THE UNITED KINGDOM'S TAX POLICY – GOOD FOR BUSINESS, TOUGH ON AVOIDANCE … ?!

Back in 2013, George Osborne, Chancellor of the Exchequer, and Lord Green, Minister of State for Trade and Investment, claimed to aim for a highly competitive tax system for the United Kingdom to make the country more attractive to international companies. In order to achieve this, the corporate tax rate was lowered successively from 28% to 20%, which has made it by far the lowest among the G7 economies. Furthermore, pursuant to newly introduced "patent box" rules, profits derived from the development and exploitation of intellectual property are taxed at a rate of as little as 10%. Moreover, the UK is enhancing its attractiveness as a holding location through limited taxation of dividends received and distributed by UK entities. In April 2014 HM Treasury announced further reforms: tax cuts for businesses worth over 11 billion pounds a year. Discussing these business tax reforms, George Osborne said they had been introduced to back business. Furthermore, a stable tax system that provides businesses with the confidence to invest should "make the UK the best place in the world" in which to invest and locate. All of this tax legislation may be understood as a good-for-business tax policy.

At the same time the UK government is taking a strong position in cases where it feels that an unfairly low share of taxes is being paid in the UK. Respective measures have been coined as "tough on avoidance," and are backed by public opinion to a large extent. In particular, there is an ongoing discussion in the United Kingdom about multinational groups paying little or no tax at all, due to their business structures. As a result, the Diverted Profits Tax (DPT) has been introduced, which targets large enterprises operating in the UK that enter into contrived arrangements to avoid taxation of profits in the UK. The goal is to prevent the erosion of the UK tax base, and a rate of 25% is applied to diverted profits relating to UK business activities based on a strong and targeted set of rules.

In addition to this measure, HM Revenue and Customs has applied further sanctions to tax evaders, whereby new criminal sanctions for offshore tax evasion have been imposed, and financial penalties have been increased. Both evaders and those who enable evasion will be subject to a policy of public "naming and shaming".

In a recent court case reported by the UK tax authorities to the public, the clothing giant Next Brand Ltd. was found to use tax avoidance structures called "rate boosters". The company was forced to pay £22.4m of additional tax. As a side-effect, more than £500m were collected from companies that conceded using rate boosters. Starbucks also needs to be seen as a special case. It has reportedly paid only £8.6m of corporate tax since opening its first shop in London in 1998, a number so low that it gave rise to public furor given the ubiquitous presence of their shops. However, Kris Engskov, Starbucks head of Europe, recently announced that the company was "proudly paying lots of corporation tax," including a voluntary payment of about £20m in a move that was seen by the media as an effort to appease public anger.

The future of the UK tax strategy of "good for business, tough on avoidance" remains to be seen. The outcome of the planned referendum on the proposal to leave the European Union may add further complexity. Certain tax rules are driven by European harmonisation rules and have to be in line with the fundamental freedoms of the European Union. Should there be a decision to stay within the European Union, it is likely that the United Kingdom would benefit from its tax policy measures as well as from the benefits of ongoing easy access to the common market in the future. In the case of a decision to leave, the effects could be different. Therefore, policy developments should be closely monitored, particularly with respect to the tax consequences for multinational businesses.

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