders to consider proposals. After the disruption of COVID, policy makers should recommit to the existing consultation process, and consider how they can expand consultation timelines and engagement at every step of the legislative process to ensure proposals meet policy objectives. Once legislation is in force, HMRC must work with businesses, engaging early and taking a clear and consistent approach when administering the tax system to ensure it supports the government's vision, and the principles of competitiveness, certainty, simplicity and proportionality.

A roadmap needs clear short, medium and long term aims to ensure the final destination is reached. While policy makers will need to prioritise these recommendations, taking into account impact and legislative and technical capacity, they should set a clear timeline for all recommendations at the start to give taxpayers the certainty they need. To assist with the mapping process, the recommendations in this report are colour coded:

Immediate Actions – changes that should be made immediately

Medium-term projects – projects or changes that will take at least a year to produce initial results, and may take longer to complete

Long-term – projects to complete, or aims to meet, by 2030

You can find a full list of recommendations in the appendix to this report.

Facing the challenges of a changing world

The UK faces a number of challenges over the next decade. Public services face increasing strain as population demographics shift, environmental change affects our landscape and livelihoods, and where and how we work continues to change at pace.

These problems are not unique to the UK – and they are not the only challenges the UK faces. However, they are areas where the UK has no overarching tax framework to address them – while other countries are already amending their tax systems to incentivise the changes they want to see and collect the revenue they need. Meanwhile, UK revenues are threatened by a tax system that is not prepared to keep up with these challenges – and which does not create the incentives needed to support positive changes in individual and business behaviours.

The UK often plays a key role in coordinated action on tax, including as part of the G7 and the OECD. When facing these key challenges, we should continue to lead – not follow.

Rather than a piecemeal approach to policy, policy makers should set out a clear, comprehensive plan for how the tax system will address three key areas:

A. The transition to net zero

B. The future of work

C. Sustainable local spending

This chapter focuses on the questions that must be asked to address these three challenges. We look forward to working with policymakers and businesses to develop the answers in detail.

The transition to net zero

The government is right to set ambitious targets to achieve net zero – with carbon budgets already set all the way out to 2037.[1] Yet the current Net Zero Strategy rarely mentions tax.[2] The shift to net zero represents one of our best prospects for economic prosperity, but we are slipping behind competition – in part because of a lack of tax support to secure the private investment we need.[3] The UK government needs to bring its objectives and the tax system in line to achieve its goals.

Other countries are already streaking ahead: the US Inflation Reduction Act has turbo-charged the race for green investment, with Canada, the EU and others following suit. Without comprehensive, bold action the UK risks being left behind. If the UK gets its approach right, it could make the UK a more competitive place for green investment and growth.

Yet the UK approach to green taxation so far has been piecemeal, with no clear strategic link to net zero goals. The UK tax system does not currently provide tailored support for green investment in innovation – whether at the research and development or commercialisation stage – or for training in green skills.

Meanwhile, key measures including updates to the UK specific Emissions Trading Scheme (**ETS**) have been delayed[4] and enhanced capital allowances – a corporation tax incentive designed to support adoption of green technologies – was repealed in 2020. In fact, the only green capital allowance currently available for investment in green machinery other than vehicles is for oil and gas producers when they use low energy equipment for fossil fuel production.[5] Some taxes even actively discourage green investment – like business rates, where – even with recent changes the CBI campaigned for – bills can increase if a business invests in greening their building stock.

Government cannot achieve net zero alone. It needs businesses to retrofit UK housing stock, build new energy and EV charging infrastructure, train the labour force in green skills, and undertake the research and development to improve energy efficiency. Tax is a powerful, proportionate, and necessary tool to incentivise this green private business investment.

These conversations have begun. The CBI's Greening the Tax System report recommended green innovation tax credits and green capital allowances to support investment in buildings and adoption of green plant and machinery, with reforms to VAT and the business rates system to remove barriers to building retrofits.[6] Many of these recommendations were picked up in the Skidmore Review.[7]

Now we need to move beyond talking. Policymakers must move fast to publish a plan and implement it, starting as soon as possible.

Government also needs to think longer term about its own revenues. Carbon taxes – like fuel duty, VAT on fuel and corporation taxes from the ring-fenced oil and gas regime – are already declining as a share of GDP.[8] To ensure sustainable revenues in future, government needs to start conversations now about taxation in a net zero world.

These conversations need to look at new potential sources and structures for taxation, and how to phase these in, in a way which does not stifle development and investment. They also need to align with other policy levers government is pulling – including regulatory restrictions on vehicles and heating expected to take effect from 2030, and the UK's carbon budgets.

Recommendations

Review the tax system to ensure the UK has the right tax framework to support the transition to net zero, with a timeline for implementation of any changes to the existing system starting as soon as possible.

Publish a plan by early 2025 for sustaining government revenues as tax receipts from the fossil fuel economy decline, for consultation with the public and businesses. Start to implement this plan before 2027.

The Future of Work

The world of work is changing fast, and the pace of change is unlikely to slow down. To achieve – and maintain – an active and productive workforce, policy makers need to look again at how the tax system can help achieve three key aims:

A. A model of training that supports people to learn throughout their working life.

B. Support the permanent shift to hybrid, remote and flexible working, and be a leader in the global labour market, attracting mobile workers across all industries.

C. Look again at the way the tax system supports – and distorts – different models of work.

Rethink tax support for training

Achieving a workforce with the skills the UK needs cannot be done simply through initial training or the education system – it also requires businesses to spend time and money retraining, up-skilling and re-skilling their staff. This will be essential for the UK's productivity to catch up with its international competitors.[9] The UK tax system offers a basic deduction for the upfront financial costs of training, which does little to offset the costs of lost business time and efficiency from taking on untrained staff.

For larger businesses with a wage bill over £3m per year, the apprenticeship levy penalises businesses which train in any structure other than via 12 month apprenticeship schemes. While apprenticeships work very well for early-stage workers in some sectors, they are rarely appropriate for those looking to improve their skills mid-career.

