The Bumper Book of Burdens on Business

TaxPayers' Alliance

Contents

Foreword

The UK is 9th place on the *Ease of Doing Business Index*.[1] That's not bad. We have robust institutions, the rule of law, property rights, a relatively skilled workforce and much more besides. It is better to start and run a business in the UK than in most countries around the world.

But it could be so much better. Looking up the Index, we see New Zealand, Singapore and Georgia. What do they do better than us Brits? Well, for one thing, they all have lower and simpler taxes.

The Bumper Book of Burdens on Business highlights 14 ways in which politicians and bureaucrats place significant barriers in front of our entrepreneurs. For instance, business rates are helping to kill off Britain's high streets; employers' national insurance is simply a stealthy and significant tax on jobs; the new apprenticeship levy merely means extra costs for businesses that had already been operating training schemes. The list goes on.

What message does this send to a young entrepreneur with a dream, or a small business person trying to keep the family firm afloat? Why do we actively take up their time with tax forms, instead of freeing them to innovate, grow and invest? Sometimes, we are too shy about the good that our businesses do for Britain, and too willing to put yet more hurdles in their way.

This book serves as a timely reminder of the burdens we have already placed on business. Taxes should be low and simple, regulations minimal and robust. Get these things right and we'll soon be overtaking our friends on the *Ease of Doing Business Index*. Why shouldn't we be 1st?

John O'Connell
Chief Executive

Introduction

The United Kingdom consistently ranks towards the top of league tables in terms of ease of doing business.[2] Many prime ministers and chancellors have recognised the importance of low taxes and light regulation in order to make the UK a competitive and attractive place to do business.[3]

In many ways, the UK is a favourable location in which to start and run a business. For example, the UK has a world class legal system with a strong respect for the rule of law, it is between the American and Asian time zones, and it is politically and environmentally stable. It has relatively good infrastructure and an educated workforce. And, of course, English is the official language.[4,5,6]

...the elementary fact is that business does not and cannot pay taxes. Only people can pay taxes...

But the government imposes numerous taxes and regulations on businesses, which place a burden on companies who have to spend time, money, and resources on paying taxes and complying with the relevant legislation.

Taxes and regulations increase costs for businesses, but these costs are ultimately paid by people. As the Nobel Laureate in economics Milton Friedman explained: "the elementary fact is that business does not and cannot pay taxes. Only people can pay taxes. Corporate officials may sign the check, but the money... comes from the corporation's employees, customers or stockholders".[7]

In this paper, various taxes and regulations levied upon businesses in the UK will be examined to see how this increases the cost of doing business. Specifically, how these taxes and regulations impact workers, consumers and the wider economy. The paper also contains policy recommendations which the government should implement in order to alleviate the burden on businesses.

The taxes and regulations discussed here should not be regarded as an exhaustive list. With the tax burden at a 49-year-high and successive governments imposing new regulations each year, there are dozens of taxes and regulations which could be discussed.[8] To that end, the focus will be on 14 of the most damaging.

Apprenticeship levy

The apprenticeship levy is effectively a payroll tax on larger companies which was introduced in April 2017. Its revenues are hypothecated for expenditure on funding apprenticeships. The rate is 0.5 per cent on all payroll bills as defined by employer national insurance contributions and there is a £15,000 allowance, meaning that only employers with a payroll in excess of £3 million pay.[9]

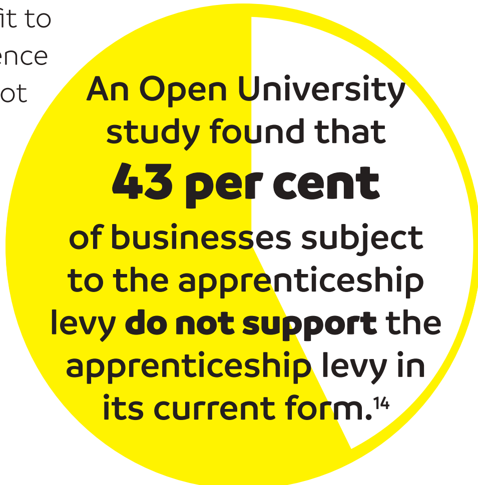
Impact on business

While the levy is not a wholly new and separate parallel system of income tax, it does effectively constitute a new set of rules, rates and thresholds added onto the national insurance system. Again, this increases costs for businesses both in terms of money spent on compliance and also in terms of the time spent administering the payment.

It has also created extra costs for businesses that had already been operating training schemes. For example, research by the CBI found that many organisations will have to create new business processes to develop, deliver and monitor apprenticeship schemes and also decrease investment in other areas of their business.[10]

The legislation also requires that apprentices spend at least 20 per cent of their working time away from the office.[11] Although in some of these situations this will result in apprentices receiving training which will be of benefit to their employers, there is evidence to suggest that this is often not the case.[12,13]

There is also evidence to suggest that businesses would like to see the apprenticeship levy reformed.



Impact on workers

Apprenticeships in industries such as manufacturing have often been a valuable scheme for allowing young people to receive the training they need to embark on a high skilled career and enjoy the higher wages which this brings. It has also been a popular route for young people with less traditional qualifications and for whom studying for A Levels or attending university would not be appropriate.

Evidence suggests that not only does the apprenticeship levy lead to fewer job opportunities and lower wages, it has also resulted in a decrease in the number of available apprenticeships. For example, the number of apprenticeship starts fell by 59 per cent between May and July 2017 compared to the same period in 2016.[15] Data from 2018 also confirmed that apprenticeship starts have fallen since the introduction of the levy.[16]

One industry where this has been particularly apparent is manufacturing.

A study conducted by MAKE UK states: "there were instances where manufacturers were prepared to increase the number of apprenticeships they offered, but instead have either not done so, or had to delay or cancel those apprenticeships specifically because of the apprenticeship levy".[17]

Conclusions and recommendations

- ✔ *The apprenticeship levy has created extra costs for businesses, which are passed on to workers in the form of lower wages and fewer job opportunities.*
- ✔ *It has also been counterproductive as it has led to fewer people undertaking apprenticeships and led to a decrease in opportunities for young people.*
- ✔ *Abolish the apprenticeship levy immediately.*

