

TAX POLICY: FAIRNESS IN UK TAXATION

At Labour's heart is the commitment to create "a community in which power, wealth and opportunity are in the hands of the many not the few, where the rights we enjoy reflect the duties we owe". Our tax policy must reflect this and address popular concerns to ensure that under Labour:

- 1) The inequality gap closes via a fully progressive tax system
- 2) All taxpayers pay a fair amount of tax on their income and gains
- 3) The UK's international reputation is not called into question due to harmful tax competition or a perceived lack of morality in tax.

This paper focusses on the latter two concerns in various aspects of UK taxation.

General Anti-Avoidance Rule (GAAR)

Labour must assert that any arrangement without a business purpose must be shown not to be for the avoidance of tax. To effectively tackle tax avoidance, Labour must repeal the Coalition's General Anti-Abuse Rule – which does no more than license abuse – and direct that TAARs, case law and HMRC Guidance will be relied upon. Any legislation considered necessary by HMRC should comprise a strong GAAR, developed by HMRC AAG using the General Anti-Tax Avoidance Principle Bill.

Controlled Foreign Companies (CFCs)

Labour must immediately repeal the finance company exemption – allowing some companies to reduce their tax rate by three quarters (to 5.5%) – and consider if any part of this Coalition tax dodge for multi-national groups be retained. With international debate challenging the future of the OECD's established "arm's length" principle in the taxation of multi-national groups; it may be simplest to repeal the Coalition's entire CFC package and return to the pre-existing legislation.

Harmful Tax Competition

The UK must work with the EU to encourage jurisdictions to stop acting as tax havens. This includes tackling Britain's Crown dependencies, such as the Isle of Man, Guernsey, Jersey, Cayman Islands and the British Virgin Islands. Labour should introduce UK legislation equivalent to FATCA and apply withholding taxes where necessary.

Labour must commit more resources to the Joint International Tax Shelter Information Centre (JITSIC).

Transparency

Labour must sign no public contract with any partner based in jurisdictions lacking a UK Tax Information & Exchange Agreement. Labour must review and extend the UK's network of double tax treaties and TIEAs. Labour must re-negotiate flawed treaties, such as the UK/Swiss Agreement. If not possible, Labour must enable HMRC to take a tougher line, perhaps with the Liechtenstein Disclosure Facility.

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Labour must end trust secrecy laws and change company law to require all beneficial owners to be listed on a public register at Companies House.

Financial Statements

Labour should require audited country-by-country reporting of profits as additional information to be disclosed when financial statements are filed with Companies House or HMRC. Multi-national companies would be required to publish a simple, single figure for UK corporation tax paid. This would help prevent tax avoidance by income shifting or transfer pricing.

Labour should require taxpayers to publish a note on the title page of their annual report or accounts stating if they have had to pay tax penalties or interest arising from under or late paid tax during any period for which results are included.

Disclosure of Tax Avoidance Schemes (DOTAS)

Labour must extend the DOTAS regulations to cover all applicable taxes – notably, Insurance Premium Tax – and make DOTAS generally applicable. This will be effective against tax avoidance.

No Tax Privilege

Labour must never extend legal privilege to tax advisers.

Resources

Labour must adequately resource and suitably organise HM Revenue & Customs around Britain. Labour must reverse the drastic loss of HMRC staff and the unpopular move away from local Tax Offices.