The tax support available to businesses should encourage and incentivise them to spend their training budget to achieve the best outcome for their workforce. Policy makers should look again at how the tax system can support training through employment to make sure it is flexible, and future-proofed.

Support the shift to hybrid, remote and flexible working

The world of work was already changing before 2020, with more workers moving to flexible and hybrid working arrangements,[10] but the COVID pandemic exponentially escalated that change. The UK's employment benefits system is primarily designed to support workers who commute daily to an office space. With nearly half of employees expecting to remain working from home most of the time,[11] this model is looking increasingly outdated.

The UK should look again at the benefits employers can provide to employees in a tax efficient way to ensure they are providing value for money, and the system is making it possible for businesses to offer the incentives they need to attract the best employees.

This is about ensuring the tax system supports all types of working arrangements equally – by updating benefits which no longer provide a good incentive, and introducing benefits employees will actually value.

To do this policymakers must work with labour market and business organisations to identify where employees get real value from the system, and where more support could be given to make the UK a more attractive place to live and work.

The OTS has provided a summary of the changes that could be made in its final report, on Hybrid and Distance Working.[12] Policy makers should start by looking at these recommendations, and aim to implement those that provide real value to employees as soon as possible.

Be a leader in the global labour market

Government needs to give businesses the tools to attract international and local talent in a competitive global market for high-skilled workers. This includes looking again at the international benefits businesses can offer their employees to match the flexibility global talent now expect.

UK businesses are competing internationally with businesses based in other countries which can offer a more flexible approach to incoming international workers, like Italy[13] and France.[14] Where the UK rules are unclear, they are also competing with each other – with a prudent tax approach coming into conflict with the war for talent.

International tax issues need international solutions. We encourage the UK to use its influence at the OECD to push for coordinated multilateral changes to the approach to permanent establishment rules, to make it easier for mobile workers to move around and businesses to employ them.

But a multilateral solution could take years and UK businesses are dealing with these issues now. While it may not be able to change the rules, HMRC can look again at its guidance on permanent establishment rules and cross-border working to be clear how they work in common scenarios. More certainty now could ensure the UK remains truly competitive in the battle for internationally mobile talent – so it can continue to support key mobile growth industries like financial services, tech and life sciences.

Look again at the way the tax system supports different models of work

One of the huge advantages of the UK labour market is its flexibility – allowing workers to choose between different models based on what works best for them in terms of employment rights, legal liability, control and risk. Employment, worker status, self-employment, partnership and incorporation through a company all offer different ways for people to manage their own work.

Rather than following – and supporting – this flexibility, the tax system can distort behaviour because it rewards different models of work differently. The quantifiable benefits of lower tax rates for self-employment or partnership models when compared to employment can lead to business structuring choices motivated primarily by tax.

Attempts to address these distortions have not provided a comprehensive solution but instead have targeted specific sectors or structures. Often – as in the case of the off-payroll working rules – the approach has focused on greater monitoring and regulation, and added significant administrative burdens to government, public sector bodies and businesses, and contractors alike.

Policy makers should look again at how different models of work are taxed, with the aim of addressing inequity between different models to reduce or remove the tax incentives that distort behaviour in the labour market.

Recommendations

Review OTS recommendations to improve HMRC guidance to ensure clarity on businesses' tax position in relation to low-risk cross-border working arrangements. Announce any recommendations that will be taken forward, and a timeline for implementation, within six months of starting the review.

Commit to review the UK's approach to taxing different models of work, with input from labour and business organisations, to reduce or remove inequity where it distorts behaviour. This review should be published, along with a timeline for implementation of its recommendations, by mid-2025.

Commit to review the UK's employment benefits system, with input from labour and business organisations, to ensure it is fit for purpose. This review should be published, along with a timeline for implementation of its recommendations, by mid-2026.

Announce a comprehensive review of tax support for training, including the Apprenticeship Levy, to ensure it provides businesses the flexibility they need to invest in training by the end of 2027.

Commit to work with OECD partners to review the international tax issues created by cross-border working, with a priority of identifying multilateral, practical solutions to reduce double taxation and business and personal tax compliance requirements.

Sustainable local spending

Local authorities provide vital services to support their communities – from education and social care to business support and local infrastructure.

As the UK population ages and UK employers continue to grapple with the after-effects of the pandemic – with many more people unable to re-enter the labour market due to ill-health or needing additional support to reskill or up-skill – the pressure on these local services will continue to mount.

At the same time, there is a growing discussion about the extent to which communities should control their own ability to raise funds – and to choose how to spend them. Spending power has been given to Metro Mayors from Liverpool to London and combined authorities from Cambridge to Calderdale – but fund-raising powers rarely match up.

Many businesses also play an essential part in supporting healthy, sustainable local communities – both as the tax collector for central government of employment and sales taxes, and as the taxpayer under the business rates system.

But that funding model is broken. Business rates – under which most businesses using commercial property pay based on the value of that property – puts a disproportionate tax burden on retail and hospitality businesses. It makes up 42% of all taxes they pay, and they pay 25% of all business rates despite only representing 10% of the economy as a whole.[15] It also undermines UK competitiveness, as it contributes to the UK having one of the highest property taxes in the OECD – at double the OECD average.[16]

As a pre-revenue tax, it is also a burden that businesses have no choice but to pass on to customers. This leads to a distortion in pricing between businesses which have a primarily physical footprint versus those which primarily make sales via digital platforms.

Customers are – understandably – voting with their keyboards, which undermines the profitability of shopfronts further. This has led to closures of stores on high streets across the country, with less wealthy areas disproportionately affected.[17] There are other reasons for this shift – with flexibility, convenience and choice all important – but the tax system has added to the incentives to go online.