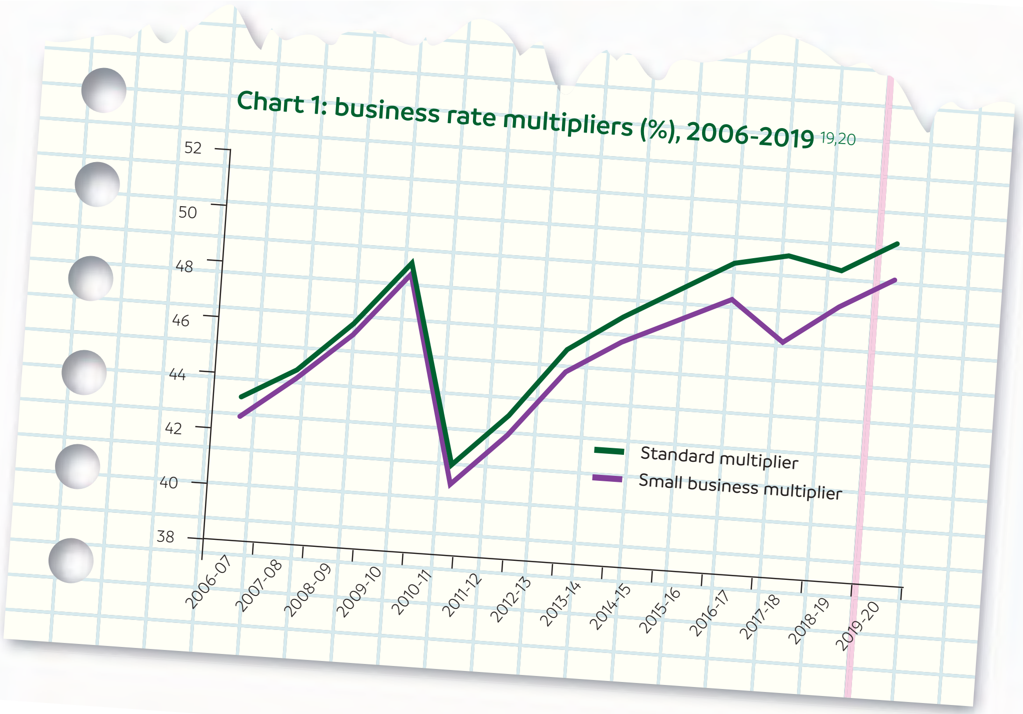
Business rates

Business rates are a tax based on a property's "rateable value" set by the Valuation Office Agency (VOA). They are charged on most non-domestic properties, such as shops, offices, pubs, warehouses, factories, and holiday rental homes.

The rates are chosen by central government, which selects a multiplier. This is a penny in the pound value which is then applied to the rateable value, which is an estimate of the open market rental value a property could achieve on a specified date.

There are some exemptions to business rates. For example, properties with a rateable value of £12,000 or less are exempt from business rates. Properties with a rateable value of up to £15,000 are eligible for small business rates relief.

Up until 2005, there was a single business rates multiplier. After 2005, there were two multipliers: a small business multiplier for businesses with only one property or whose rateable value is less than £15,000; and a higher rate multiplier for those businesses to whom the former does not apply. These multipliers have been tinkered with over time by the Treasury, and have fluctuated between 40 and 50 per cent in the last 10 years.[18]



Impact on business & workers

Business rates represent a significant financial burden for businesses. This pressure is felt more acutely by retail companies. Despite the gross value-added from the retail sector being less than 10 per cent, retailers pay 25 per cent of all business rates, which is equivalent to £7.6 billion.[21] Businesses in the retail sector – and small businesses in general – frequently cite business rates as the biggest challenge they face.[22]

Rates are a significant factor in the closure of a large number of stores,[23] leading to fewer job opportunities. The retail sector has a high proportion of workers on low wages, meaning that job losses caused by high business rates will have a disproportionate impact on workers who have fewer skills and less experience.

Wider impact

There is also a wider impact on society. Business rates have resulted in many stores being forced to close down. In many towns and cities this has led to high streets being decimated.[24] High street stores are particularly important for people who are less mobile such as the elderly, people with disabilities, and people with young children as they find it easier to buy items from stores near their homes.[25]

It is often argued that one of the reasons why high street businesses are suffering is because digital companies comparatively pay either no, or relatively little, business rates.[26] Since the success of these digital businesses is multi-variable, it is difficult to support such a firm conclusion. However, the fact that they may not have to pay business rates plays some part in that success.

Businesses in the retail sector – and small businesses in general – frequently cite business rates as the biggest challenge they face.

Conclusions and recommendations

- ✔ *Overall, business rates present a significant challenge to retailers, and have a wider impact on society. This has led to store closures and job losses.*
- ✔ *Cut the standard and small business multiplier to 30 per cent and rule out rises in business rates as a minimum.*
- ✔ *A material fall in prevailing rental values exceeding 10 per cent should be considered a material change in circumstances. This would allow businesses to more easily appeal against their business rates.*

Capital gains tax

Capital gains tax (CGT) is a tax on the gain in value of most assets between purchase and sale.

A personal allowance is deducted from ‘chargeable gains’, and the rest is then taxed. From 1988 to 2008, the rate was the same as the taxpayer’s income tax rate. In 2008 it was simplified into a single 18 per cent rate until 2010, when a higher 28 per cent rate was added. The higher rate was paid on gains over the income tax higher rate threshold when taxable income and chargeable gains are combined. So those paying higher rate income taxes would pay the higher rate of CGT on all their gains above the CGT personal allowance.

In 2016, the rates were cut to 10 and 20 per cent except for residential property, which remain at 18 and 28 per cent.[27]

Impact on business & the economy

As with other taxes on capital, CGT has a negative impact on investment. Taxes which lower investment lead to worse productivity. As productivity is the key driver behind economic growth, these taxes result in stagnant wages and living standards. This is true for capital gains tax, but it also has other negative impacts.

First, it distorts merger and acquisition (M&A) activity. Capital gains tax means that the sale of a business becomes less attractive and so the rate of mergers and acquisitions is less than it would be without the tax.[28] Mergers and acquisitions play a vitally important role in a highly developed economy. They give businesses a competitive advantage, greater access to various assets, and allow companies to grow.[29,30] M&A activity therefore has a positive impact on the economy as it leads to greater investment which results in higher productivity and economic growth.

Second, it decreases the incentives to reallocate assets. For example, the founder of a start-up may decide against selling their company in order to avoid paying capital gains tax. This is problematic for a number of reasons. There is evidence to suggest that when businesses grow to a certain size, they are more efficiently managed by leaders with more experience, not entrepreneurs. It also means that the start-up founder is less likely to start a new company in which they would be able to grow and create more employment and investment opportunities.[31]

CGT residential property tax

18%

28%

Conclusions and recommendations

- *The key issue with capital gains tax is that it prevents scarce economic resources from being allocated in an efficient manner.*[32,33] *This decreases investment and so hampers productivity and economic growth.*
- *Abolish capital gains tax entirely when possible.*
- *In the meantime, scrap the higher 20 per cent rate, and the 18 and 28 per cent rates on residential property to simplify the system. This would eliminate the need for entrepreneur's relief by extending its 10 per cent rate to all investors and assets.*

Corporation tax

Corporation tax is levied on the profits of companies. It was introduced in 1965 and replaced the practice of taxing companies on their incomes.

The main rate was initially 40 per cent before rising to 52 per cent in 1973.[34] After remaining stable for a number of years, the rate was steadily cut between 1982 and 1991 to 33 per cent. It was reduced from 30 to 28 per cent in 2008; it is now 19 per cent and a further cut to 17 per cent is scheduled for 2020.[35,36]

A small companies rate (for those with profits under £300,000) set between one and two-fifths lower than the main rate existed until 2015, when the main rate fell to match the small companies rate of 20 per cent.[37]

