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A BUDGET FOR COMPETITIVENESS

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March 24th will see the 14th Budget since Labour won power in 1997. That first Budget saw corporation tax cut from 33 per cent to 31 per cent, with the small companies' tax rate reduced from 23 per cent to 21 per cent. While the state of the public finances makes such a dramatic move unlikely this time, the central importance of a competitive tax system for UK businesses remains.

However, competitiveness is not just about lower headline tax rates, though they are important. Any successful tax system must be simple. Even allowing for the complexities of the global market, the rate of increase of complex tax legislation has harmed the UK. Simpler, more transparent tax rules would help attract foreign firms to the UK. The City of London Financial Centres Index, published earlier this month, showed that other financial centres, particularly in Asia, are catching up, in their attractiveness.

A predictable tax system is just as important for a global business domiciled in London as it is for a specialised local business. Volatility is also bad news for consumers. The tax system is a key driver around the design of savings and investment products. Yet when the tax goalposts are moved, it can directly impact the suitability of different products.

Recent problems have included the changes to higher rate pension tax relief and the anti-forestalling rules that came with it, the change to CGT, the taxation of non-doms and the sudden shift in the treatment of property within SIPPs. The insurance industry has suffered more than most from constant taxation changes over the last few years. There have been too many surprises, which have often meant even well intended tax measures deliver unintended consequences.

A key test for the Budget will be the way profits, earned overseas but brought back to the UK, are taxed, which is crucial to global businesses. The recent announcement that the Government will look at the taxation of foreign branches is something the ABI has been calling for. Other EU countries, such as the Netherlands and Ireland, have already made it easy for firms to bring in European profits without being double taxed. With 2011 the earliest possible date for legislation, we need a clear signal of intent now from Government to help convince global companies to be based therefore in the UK.

We also cannot ignore the importance of personal taxation rates. Personal tax rates are never the only reason for people leaving the UK, but with this Budget coming just weeks before the new 50% top rate of taxation starts the Government is treading a fine line. Further moves to gain revenue from those at the top of companies based in the UK, will send a very negative signal to senior executives. The UK is still a leading global financial centre, but we must all be mindful of the dangers a high tax reputation will have. We may not see many leave the UK in the short term, but such moves harm our relative standing in a world where capital and businesses can easily move around.

Much of the debate around this Budget will, rightly, focus on the public finances. Yet, the recent downturn has thrown into sharper focus our need to do more to get individuals finances on a healthier footing. By encouraging better saving habits now, the Government could help develop a more balanced economy as the country emerges from recession. It would also be beneficial if the Government used the Budget to issue more index linked and long dated gilts. This would help pension funds and insurers by providing long term assets for them and also benefit the public finances.

Many view this Budget as just the starting point for a General Election campaign. But it is also an important event in its own right: every budget has the potential to do good or do harm. Yet a Budget that led to a more stable, predictable tax system with earlier consultation and a commitment to reform foreign profits taxation and encourage savings would enhance the UK as a place to do business. Business needs a Budget framed with true competitiveness for UK business in mind.