Businesses have done what they can to mitigate this distortion. Retailers have moved online and into hybrid models of sales, to provide flexibility and value for their customers – and many have made and continue to make efficiencies so they can continue to provide the physical locations many of their vulnerable customers rely on, while keeping costs at a reasonable level. Retailers and hospitality businesses – from local pubs up to the biggest department stores – are often at the heart of their communities and want to support local authorities to provide services to those communities.

Government recognises the issues with the business rates system – that is why they've added several new exclusions and reliefs for particularly affected businesses in recent years[18] and have agreed that more timely revaluations better reflect the economic situation businesses find themselves in and thus the tax they are liable to.[19]

But despite a promise of a fundamental review of business rates in 2020[20], the changes that have been announced do little to address the fundamental imbalance between sectors of the economy. The proposed addition of an online sales tax – consulted on in 2022 – offered little to reduce the overall cost of business rates while adding complexity to the tax system.[21]

Policy makers must look again at how business rates could be reformed. There is a real opportunity – and a real need – to redesign the relationship between the taxpayers, local authorities and the communities they both serve. Policymakers should look again at how businesses contribute to local authority funding and how local authorities collect and use those funds, to create a system which is sustainable into the future.

Recommendations

Review the business funding model for local government by close of 2025. This review should consider who should collect funds from local businesses, how to ensure fair redistribution between authorities, and different models for supporting sustainable funding streams from both UK and international comparators. The review should aim to publish a plan for fundamental reform of business rates and / or an alternative to business rates by the next revaluation date of April 2026.

Digitalisation

The tax system is increasingly digital in nature – from record keeping and information sharing under systems like Country by Country Reporting (**CbCR**), to digitisation of filing systems, to exchange of information with other tax authorities.

This trend is broadly welcomed by businesses. Digitalisation is driving significant productivity gains across the economy, for businesses and customers. Ideally, the public sector would lead the way in this space, using innovative digital solutions to deliver better, more efficient systems and products to make the UK a truly world-leading digital nation. Within the tax system, digitalisation can improve the speed and quality of recording keeping, reduce the duplication of data requests for business and make it easier to share information and communicate with HMRC. These changes can free up time and reduce complexity for taxpayers. In fact, moving to digital tax systems could lead to substantial productivity gains – as much as 11.8% for some businesses.[22]

Government recognised this opportunity when they set out initial thoughts on digitalisation in a Tax Administration Strategy.[23] This focused on digitisation of existing paper-based systems, plans for a single digital customer account for taxpayers and an increase in real-time reporting and payment. The Call for Evidence that followed considered both data collection and digitalisation in more detail.[24]

However, there is growing concern among businesses that government is not seizing the opportunity of digitalisation. Making Tax Digital (**MTD**) – HMRC's flagship digitisation project for VAT, income tax and corporation tax – has been delayed repeatedly[25] and until recently the only consultation relevant to business asked about collecting new data points via existing PAYE systems, most of which are not directly relevant to calculating a taxpayer's liabilities, but could have had substantial compliance costs for business.[26] The 2022-2025 digital roadmap contains some projects for HMRC but only one of these – reporting medical insurance benefits – is relevant to business.[27]

Businesses welcome the recent consultation on HMRC's powers and obligations when it comes to data under the Tax Administration Framework Review.[28] It both recognises HMRC's responsibilities to taxpayers, and seeks to put any changes in an international context where digitisation is allowing some international competitors to take a more functional, competitive approach. Policy makers should build on the outcomes of this consultation to ensure UK taxpayers and tax authorities genuinely benefit from digitalisation.

Businesses see two key areas for government to focus on when digitalising the tax system: smart digitisation and principled data management.

Smart Digitisation

Businesses support plans to digitise the tax system by switching from paper systems to online recording keeping and filing. They also support the aims of MTD: making it easier for businesses to get their taxes right, better integrate tax management into other business systems and improve business productivity.[29] They understand that there will be some short-term time and financial costs to businesses of moving from one system to another.

But digitisation must be done in a smart way. The transformation from paper to online forms is an opportunity for HMRC to review the information it requires businesses to provide and the way it is collected. Where government has taken this opportunity so far, it has often suggested additions to the compliance burden – as in the case of the proposal to require quarterly reporting for MTD for income tax self-assessment.[30] It also requires all businesses to use third party providers for record keeping and filing, adding to costs for business in a way which may be disproportionate for many micro-businesses.

The delay to MTD for income tax self-assessment was welcomed by many businesses as an opportunity for government to look again at their approach to digitisation. The CBI recommends that any further changes should support all the policy aims of MTD – integrating tax into other business systems to simplify the taxpayer experience, and improving business productivity, as well as reducing the tax gap. Policy makers should be transparent about how any proposed changes will achieve these aims.

Principled data management

Digitalisation gives government the power to collect, manage and use taxpayers' data on a scale never before seen. Government and taxpayers need clarity on why and how this data can be collected, and how it will be managed once it is collected.

Policy makers are well aware of the issues around government collection and use of data. Government has recently published a National Data Strategy (**NDS**)[31], a Government Data Framework[32] and a Data Ethics Framework.[33] The NDS set out principles for responsible data usage, to create greater trust between the public and government over government use of data.

Businesses agree that *"the transformation of government data, and the data-driven transformation of government, will only be possible and sustainable if it is built upon a sound ethical and legal framework which engenders public trust."*[34]

HMRC have confirmed they are committed to complying with domestic and international legal obligations when it comes to citizens' data, but their commitment to business taxpayers is less clear. So far, for example, HMRC has not publicly committed to the Data Ethics Framework or set out their strategy for building trust over taxpayer data. The Tax Administration Framework does not consider the ethics of taxpayer data management.