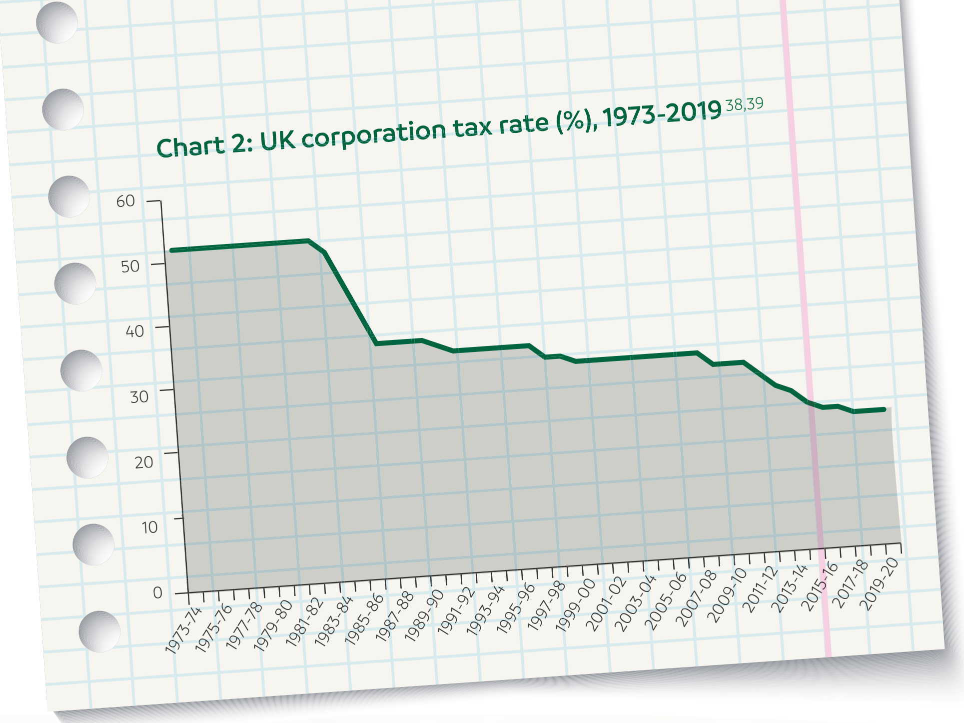


Chart 2: UK corporation tax rate (%), 1973-2019[38,39]
60
50
40
30
20
10
0
1973-74
1975-76
1977-78
1979-80
1981-82
1983-84
1985-86
1987-88
1989-90
1991-92
1993-94
1995-96
1997-98
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2015-16
2017-18
2019-20

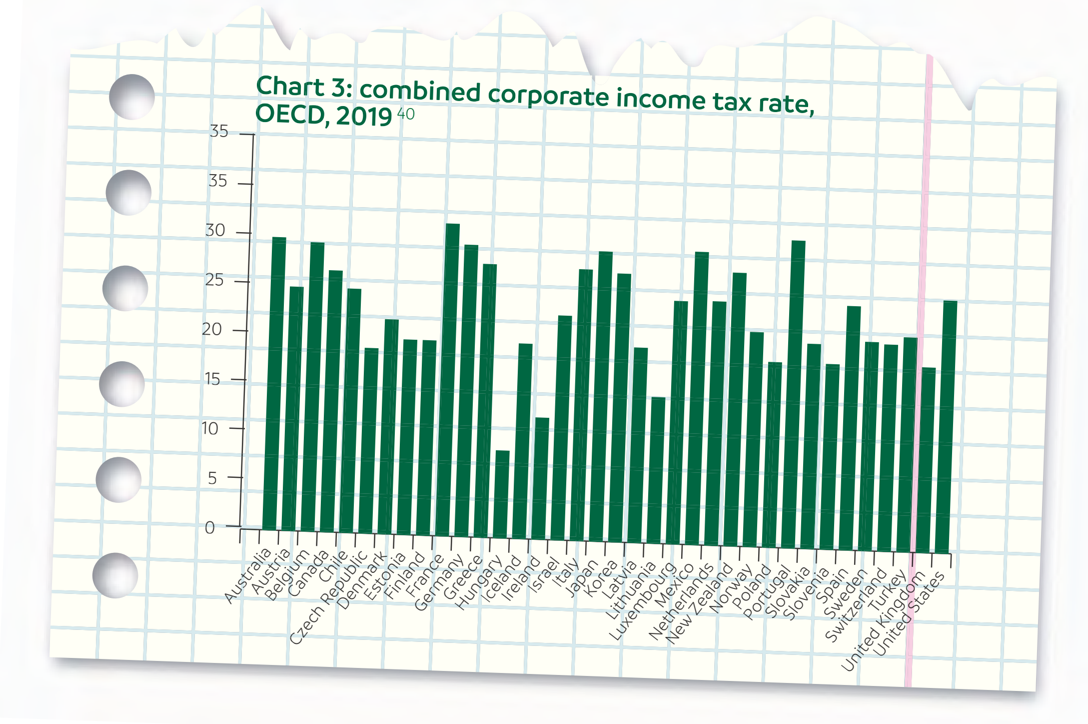
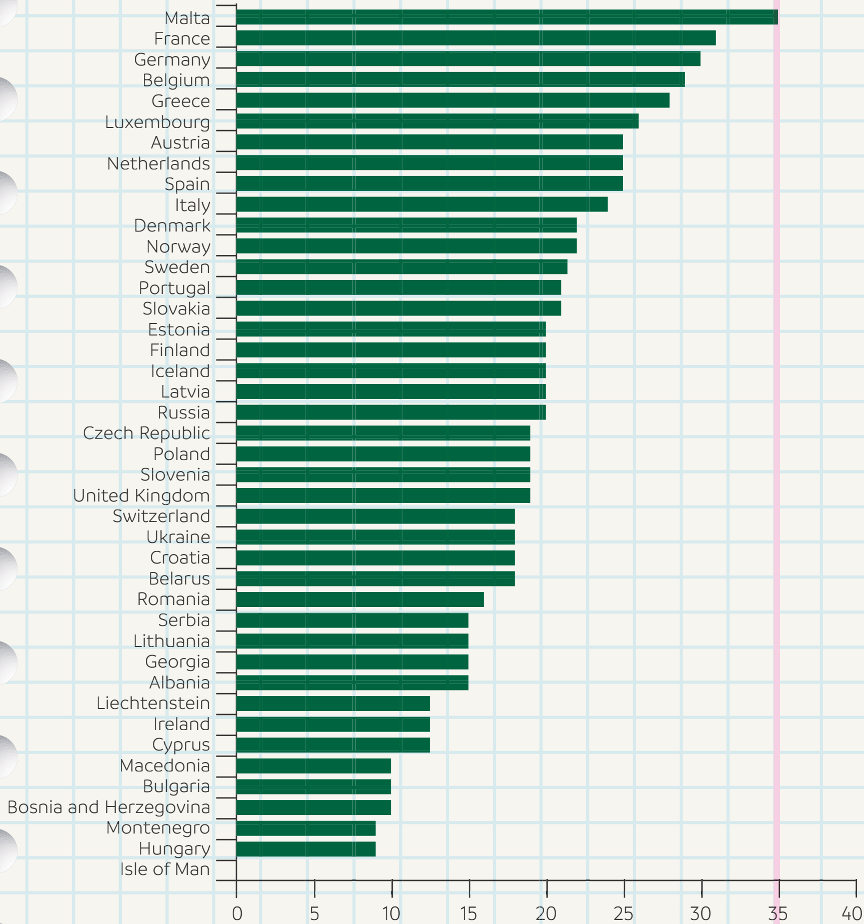


Chart 3: combined corporate income tax rate, OECD, 2019[40]
35
35
30
25
20
15
10
5
0
Australia
Austria
Belgium
Canada
Chile
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Iceland
Ireland
Israel
Italy
Japan
Korea
Latvia
Lithuania
Luxembourg
Mexico
Netherlands
New Zealand
Norway
Poland
Portugal
Slovakia
Slovenia
Spain
Sweden
Switzerland
Turkey
United Kingdom
United States

Chart 4: European tax rates (%), 2019 [41]



Corporation tax in the UK is lower than the global average.[42] There are many less economically developed nations which have low rates in order to encourage businesses to operate there, thus powering economic growth.[43]

However, it is not just less economically developed countries which have a lower corporate tax rate than the UK. As the appendix on page 63 illustrates, there are several highly developed countries which have lower corporate tax rates than the UK – Hong Kong, Singapore, and Switzerland being examples.[44]

Impact on businesses

Corporation tax places a significant burden on UK businesses, with many of them paying annual bills of tens of millions of pounds. There are approximately 1.5 million companies in the UK with corporation tax liability, which amounts to £50.4 billion.[45]

The efficiency costs are disproportionately high for corporation tax. These include administrative, compliance and demoralisation costs, as well as behavioural changes. For example, administration costs are high because taxable profits can be difficult to define and so subject to dispute.[46]

1.5 million companies in the UK with corporation tax liability, which amounts to **£50.4 billion.**

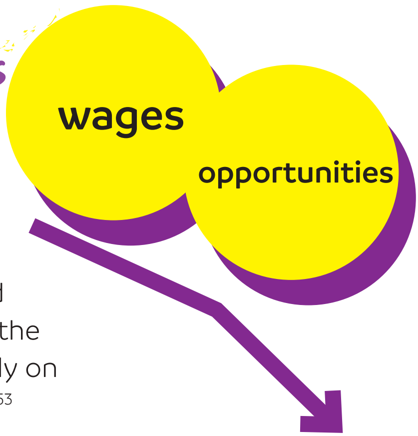
Compliance costs for corporation tax are also high. Small businesses spend on average 15 hours a year complying with corporation tax.[47]

Corporation tax also has an impact on the capital structure of companies. As a result of the UK tax system, if a business decided to fund a new project or development through borrowing, then it would be able to deduct interest payments – leading to a lower tax bill. However, if the company decides to finance its activities through issuing shares, then it cannot deduct the dividends payout as a cost – meaning a higher tax bill. This bias towards debt over equity can result in businesses becoming over leveraged.[48] Although debt financing can be a useful way for a company to grow, a high debt-to-equity ratio can make it harder for businesses to attract investment and can ultimately lead to financial difficulties.[49]

Furthermore, when businesses invest in new plants and equipment, they are required to deduct the costs over time, through a provision known as depreciation deductions.[50] Due to inflation, businesses cannot claim back the actual amount spent.[51]

Although the headline rate of corporation tax has fallen, the government has reduced the value of depreciation deductions for investments for machines and industrial buildings. As such, the effective marginal tax rate on investment by businesses actually rose, even as the headline rate was cut. In fact, when compared to other highly developed economies, the UK has a much less competitive effective marginal tax rate.[52]

Impact on workers



There is a great deal of evidence which suggests that corporation tax has an impact on wages. A 2014 report looking at 45 of the most significant studies found broad agreement among economists that the burden of corporation tax falls heavily on workers, in the form of lower wages.[53]

Further evidence from the University of Oxford concluded that a rise in corporation tax would lead to lower wages for workers.[54] Numerous other studies corroborate the fact that a high level of corporation tax leads to lower wages.[55,56,57]

It is not just wages which are affected by corporation tax rates; they also have an impact on employment opportunities. For example, a study looking at data between 1970 and 2010 found that increases in corporate tax rates lead to significant reductions in employment.[58] A study examining data from 41 countries over 11 years also found that a rise in the effective average corporate tax rate significantly increases unemployment levels. The researchers point to the importance of international tax competition in affecting unemployment.[59]

Wider impact

A 2010 study examined corporation tax rates and levels of investment by companies in OECD countries. It concluded that higher levels of corporation tax adversely impact the level of investment.[60] This is important, as investment is a key driver of productivity growth in firms[61] and further research has revealed that high corporation tax rates can slow down the rate at which low-productivity firms make investments.[62] Productivity is the main driver behind economic growth and improving living standards.

One study found that corporation tax is particularly harmful for economic growth.[63] Corporation tax is also ranked by the OECD as the most damaging tax.[64] A 2013 study also concluded that eliminating the US corporate income tax has the potential to raise the welfare of all US generations.[65]

Higher levels of corporation tax adversely impact the level of investment.

As the Nobel Laureate in economics Paul Krugman has explained: "Productivity isn't everything, but in the long run, it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker".[66]

Conclusions and recommendations

- ✔ *By discouraging investment, high corporation tax rates reduce productivity and depress economic growth which in turn leads to stagnating living standards.*
- ✔ *Abolish corporation tax and tax distributed income instead.*
- ✔ *In the meantime, cut corporation tax to 10 per cent.*
- ✔ *Allow business to immediately deduct new spending on plants and equipment from their taxable income.*

Employer pension contributions

Almost all UK workers are now automatically enrolled in a workplace pension. It is compulsory for employers to offer eligible workers a workplace pension and businesses must make a minimum contribution to the scheme.[67]

It is welcome that individuals and businesses are now taking more responsibility. However, the reality is that employer pension contributions do place a burden on both businesses and workers.

Impact on businesses

Implementing automatic enrolment has increased administrative costs for businesses. For example, one survey found that 52 per cent of employers saw an increase in their administrative costs as a result of implementing the new scheme. A DWP survey also examined how much it cost to implement automatic enrolment.

The median level of cost was reported to be £400. For businesses with between one and four employees it was found to be £200, and for employers with up to 29 members of staff it was £500.[68]

There are also contribution costs to consider. One survey found that 65 per cent of businesses who began automatic enrolment had to increase total pension contributions. 51 and 55 per cent of small and medium-sized employers respectively said that this had led to a reduction in profits.[69]

Impact on workers

Table 1: employers' strategies to absorb increases in total pension contributions (%)[70]

Employers' strategy	Employer Size: Micro (1-4)	Small (5-49)	Medium (50-249)	Large (250+)
Absorbed as part of other overheads	75	68	68	64
Reduction in profits	42	51	55	42
Increased prices	8	13	16	14
Lower wage increases	10	11	9	10
Changed existing pension scheme	2	7	11	14
Restructured/reduced workforce	3	7	4	4
Reduced contribution levels for existing members prior to reform	0	2	2	4
Other	0	0	0	1
None of the above	15	13	12	17

As table 1 demonstrates, businesses have responded in various ways to automatic enrolment. For example, a large percentage of employers have stated that they will absorb these additional costs by reducing their expected profits.

Some have slowed down wage increases, and workers who were already enrolled on a pension scheme have seen their contribution levels reduced by their employer. Other businesses have also restructured and reduced their workforce as a result of automatic enrolment.[71] Firms might also pass on the cost to consumers by increasing prices.