Businesses welcome HMRC's recognition that their own information and data-gathering powers have evolved piecemeal, and in tandem with the evolution of data protection and UK GDPR rights that have been required to protect use of information and data. They urge government to adopt a more harmonised approach, standardising requirements for groups of information and data-holders and making legislation simpler for data-holders to comply with.[35]

Building trust requires an approach to gathering and using data which is:

- **Transparent** – HMRC's data collection and usage processes should be made open to inspection by publishing information in a complete, open, understandable, easily-accessible, and free format. Taxpayers should be able to easily access all data HMRC holds on them, including through better use of models like dashboards, and HMRC should explain what businesses can expect from them when it comes to their data. Transparency is also near impossible without engagement – taking the time to consult with affected taxpayers to test whether the proposed approach is the most ethical way of achieving policy goals. Where HMRC intends to share any taxpayer data with other branches of government, permission should be sought from the relevant taxpayer in advance.

- **Accountable** – Public accountability means that the public or their representatives are able to exercise effective oversight and control over the decisions and actions taken by the government and its officials, in order to guarantee that government initiatives meet their stated objectives and respond to the needs of the communities they are designed to benefit. This should include consulting on any new data requirements, but also evaluating HMRC's approach on an ongoing basis. It is important to build in feedback mechanisms that ensure HMRC remains accountable to these ethical principles, and that it can continue to improve its processes as a result.
- **Fair** – eliminating any policy proposal's potential to have unintended discriminatory effects on individuals and social groups, and ensuring it is consistent with the public interest, including human rights and democratic values. It is important to balance the interests of HMRC with the rights and expectations of the businesses as data subjects, even if HMRC can lawfully use data in the way proposed.

A transparent, accountable and fair approach to data management could have practical benefits for HMRC as well. Businesses have identified several tax changes in the last few years which have significantly increased the amount of data HMRC processes – some of which is duplicative – often without obvious revenue or policy benefits to government. These include plastic packaging tax, CbCR and Pillar II and the Uncertain Tax Treatment (UTT) regime. If HMRC could reduce the amount of data it has to process that could lead to lower IT costs, and free up staff time for other projects.

This approach should apply on a systemic level to data submitted as a matter of course by many taxpayers – but also when businesses engage with HMRC on an individual level. HMRC has set out their intention to simplify individual and small business engagement through a single customer account[36] – a similar data handling and simplification process is needed for larger and more complex taxpayers as well.

In 2021, government committed to look again at the relationship between large businesses and HMRC via the Review of Tax Administration for Large Business. The initial review confirmed the need for early and open engagement with affected businesses through their Customer Compliance Managers (**CCMs**) and customer service teams, and the benefit of early fact finding and evidence gathering to ensure enquiries and international MAP processes are dealt with quickly.[37]

Yet large businesses increasingly report inefficiencies and difficulties in how they share data with HMRC – including delayed requests for data, repeat requests for the same data and data requests that HMRC cannot explain or justify, or which go beyond its statutory powers. To reduce the time burden of these issues for both businesses and HMRC, HMRC staff should be trained on how to handle data appropriately and ethically, and data on taxpayers should be stored in such a way that repeat requests are not necessary.