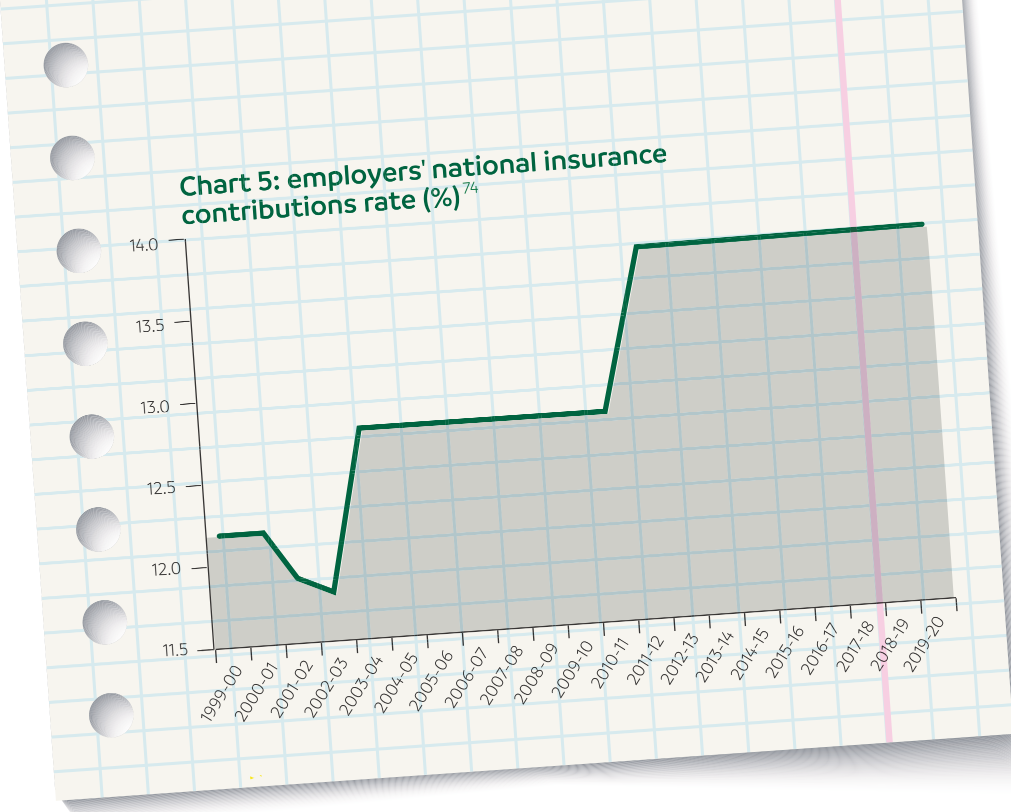
Conclusions and recommendations

- ✔ *It is welcome news that there has been a substantial increase in individuals saving into personal pensions in recent years.*
- ✔ *Attempts to introduce a flat rate of relief on pension contributions should be rebuffed.*

Employers' national insurance contributions

National insurance contributions, of which employers' national insurance contributions are a part, were introduced by the National Insurance Act 1911 as a contributory system of payments linked to benefits. However, with the exception of a few benefits related to maternity and bereavement, this link has been almost entirely severed.[72]

HMRC data shows that while the tax rate for national insurance paid by employers has remained fairly stable in recent years (aside from a brief fall in the early 2000s), there has been a gradual increase in the rate by successive governments since the 1990s. As chart 5 demonstrates, it has remained at 13.8 per cent since 2011.[73]



Impact on businesses

Employers' national insurance contributions is a tax levied on businesses. There is a threshold with businesses paying 13.8 percent on every pound a worker earns above it.[75]

Not only does paying national insurance contributions cost businesses money, it also diverts their time and resources from more productive activities.

Small businesses spend **20 hours a year** complying with employers' national insurance contributions.[76]

Impact on workers

Businesses pass on the costs associated with employers' national insurance contributions to workers. A study into employment by the OECD found that social security contributions drive a wedge between the cost to the employer of hiring a worker and the wage received by the worker, thereby decreasing employment opportunities.[77]

Other studies have investigated the impact of payroll taxes on wages and job opportunities. A study looking at the US equivalent of employers' national insurance contributions found results "consistent with the hypothesis that 100 per cent of the tax is borne by labor." [78]

A study looking at the effects of a fall in payroll taxes in Colombia found that a decrease in the rate would lead to higher wages for workers. A 2018 study which analysed data from Canada found: "...significant impacts on wages, implying that payroll taxes are passed almost entirely to workers in the form of lower wages".[79]

Some of these studies appear to suggest that the burden of payroll taxes such as employers' national insurance contributions are passed on to workers in the form of lower wages. However, others have found that they also have a negative impact on job opportunities.

A 2014 study into the impact of a reduction in payroll taxes in Colombia concluded that: "as a result of the reform, total employment would increase between 0.3 and 0.5 percent. Correspondingly, formal employment would rise between 3.4 and 3.7 percent, and informal employment would decrease between 2.9 and 3.4 percent". [80]

In 2007, Sweden cut its payroll tax. Research showed that the employment rate increased by between two and three percentage points for younger workers as a result of the tax cut.[81] Rutkowski and Walewski conducted research across several different countries. Their study revealed that there is a positive correlation between the rate of tax levied on employer payroll costs and the rate of unemployment.[82]

In 2007, Sweden cut its payroll tax. Research showed that the employment rate increased by between two and three percentage points for younger workers.

Conclusions and recommendations

- ✔ *It is clear that employers' national insurance contributions create costs for businesses, and these costs are passed on to workers in the form of lower wages and fewer job opportunities.*
- ✔ *All taxes on income (also including capital gains tax and corporation tax) should be replaced over time with a single tax on all income at a single rate of 30 per cent.*
- ✔ *National insurance should be renamed immediately to reflect its genuine tax function.*
- ✔ *Rules on the basis of the charges and expenses and earnings definitions should be aligned with those which apply to income tax.*
- ✔ *Both rates – class 1 employer and employee contributions – should be cut first to 11 per cent and then 10 per cent.*

Energy costs

A significant proportion of energy prices are the result of various schemes that force energy companies to include minimum shares of renewable energy sources in their portfolios.

For example, the renewables obligation means licensed electricity suppliers must get an increasing proportion of electricity from these sources.[83]

As such, energy companies are often unable to use the most efficient forms of power, increasing costs for providers.[84]

The majority of business users of most forms of energy are subject to the climate change levy. It was introduced with the intention to help tackle climate change. Although this is an important aim, there are problems with it including its bureaucratic nature.[85]

> A report by Jenkins found that environmental policies: "drive up energy prices, directly through the environmental charges in the bill but also indirectly, and significantly, through the impact on generation and network investment costs."[86]

Impact on businesses

During peak times in winter months, many businesses stop operating due to very high energy prices making it difficult to make a profit.[87,88] This obviously has a significant impact on businesses. If they cannot operate during certain hours then they will miss out on opportunities to sell goods or to provide services to the public. Decreased sales means that businesses do not bring in as much revenue as they ordinarily might, which has a damaging effect on their profits.

It also has an indirect impact on other businesses that are relying on the companies to provide them with goods and services which they need to run their own business. Companies operating in the manufacturing industry have been particularly impacted by the high cost of energy, with many of them citing it as a reason for why they had to stop operating.[89]

Impact on workers

When businesses are forced to stop operating during certain hours, some workers will not be needed during that time. As a result, workers on certain contracts will see their salaries decrease. This will have a devastating impact on their living standards and could mean that they are unable to provide for themselves and their family.

When a business is large or located in an economically deprived area, this is especially the case. For example, when a large factory – which can be the main source of employment in a town or city – closes down, there are suddenly hundreds or thousands more unemployed people in that area. There may not be enough vacancies in these areas, or new businesses being created, and so the workers find themselves unemployed, potentially for months or even years.[90]

Wider impact

Not only is this distressing for the workers, it also has a negative impact on the area. If a large, energy intensive company is the source of employment in the area, then it is likely that the business is depended on by others. This is both in terms of goods and services provided by that business, and also the trade for shops, pubs, cafés, and restaurants who benefit from having such a business in the locale. As a result, other firms might see negative effects on their revenues and profits and so find themselves in financial difficulty.[91]

Conclusions and recommendations

- ✔ *High energy costs are a substantial contributor to the cost of doing business. In particular, the climate change levy and renewables obligation can make service offerings to customers difficult, and potentially cause distress to employees.*
- ✔ *Abolish the requirement for energy providers to include renewable sources of energy in their portfolios.*
- ✔ *Scrap the climate change levy.*

GDPR

In May 2018, the EU's General Data Protection Regulation (GDPR) came into force. It was introduced as a replacement for the 1995 Data Protection Directive which had set the minimum standards for data processing in the EU.

GDPR grants more power to individuals so that they can request that companies reveal or delete the personal data they hold. It also gives more power to regulators, allowing them to work in concert across the EU. Organisations found to be in breach of GDPR can be faced with a maximum fine of either €20 million or four per cent of the organisation's global turnover, whichever is highest.[92]

The use of personal data is an important issue. As such, it is right that individuals have more control over their data and that firms who misuse it are punished. However, GDPR has already placed a significant burden on businesses and this looks set to continue.

Impact on businesses

Research conducted in 2018 examined how much FTSE 100 companies have spent on efforts to comply with GDPR. It revealed that implementation costs increase with firm size, and that they reach a significant magnitude for businesses with over 5,000 workers. On average, it costs a FTSE 100 firm £15 million to comply with GDPR, which is equivalent to between £300 and £450 per employee.[93] As for FTSE 350 businesses, it is estimated that a total of $1.1 billion has been spent on implementing GDPR.[94]

As GDPR has only been in force for just over a year, it is difficult to assess the other ways in which it has impacted businesses. However, economic analysis conducted by consulting firms has revealed the likely impact of GDPR. For example, London Economics found that profits resulting from data analytics could decrease by up to £41 million in the UK, while profits attributable to prospecting for customers could decrease by up to £144 million.[95] An EU wide study by Deloitte found that European businesses are expected to lose a total of €66 billion in sales.[96]

It costs a FTSE 100 firm £15 million to comply with GDPR.

Wider impact

GDPR is likely to have other negative effects on the economy. For example, one study found that it is likely to result in businesses moving data collection and analysis in-house, thereby undoing the benefits of specialisation and entrenching the market power of larger firms.[97]

GDPR could also have a negative impact on economic growth and job opportunities.

The EU wide research conducted by Deloitte showed that it could lead to a reduction in EU GDP by €173 billion, leading to a loss of 2.8 million jobs.[98]

Conclusions and recommendations

- ✔ *Data protection is important, and it is therefore imperative that it is not open to abuse by businesses or placed at risk of being stolen by criminals.*
- ✔ *However, it has already increased costs for businesses considerably, since they have had to spend a significant amount of money in ensuring compliance with GDPR.*

Industrial action

Workers in the UK are entitled to join trade unions and partake in industrial action against their employer, such as by going on strike or refusing to work overtime.[99]

Collective bargaining is a tool used by workers in order to increase their salary, improve working conditions or other benefits, and the threat of industrial action plays a part in this. Trade union membership forms part of an individual's freedom of association and so it is important that there are legal provisions which uphold the right to join a trade union and to take industrial action. However, industrial action can have a very negative impact on businesses, workers, and the public.

There were 39,000 workers involved in 81 different strike actions in 2018. As a result of this industrial action, there were 273,000 working days lost in 2018. Although the mean number of working days lost per stoppage has been broadly flat over the last three years, the median number of working days lost per stoppage has increased for the last five years.[100]

Chart 6: median number of working days lost per stoppage, UK, 2010-2018[101]

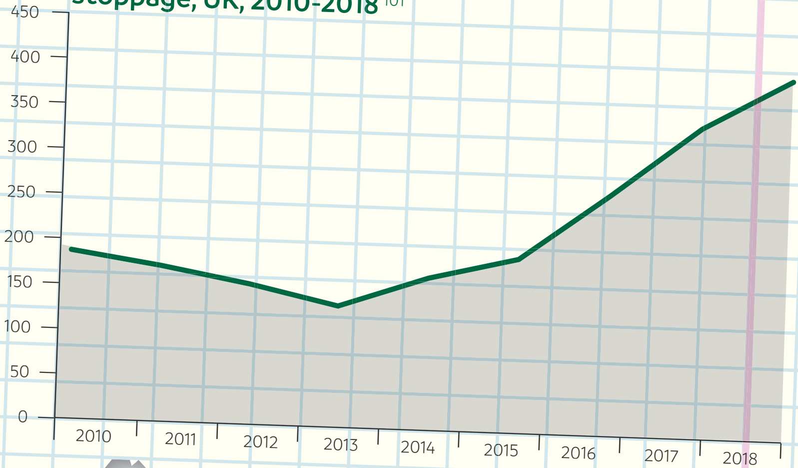


Table 2: working days lost per 1,000 employees by country or region, UK, 2018[102]

Country or region	Working days lost per 1,000 employees
Scotland	23
Yorkshire and the Humber	15
North East	13
North West	12
Northern Ireland	8
South East	8
London	7
Wales	7
East Midlands	5
South West	5
East of England	4
West Midlands	3

Impact on businesses

Industrial action can be deeply disruptive for businesses. Although employers are not obliged to pay their workers for the hours in which they are on strike, there are other factors to consider such as offering a reduced service to clients and customers, being unable to meet commitments or fulfil orders, operating for fewer hours or even being forced to cease operations completely for the entirety of the industrial action. This can have a negative impact on the profits of businesses.[103,104]

39,000
workers involved in 81 different strike actions in 2018... equivalent to
273,000
working days lost.

Impact on workers

The most obvious impact of industrial action on workers is the decrease in wages. As discussed above, workers who go on strike are not entitled to receive their salary for the hours they have been on strike. This can have a very negative impact on the living standards of workers. It may also result in the workers being sued by their employer for being in breach of their employment contract, although this does not happen often.[105]

It can also impact the benefits which a worker is entitled to. For example, an employer is entitled to reduce the length of service with them by the number of days the worker was on strike. This will affect the worker's pension and statutory redundancy pay.[106]

Industrial action can also have a negative impact on workers in other ways. It can cause a great deal of tension and ill feeling between the workforce and the management or owners of the business.[107] It can also create tension between the workers themselves. For example, some employees may feel pressured into taking industrial action even though they do not wish to do so, or they may be ostracised by their colleagues for refusing to join the strike.[108] Ballots are designed to prevent industrial action against the wishes of the workforce, though this still occurs. An increase in the ballot threshold may help to alleviate some of this pressure.

Wider impact

Industrial action can also be very disruptive for the public. For example, if employees in stores go on strike, then this means that members of the public are unable to purchase the goods and services they require.[109,110,111] If railway or Underground workers take industrial action then this prevents members of the public from getting to work or leads to longer commuting times.[112] Not only is this frustrating, it can lead to a loss of earnings or business for many people, especially those who are self-employed.[113,114]

It can also cause problems for people with childcare responsibilities. For example, if teachers go on strike then school children have to stay at home which means that parents or guardians either have to not go into work or pay for childcare.[115] Given that childcare is very expensive in the UK compared to other countries, this can be very costly for parents and guardians.[116]

Conclusions and recommendations

- ✔ *Industrial action plays an important role in helping to protect the rights of workers.*
- ✔ *However, it can be incredibly disruptive to businesses and can have a negative impact on workers and members of the public.*
- ✔ *Increase the threshold required in a ballot for determining whether or not workers can take industrial action.*

Stamp duty on shares

Stamp duty on shares refers to two taxes on the purchase of most shares and some other financial instruments payable by the buyer. Most bond transactions are exempt. Stamp duty reserve tax (SDRT) applies to electronic transfers of shares. It was introduced in 2003, replacing stamp duty which was first introduced in England in 1694. Stamp duty still applies to paper share certificates over £1,000 in value.