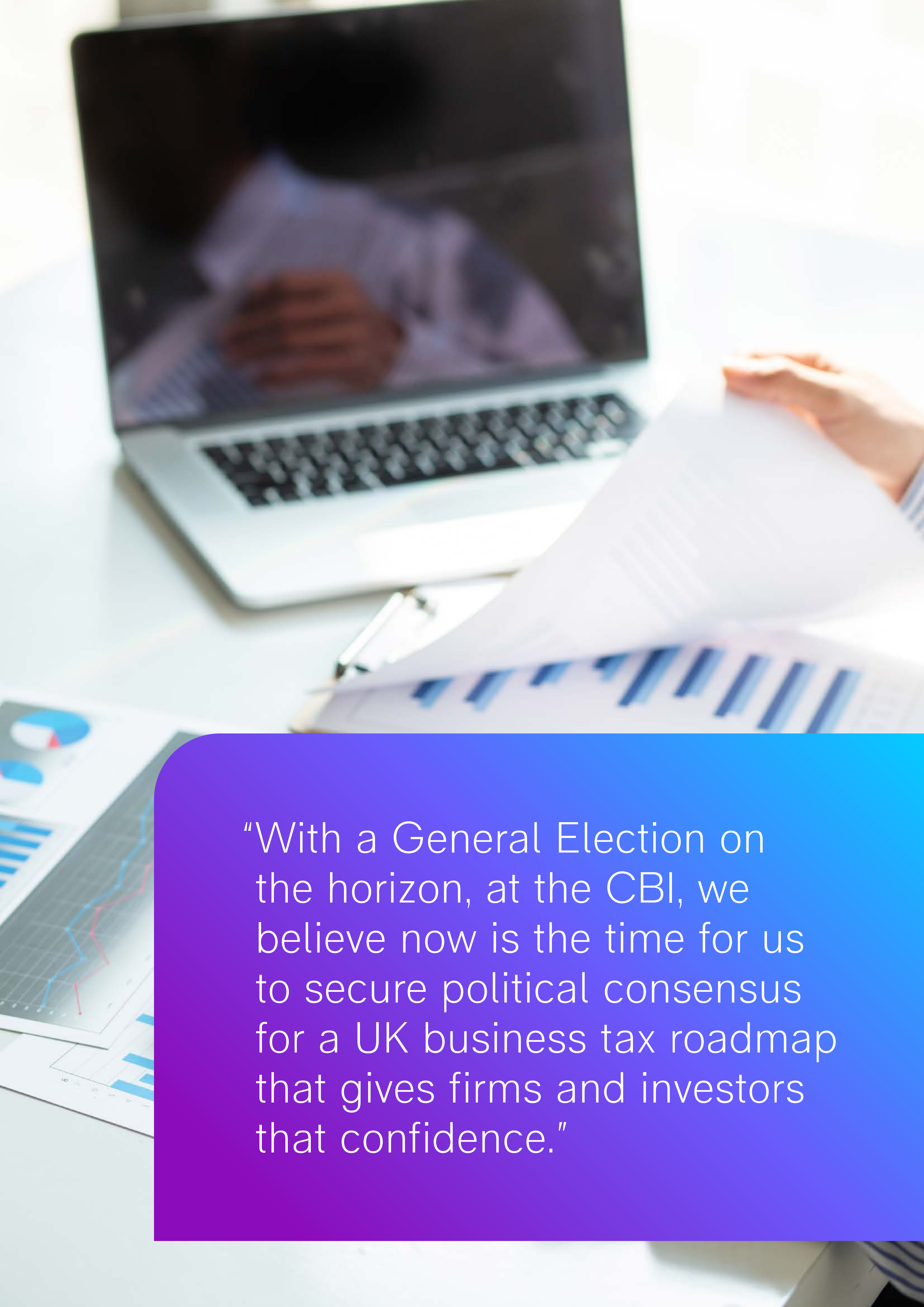
Recommendations

Ensure HMRC publicly commits to deal with taxpayer data on the basis of ethical data usage principles of transparency, accountability and fairness and create a framework for testing any new data requirements against these principles. HMRC should publish any policies it holds on use of taxpayer data and – where these do not already align with ethical data principles – commit to update them to ensure they do.

Ensure HMRC publicly commits to training its staff on data ethics and good data management, and to ensuring its co-operative compliance procedures for all businesses – including the Business Risk Review process – incorporates these principles.

Ensure HMRC performs a 'data cleanse', setting out a clear timeline to consolidate and simplify taxpayer data requirements.
This process should:

- review data points collected on business taxpayers (considering unincorporated, owner-managed, small, medium and large enterprises, as well as domestic and international businesses) across all HMRC systems, to create a comprehensive tax information database.
- be transparent about the policy reasons behind data requirements and commit to remove those that have no clear public benefit or user need in mind.
- Where duplicate data points are identified, consider how HMRC can amend its systems to remove the need to submit duplicates and / or pre-populate fields to reduce taxpayer compliance.
- create and implement a single user interface that includes all information about a business, and which is accessible to the business so they can identify what information HMRC holds on them at any one time.



> "With a General Election on the horizon, at the CBI, we believe now is the time for us to secure political consensus for a UK business tax roadmap that gives firms and investors that confidence."

Simplification

Why is tax simplification valuable?

Businesses and governments are right to focus on tax simplification: the time and money a business has to spend understanding and complying with its obligations under the tax rules is a cost like any other, that businesses factor into their decisions.

The more difficult an overall tax system is to understand and comply with, the more likely it is to act as a barrier to entry to new and new-to-UK businesses, and to undermine the business case for investing in the UK for multinationals or foreign direct investment (**FDI**).

If an individual tax measure, or the way that tax measures interact with each other, is too complex or comes with difficult and costly compliance requirements it can also undermine the aim of policymakers – for example, if a tax relief aimed at supporting a particular sector or type of business is too complex businesses may choose not to claim it, or to look internationally for a simpler or more cost-effective alternative, undermining UK competitiveness. Also, when taken together if measures create contradictory incentives or effects, that can undermine the effectiveness of all of them.

Complexity also undermines government revenues because it contributes to errors and to differences in interpretation between taxpayers and HMRC. In the year ended 30 June 2021, the legal interpretation portion of the tax gap was estimated at £3.7 billion and represented 12% of the total tax gap of £32 billion.[38]

What do we mean by simplification?

As simplification is so important, it is essential to understand what we mean by it. The approach taken has to be holistic – considering the complexity of individual tax measures, and how they interact with each other to create overlapping or inconsistent obligations. The system should be viewed from the perspective of the taxpayer, assuming they are not a tax specialist – as most business owners are not.

When considering individual measures, complexity can be measured in a few different ways. Factors include the length and readability of the legislation and associated HMRC guidance, the number of changes made to the legislation since its inception, the number and ability of taxpayers affected by it, and the revenue at risk due to error and avoidance.[39] As the UK has a common law system it is also important to consider the impact of UK case law, which can create uncertainty where published case law diverges from HMRC or taxpayers' understanding of the rules.

These factors should be tested at different points in a measure's life cycle – including when it is first proposed by policy makers, when legislation and guidance is introduced, when the first cohort of taxpayers apply it in practice, and within a few years of implementation once taxpayers have had the opportunity to adjust to the new system.

The OTS also identified compliance burdens on both businesses and HMRC as one factor affecting complexity of tax measures. This factor is key, and drives our second principle: proportionality of compliance cost to tax revenue value.

Why is proportionality important?

Businesses pay two costs in relation to tax: the tax itself, and the business time and financial burden of compliance. In many cases, the compliance burden far outweighs the tax burden. This is certainly true where a business collects taxes on behalf of government – like PAYE income tax and VAT – but pays little or none of the tax itself. It can also be true of other parts of the tax system – particularly when these require businesses to collect and share large amounts of data. Recent examples where businesses tell us the compliance burden consistently outweighs the tax burden include plastic packaging tax and Pillar II liabilities, but these are far from the only examples.

The more complicated the rules, the more business time is needed to make sure they meet their obligations, and the more specialist external advisers may need to be brought in to resolve uncertainties. When any new rules are added to the tax code, businesses will often spend significant amounts of time and money internally understanding their obligations, designing new systems, and hiring and training staff. This often involves working with external advisers and IT providers to make sure their systems are capable of handling new requirements.

The UK business tax compliance burden is significant: in 2022 smaller UK businesses spent an average of over 2% of their turnover on tax compliance – the third highest in Europe.[40] If the UK has a consistently higher compliance burden than international competitors, some businesses may choose to set up or invest elsewhere.

HMRC does currently estimate one-off costs of implementing new tax measures and ongoing administrative costs to business. However, the method for calculating these estimates is opaque and does not involve consulting affected taxpayers. Often, businesses – particularly large businesses – consider these estimates to be woefully inadequate when compared to costs they experience. For example, in respect of plastic packaging tax, the government estimated there would be a negligible one-off cost to all businesses and an ongoing average annual cost of administering the tax to all businesses of £400,000.[41] The CBI is aware of members who are spending more than this annual estimate for their business alone. Such inaccurate estimates undermine policymakers' ability to judge the proportionality of tax measures.

This compliance burden is not one-sided. HMRC spends a significant proportion of its budget – 21% in 2021/2022 – on IT and telecommunications.[42] Tax-payers are also often found to have made non-deliberate errors – which may be addressed in part by reducing the complexity of the system.

Simplifying the tax system is therefore not just a case of reducing the number of rates, taxes or reliefs that apply. It is about ensuring that the compliance burden on business and HMRC of administering tax is proportionate to the revenue raised for government.

Who should be responsible for simplification?

Tax simplification is not a new concept. UK governments have talked about it for years – but unfortunately they have done the exact opposite.

In 2010, the government set up the OTS and businesses supported the OTS's overall mission statement and many of its individual recommendations. However, many businesses had concerns about how effective the OTS was – not only because its role was limited to advising rather than making policy, but also because it was limited to advising on existing tax rules and not new additions.[43] In its first 5 years of operation, the OTS produced 402 recommendations, of which 119 were fully implemented and a further 73 were under consideration.[44] Over the same period, the UK tax code more than doubled in length.[45]

In September 2022, the government announced the abolition of the OTS. Instead of an arms-length body, HMRC and HM Treasury have been given a mandate to simplify the tax system from the top down.

Businesses are cautiously supportive of this change in approach, if this means government will give more teeth to the simplification agenda. They will be closely monitoring the steps government takes to roll out its mandate over the next few years.

Recommendations

Review the existing databank of OTS recommendations which have not yet been implemented. This review should work on the presumption government will implement all of those which are still relevant unless there are clear policy reasons why not – and such policy reasons should be clearly explained to taxpayers. This review should set out its recommendations, and a timeline for implementing them, within one year.

Establish a guidance 'quick fix' team within HMRC who can take on interpretative inconsistencies between courts, taxpayers, and the tax authority quickly to get sub-legislative changes made to HMRC guidance. A list of areas under consideration for update should be published and updated regularly, including deadlines for when any decision and publication of updates will be produced.

Review the way in which HMRC estimates the one-off and ongoing compliance costs to businesses of any new tax policy measure, in consultation with affected businesses, to ensure government can accurately judge the proportionality of any new measures. Any new system should factor in both internal and third-party costs (for example fees of specialist advisers and IT systems changes by external providers) and should differentiate where applicable between affected taxpayers (e.g. by size of company and by sector). These estimates should be prepared ahead of any government decision on whether to implement a proposal or not. This review should set out its recommendations, and a timeline for implementing them, within six months.

Design and implement a comprehensive and transparent process, subject to independent review, for assessing whether a new tax policy proposal adds or reduces complexity in the tax system and whether any additional compliance burden introduced is proportionate to the additional revenue generated. Where relevant this process should consider international norms – including any OECD proposals – to determine whether the UK approach is more or less complex than alternatives. The design process should be completed within one year and implemented for all policy proposals published from that point onwards.

Commit to a holistic and retrospective review of the current business tax code in consultation with businesses to identify and remove contradictions in legislation and HMRC guidance. This review should set out its recommendations, and a timeline for implementing them, within eighteen months.

Commit to review the simplification agenda within three years of its start to determine if the new government mandate approach is sufficient to achieve simplification – or if a new approach is needed.

Collaborative policy design and administration

One of the successes of the UK's tax system comparatively to international competitors has been its consultation process. Under this process – introduced by the 2010 Corporate Tax Roadmap – the government committed to set out policy objectives and rationale for major areas of tax reform, along with earlier consultation and the publication of draft legislation at least three months before the introduction of a draft finance bill.

The value of this process is clear to both government and taxpayers: when done properly, consultation results in tax legislation that better meets its policy objectives. It can minimise undue burdens, to the benefit of both the taxpayer and the Exchequer. Businesses can also prepare better and earlier to implement changes to their own systems and processes – giving them the certainty they need to make investment decisions.

When done right, this makes the UK a better bet for businesses than other economies where there is little or no opportunity for businesses to work with government to improve tax measures before they are implemented.

However, the consultation process has been less consistent – and therefore less effective – over the last few years. The General Elections in 2017 and 2019, the COVID pandemic and the economic turmoil of 2022 has undermined government's ability to consult consistently with taxpayers.

In some cases, the lack of consultation has been driven by urgency, which has been essential. Businesses understand and appreciate the speed with which government reacted to support them at the start of the COVID pandemic and during the current cost of living crisis.

But – like the circumstances that lead to them – a lack of consultation is, and should remain, an exception to the rule. Overall, businesses find it hugely valuable when government takes a considered approach to tax policy making.

The CBI would like to see a recommitment to the 2010 principles, with sufficient time given to the consultation process to ensure taxpayers' views are truly heard and taken into account. This includes the commitment to allow at least three months between publishing draft legislation and publishing a draft finance bill.

The principles of certainty and simplicity are also relevant here: the number of new tax proposals introduced by government must be limited so that enough time can be given by affected taxpayers to responding to consultations, and there is sufficient parliamentary time to scrutinise proposals properly. By focusing on the key challenges set out in Chapter 2 of this report, policymakers can limit the changes they make to those which are necessary to ensure an effective tax system rather than tinkering around the edges.

To support simplification, consultations should always ask taxpayers if there are simplifications to any new proposal that could be introduced without undermining the stated policy aims – and policy makers should take these into account wherever possible.

While the CBI is able to participate in many consultations, we are aware that the current process can exclude some who do not have sufficient resources. In addition to the formal written consultation process, government has widened their processes in recent years to include roundtable discussions and webinars. These developments are welcomed and should be broadened in scope, particularly wherever changes are likely to affect smaller businesses – as they are less likely to have the resources to respond to a consultation formally.

Vision and process in tax policy making: key ingredients for investment' -

While the initial consultation process is important, consultation should not stop when this closes.