A standard rate of 0.5 per cent has applied since 1986, when it was halved from one per cent, having been halved two years previously from 2 per cent. In 2014, shares listed on the London Stock Exchange's alternative investment market and high growth segment became exempt from SDRT.[117]

Impact on businesses and the economy

As with other taxes which target capital, it has a negative impact on investment: taxes which lower investment lead to lower productivity. Since productivity is the key driver behind economic growth, these taxes result in stagnant wages and living standards. This is true for stamp duty on shares, but it also has other negative impacts.

Stamp duty on shares reduces the efficiency of stock markets for UK companies, with a disproportionately large burden on marginal investment projects. As with capital gains tax, it distorts mergers and acquisition activity.[118]

Stamp duty depresses share prices, particularly for firms whose shares are frequently traded.

Given that most bond transactions are exempt from stamp duty, stamp duty encourages a bias towards debt in terms of financing. This can shift the debt-to-equity ratio of a firm towards debt and so has an impact on the capital structure of a business. This can potentially lead to a company becoming over-leveraged, which increases risk for businesses and investors.[119]

There is a vast amount of evidence which demonstrates that stamp duty depresses share prices, particularly for firms whose shares are frequently traded.[120] This may increase the cost of capital faced by firms, which in turn could have negative repercussions on investment.[121]

Conclusions and recommendations

- ✔ *Stamp duty on shares is a particularly damaging tax. It distorts capital market activity, makes raising capital more expensive for firms, and encourages them to finance their endeavours through debt rather than equity. This lowers investment, productivity and economic growth.*
- ✔ *It also risks businesses becoming over-leveraged which can result in companies becoming bankrupt and workers losing their jobs.*
- ✔ *Abolish stamp duty on shares immediately.*

Tariffs

Tariffs are customs duties levied on goods imported into a country. They give a price advantage to locally produced goods over similar goods which are imported, and they also raise revenue for governments.[122]

Tariffs have featured heavily in the news in recent months as the UK prepares to leave the EU and due to the ongoing trade disputes between the United States and other countries. Politicians often implement tariffs in order to protect their country's businesses and industries.[123] However, they invariably have negative economic consequences.

Impact on businesses

Tariffs are paid by businesses operating in the country which imposes them. Therefore, this increases costs for the businesses which import those goods. Tariffs increase the costs of goods imported into a country. Many of these products are known as ‘intermediate goods’ and are used by businesses as inputs in the production of other goods including final goods.[124]

Therefore, as tariffs increase the price of intermediate goods, the cost for businesses of producing finished products increases. As a result, although some industries may receive a short term boost due to the imposition of tariffs, this is at the expense of businesses in other industries that are now forced to pay more money for those goods.[125]

The businesses which tariffs are designed to protect will also suffer. This is because once a government has placed tariffs on goods from one nation, the government of that nation will generally respond by placing tariffs on the same goods imported from the other nation. As a result, businesses attempting to sell their goods in that country will be less competitive and so profits will be lower as a result.[126,127]

Impact on workers

Tariffs lead to fewer job opportunities and lower wages.

The losses experienced by businesses as a result of tariffs have to be absorbed by businesses in some way. The current situation in the United States demonstrates that this often has a negative impact on workers. For example, President Trump imposed tariffs on metals imported into the US. This increased the costs of aluminium cans and so increased costs for the beer industry and led to a drop in investment. As a result, 40,000 jobs were lost between 2016 and 2018.[128] This is just one example, but there have been numerous studies which demonstrate that tariffs lead to fewer job opportunities and lower wages.[129,130,131,132]

Impact on consumers

The other way in which these added costs can be absorbed by companies is by passing them on to consumers in the form of higher prices. The situation in the US again serves as a helpful illustration of the impact of tariffs on consumers. For example, 10 per cent tariffs were levied on pet supplies and bicycles. The inflation rate for pet supplies subsequently rose to 4 per cent, while the rate for bicycles went from approximately 0 per cent up to 3 per cent.[133] These are just a few examples, but there are many others which demonstrate that tariffs can lead to higher prices for consumers.[134,135,136]

Wider impact

The importance of removing barriers to trade such as tariffs has been recognised by almost every mainstream economist. As the Harvard professor Greg Mankiw once stated: "few propositions command as much consensus among professional economists as that open world trade increases economic growth and raises living standards."[137]

Removing barriers to trade is important as it increases productivity. A 2001 study found that "the causal effect of trade on productivity across countries is large, highly significant, and very robust" and that "going from policies least favourable for trade to policies most favourable – implies an eightfold increase in productivity”.[138] As previously discussed in this paper, increasing productivity is essential in bringing about economic growth and improving living standards. As such, the imposition of tariffs can lead to lower productivity and hamper economic growth.

Conclusions and recommendations

- ✔ *Tariffs are often imposed in order to protect certain businesses and industries. They are driven by concerns that employment opportunities and wages are lower as a result of free trade.*
- ✔ *However, as with many of the measures discussed in this paper, they do not achieve what was originally intended, and often exacerbate the problem which they were designed to address.*
- ✔ *They often result in higher costs for businesses, higher prices for consumers, and fewer job opportunities for workers.*
- ✔ *Commit to entering into free trade arrangements with the EU and other trading blocs and countries.*

Taxes on financial services companies

Banks, and the wider financial services industry, make a significant contribution to the UK economy and the exchequer.[139] The financial services industry also provides credit to individuals and businesses.

There are various taxes levied on financial service companies, which we will discuss below.

Bank levy

In 2011, the coalition government introduced the bank levy, which applies to banks' balance sheets with chargeable equity and liabilities exceeding £20 billion. The levy applies to UK banking groups and their foreign operations, as well as to the UK operations of foreign banks.[140]

In 2021, the bank levy will no longer apply to non-UK liabilities of UK banks. The rate will also fall to 0.1 per cent.[141,142]

Bank corporation tax surcharge

The bank corporation tax surcharge is an additional tax on banking profits calculated on the same basis as corporation tax. It was introduced in 2016 at a rate of 8 per cent on profits over £25 million.[143]

Impact on businesses and the economy

Contrary to the standard practice of the introduction of taxes, where the rates are fixed and assumed to remain in place for several years, the bank levy's rates were instead orientated around a revenue target of £2.9 billion each year. This had the effect of causing the levy rate to change unusually frequently (sometimes multiple times in one year, and without any obvious regularity) and caused significant uncertainty for banks.[144]

Regular changes in the bank levy has caused significant uncertainty.

There are concerns that the bank corporation tax surcharge reduces competition by deterring other banks from entering the market.[145] There is evidence which suggests that smaller banks and building societies are disproportionately affected by the surcharge.[146]

This is concerning for two main reasons. First, it prevents banks from expanding, thus the UK's economy loses out on potential investment and job opportunities. Second, it adversely affects other businesses that require a loan to expand their business and could also potentially prevent individuals from starting their own business.