Once policy objectives are clearly met, the next step is to produce well drafted legislation. Legislative clarity enables taxpayers and the tax authority to understand the policy objectives and intentions of parliament. It should also reduce compliance costs for HMRC and taxpayers by enabling quicker understanding and therefore fewer disputes.

That is why it is essential government continues to consult businesses on draft legislation. Greater use of specialist groups, such as the legislative sub-group of the Business Tax Forum, to test draft legislative language matches policy objectives in the clearest and simplest way could be good way forward.

Government could help taxpayers and parliamentarians to respond to draft legislation by publishing its instructions to Parliamentary Counsel. While it may not be appropriate to publish all correspondence, the initial Parliamentary Counsel instructions would prove a valuable resource for stakeholders, and may make the explanatory notes accompanying legislation redundant. The instructions could provide additional value for the formal review process of the Finance Bill Committee stages.

For major legislative changes an enhanced version of the summary of consultation responses document could also be published. This document would set out the Government's conclusion along with more details on how the policy objectives have been formed. If the policy objectives are clearly articulated this will bring about improved legislation and prove a useful resource for parliamentary debate.

Measuring the impact of a policy against its objectives is an important and obvious next step. If legislation is enacted which does not achieve its policy aims, then it is not fit for purpose. The approach to simplification suggested in Chapter 4 looks at the system on a retrospective as well as a forward-looking basis – and so should the consultation process.

Once a policy has been in place for three years, a formal post-implementation review should be carried out which can look at the impact of the policy against its original objectives, taking into account complexity metrics and revenue raised. If one-off policy objectives have been achieved then sunset clauses should be considered to remove parts of the legislation no longer needed.

Recommendations

Publish instructions to Parliamentary Counsel in relation to any finance bill from spring 2025 onwards.

Publish an enhanced consultation response document to increase clarity on government's conclusions from consultations from spring 2025 onwards.

Make a renewed commitment to the consultation process introduced in 2010, including consulting on all tax policy proposals wherever possible, and producing draft legislation at least three months ahead of publication of a draft finance bill. Throughout the Parliament, allow sufficient time in the enactment cycle to develop, consult and scrutinise tax policy.

Examine the consultation process to explore ways to create a more flexible, inclusive and meaningful engagement – particularly for SMEs. The results of this examination should be published, alongside a timetable for implementation, within 18 months.

By 2030, introduce a formal post-implementation review of tax policy measures and commit to consider use of sunset clauses where appropriate.

Co-operative Administration

While the consultation process is usually lead by HM Treasury, most businesses engage with the tax system through HMRC. Day-to-day, businesses need a tax authority which is early to engage and willing to listen.

Renew emphasis on co-operative compliance

One way to ensure trust between HMRC and businesses is for HMRC to engage with businesses on the basis of clear international standards for best practice.

That is why HMRC's ongoing commitment to co-operative compliance is so valuable.

The OECD has said that co-operative compliance means: *"in dealings with taxpayers, revenue bodies demonstrating understanding based on commercial awareness, impartiality, proportionality, openness through disclosure and transparency, and responsiveness; and in dealings with revenue bodies, taxpayers providing disclosure and transparency."*[46]

Co-operative compliance is not about a cosy relationship with business. It is a way of building a relationship of mutual trust and understanding, giving both parties quicker and better information to enable HMRC to make effective decisions and focus on resolving disagreements. Strengthening co-operative compliance between businesses and HMRC will enhance the benefits to both, bringing in more tax quicker by reducing disputes, reducing businesses compliance costs, and reducing risk and increasing certainty on tax for both parties.[47]

OECD has found that those countries introducing co-operative compliance regimes can produce quantitative and qualitative benefits for tax authorities, assuming of course that the correct control frameworks are in place.

The UK has had a commitment to co-operative compliance since 2006[48] and businesses of different sizes have often praised their approach. However, during the pandemic HMRC had to reallocate compliance resources and staff to new schemes. As a result, the National Audit Office has noted a reduction in recovery levels and experience among staff, at least 10% of whom are currently within the first two years of employment with HMRC.[49] This loss of experience has lead to some businesses experiencing difficulties engaging with HMRC.

In 2021, the government also took another look at the relationship between large businesses and HMRC. Among other things, this review recommended improving the co-operative compliance experience.

Businesses welcomed the recognition of a need for more consistent delivery, with a focus on the priority areas identified by businesses, such as clarity and transparency on governance processes, project planning in relation to enquiries and clarity on the role of the CCM in resolving disputes and taxpayer questions. Those larger businesses without a CCM appreciated the promise of greater support through the Mid-sized Business directorate's Customer Engagement and Support Team, and businesses of all sizes applauded the commitment to better guidance.[50]

Now, HMRC needs to deliver on these promises in a transparent way. A regularly updated, publicly available tracker of the recommendations from the Review and actions taken to implement them should be published on the government website. HMRC should commit to implement one-off changes, and seek further taxpayer feedback on ongoing processes by the end of 2024 – by which time the recommendations will have been in effect for three years.

Businesses also welcomed the NAO's recommendation that HMRC look again at how it measures its own successes – both by extrapolating its errors and by extending its Tax Settlement Assurance Programme (**TSAP**) testing and internal audit testing processes to cover upstream compliance.[51] HMRC should respond to the report, setting out a timeline to implement these changes within the next three years.

Recommendations

Respond to, and implement, the recommendations in the NAO's review of HMRC compliance procedures – in particular by creating processes to extrapolate HMRC errors and by extending its TSAP testing and internal audit testing processes to cover upstream compliance. This response should be published within six months and include a timeline for implementation of the accepted recommendations.

Ensure HMRC publish and regularly update a tracker of the recommendations in the Administration of Large Business Tax Review. They should commit to review the impact of any changes, and any outstanding actions, with affected taxpayers' input before the end of 2024.

Appendix: The roadmap recommendations

To assist with the mapping process, the recommendations in this report are colour coded:

Immediate Actions – changes that should be made immediately

Medium-term projects – projects or changes that will take at least a year to produce initial results, and may take longer to complete

Long-term – projects to complete, or aims to meet, by 2030

Facing the challenges of a changing world

Review the tax system to ensure the UK has the right tax framework to support the transition to net zero, with a timeline for implementation of any changes to the existing system starting as soon as possible.

Review OTS recommendations to improve HMRC guidance to ensure clarity on businesses' tax position in relation to low-risk cross-border working arrangements. Announce any recommendations that will be taken forward, and a timeline for implementation, within six months of starting the review.

Commit to review the UK's approach to taxing different models of work, with input from labour and business organisations, to reduce or remove inequity where it distorts behaviour. This review should be published, along with a timeline for implementation of its recommendations, by mid-2025.

Commit to review the UK's employment benefits system, with input from labour and business organisations, to ensure it is fit for purpose. This review should be published, along with a timeline for implementation of its recommendations, by mid-2026.

Publish a plan by early 2025 for sustaining government revenues as tax receipts from the fossil fuel economy decline, for consultation with the public and businesses. Start to implement this plan before 2027.

Announce a comprehensive review of tax support for training, including the Apprenticeship Levy, to ensure it provides businesses the flexibility they need to invest in training by the end of 2027.

Commit to work with OECD partners to review the international tax issues created by cross-border working, with a priority of identifying multilateral, practical solutions to reduce double taxation and business and personal tax compliance requirements.

Digitalisation

Ensure HMRC publicly commits to deal with taxpayer data on the basis of ethical data usage principles of transparency, accountability and fairness and create a framework for testing any new data requirements against these principles. HMRC should publish any policies it holds on use of taxpayer data and – where these do not already align with ethical data principles – commit to update them to ensure they do.

Ensure HMRC publicly commits to training its staff on data ethics and good data management, and to ensure its co-operative compliance procedures for all businesses – including the Business Risk Review process – incorporates these principles.

Ensure HMRC perform a 'data cleanse', setting out a clear timeline to consolidate and simplify taxpayer data requirements.
This process should:

- review data points collected on business taxpayers (considering unincorporated, owner-managed, small, medium and large enterprises, as well as domestic and international businesses) across all HMRC systems, to create a comprehensive tax information database.
- be transparent about the policy reasons behind data requirements and commit to remove those that have no clear public benefit or user need in mind.

- Where duplicate data points are identified, consider how HMRC can amend its systems to remove the need to submit duplicates and / or pre-populate fields to reduce taxpayer compliance.
- create and implement a single user interface that includes all information about a business, and which is accessible to the business so they can identify what information HMRC holds on them at any one time.

Simplification

Review the existing databank of OTS recommendations which have not yet been implemented. This review should work on the presumption government will implement all of those which are still relevant unless there are clear policy reasons why not – and such policy reasons should be clearly explained to taxpayers. This review should set out its recommendations, and a timeline for implementing them, within one year.

Establish a guidance 'quick fix' team within HMRC who can take on interpretative inconsistencies between courts, taxpayers, and the tax authority quickly to get sub-legislative changes made to HMRC guidance. A list of areas under consideration for update should be published and updated regularly, including deadlines for when any decision and publication of updates will be produced.

Review the way in which HMRC estimates the one-off and ongoing compliance costs to businesses of any new tax policy measure, in consultation with affected businesses, to ensure government can accurately judge the proportionality of any new measures. Any new system should factor in both internal and third-party costs (for example fees of specialist advisers and IT systems changes by external providers) and should differentiate where applicable between affected taxpayers (e.g. by size of company or by sector). These estimates should be prepared ahead of any government decision on whether to implement a proposal or not. This review should set out its recommendations, and a timeline for implementing them, within six months.

Design and implement a comprehensive and transparent process, subject to independent review, for assessing whether a new tax policy proposal adds or reduces complexity in the tax system and whether any additional compliance burden introduced is proportionate to the additional revenue generated. Where relevant this process should consider international norms – including any OECD proposals – to determine whether the UK approach is more or less complex than alternatives. The design process should be completed within one year and implemented for all policy proposals published from that point onwards.

Commit to a holistic and retrospective review of the current business tax code in consultation with businesses to identify and remove contradictions in legislation and HMRC guidance. This review should set out its recommendations, and a timeline for implementing them, within eighteen months.

Commit to review the simplification agenda within three years of its start to determine if the new government mandate approach is sufficient to achieve simplification – or if a new approach is needed.

Collaborative policy design and administration

Publish instructions to Parliamentary Counsel in relation to any finance bill from spring 2025 onwards.

Publish an enhanced consultation response document to increase clarity on government's conclusions from consultations from spring 2025 onwards.

Ensure HMRC update the HMRC Service dashboard to include a traffic light system – showing delays that have been ongoing for more than 6 months in orange and 1 year in red – and to confirm exactly how long delays have been ongoing for each process. Commit additional resources to resolve all delays, starting with the longest running and most delayed processes.

Respond to, and implement, the recommendations in the NAO's review of HMRC compliance procedures – in particular by creating processes to extrapolate HMRC errors and by extending its TSAP testing and internal audit testing processes to cover upstream compliance. This response should be published within six months and include a timeline for implementation of the accepted recommendations.

Make a renewed commitment to the consultation process introduced in 2010, including consulting on all tax policy proposals wherever possible, and producing draft legislation at least three months ahead of publication of a draft finance bill. Throughout the Parliament, allow sufficient time in the enactment cycle to develop, consult and scrutinise tax policy.

Examine the consultation process to explore ways to create a more flexible, inclusive and meaningful engagement – particularly for SMEs. The results of this examination should be published, alongside a timetable for implementation, within 18 months.

Ensure HMRC publish and regularly update a tracker of the recommendations in the Administration of Large Business Tax Review. They should commit to review the impact of any changes, and any outstanding actions, with affected taxpayers' input before the end of 2024.

By 2030, introduce a formal post-implementation review of tax policy measures and commit to consider use of sunset clauses where appropriate.

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Product code: 12813

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