Conclusions and recommendations

- ✔ *The financial services industry makes a significant contribution to both the UK economy and the exchequer. These additional taxes have created uncertainty and could have the result of reducing competition and deterring investment.*
- ✔ *It also makes it harder for other companies to raise money to fund projects, thereby reducing job opportunities.*
- ✔ *The bank levy should be removed from non-UK liabilities of UK banks sooner than the 2021 planned date.*
- ✔ *The bank corporation tax surcharge should be abolished immediately.*

Transport costs

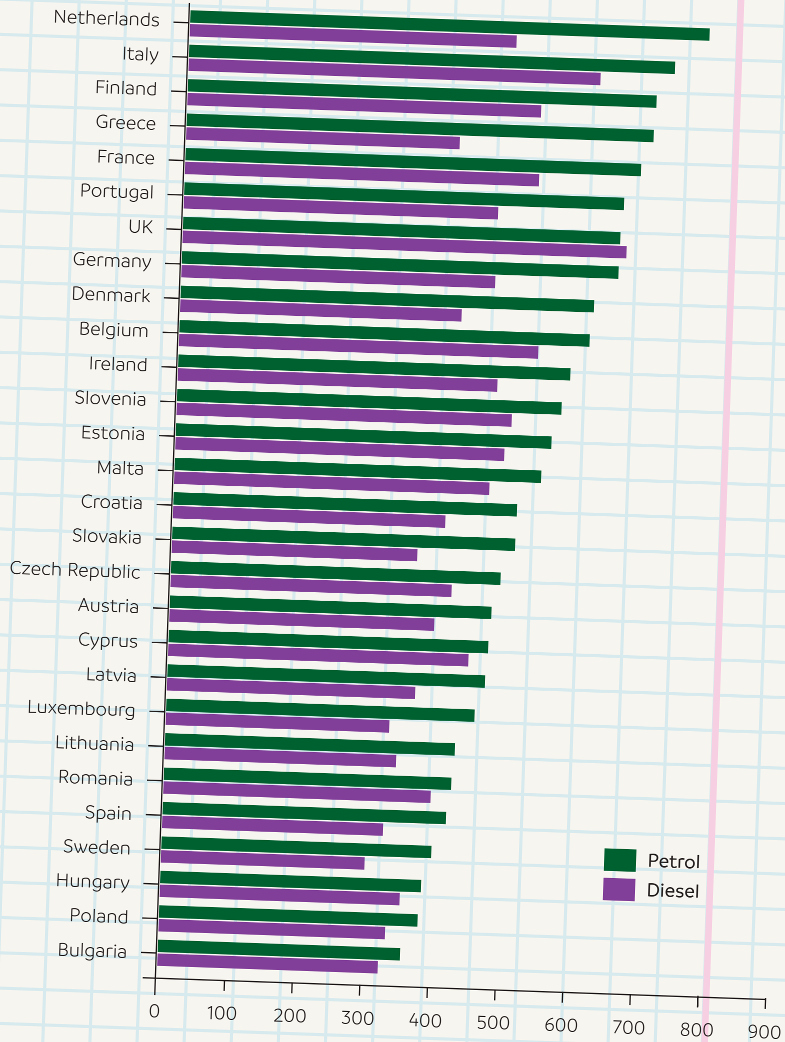
An essential aspect of many businesses is transport: companies may need to transport goods or staff using various vehicles. The government increases the cost of doing business by levying various taxes on fuel and vehicles.

Fuel duty

The price of petrol is expensive in the UK when compared to EU member states.[147]

However, the price of petrol in the UK would be one of the lowest in the EU and the OECD if it were not for the various duties levied on petrol and diesel. This is because the government levies fuel duty on petrol and also VAT at a rate of 20 per cent.[148] When compared

Chart 7: road fuel excise duties, EU member states, (€ per 1,000 litres of road fuel)[149]



to other countries, total duty as a proportion of the price of petrol paid by consumers in the UK is one of the highest in Europe.[150]

Vehicle excise duty

It is not only the taxes levied upon petrol and diesel which increase the cost of doing business; the government further exacerbates the problem by imposing vehicle excise duty (VED) upon motorists.

Three groups of charges apply, based on the date of registration of the vehicle: on or after 1 April 2017; before 1 March 2001; and between those dates.

VED on cars registered since April 2017 has an initial one-off rate in the first year based on bands of CO2/km emissions, with a discount for alternative fuel cars. Rates in subsequent years are based on whether the list price is above a threshold and whether the power is petrol/diesel, electric or alternative.

Cars registered before April 2017 pay one of 13 bands based on CO2/km emissions (with lower rates for alternative fuel cars) unless they were registered before March 2001, in which case only two rates apply, based on whether the engine size exceeds 1549cc.

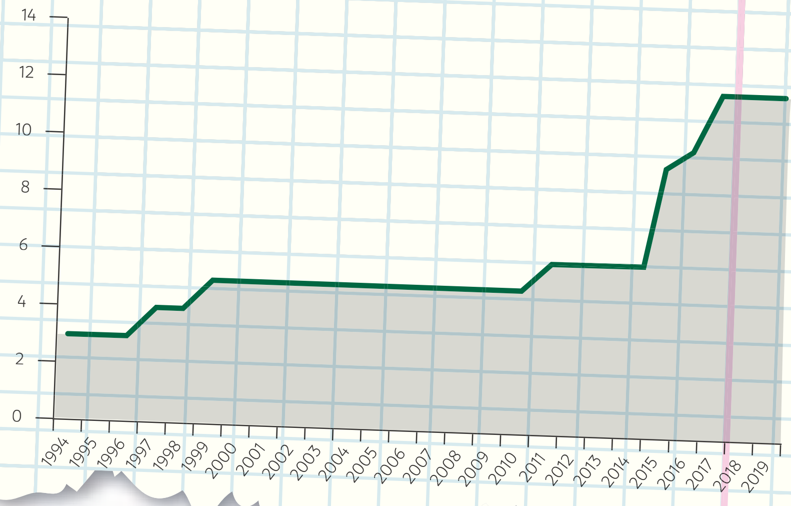
Four bands apply to motorcycles and two to tricycles, based on engine size. Light goods vehicles pay a single rate except some historic vehicles which comply with Euro 4 or Euro 5 emissions standards. Heavy goods vehicles pay VED and HGV road user levy based on the weight, number of axles and suspension type.[151]

Insurance premium tax

The government places even more strain on businesses by imposing insurance premium tax (IPT). Motorists pay insurance premium tax when they take out car insurance which is levied at a rate of 12 per cent.[152] The rate was relatively low and stable between 1997 and 2010, but has since increased significantly under both the coalition and Conservative governments.[153]

It is important to point out that some contracts of insurance are exempted from IPT, such as commercial ships and commercial aircraft, and so not all businesses are equally impacted. However, the functions of many businesses are not exempt from IPT.[154]

Chart 8: insurance premium tax (%), 1994-2019[155]



Air passenger duty

Some businesses require their employees to travel to other countries. This can be for a number of reasons such as meeting with current or potential clients, visiting offices in other countries, or inspecting a site before purchasing it. All of these tasks are essential for the proper functioning of many businesses. However, the government makes this more expensive by levying air passenger duty (APD) on flights.

APD in the UK is the highest aviation tax levied on passengers departing from airports in the EU, Norway, and Switzerland for both short-haul and long-haul flights in all classes.

It is more than three times the rate in France, more than twice the rate in Germany, and almost twice the rate in Italy.[156]

When compared to other OECD countries, UK APD is amongst the highest taxes applicable for travel in economy for short-haul journeys. It is also the highest for travel in economy for long-haul flights, and is the highest tax applicable for travel in higher classes.

Globally, on a per-passenger-kilometre basis, the UK ranks below countries in Africa and Latin America for short-haul journeys but above all other regions of the world. As for long-haul flights, the UK ranks highest globally.[157]

Air passenger duty makes flights more expensive for businesses. The increased cost of flights also acts as a deterrent on potential holidaymakers and business people, impacting on the UK tourism industry and wider economy.[158]

APD in the UK is the highest aviation tax levied on passengers departing from airports in the EU, Norway, and Switzerland.

There is also a wider impact on society. The UK is at a competitive disadvantage for trade, tourism, and investment due to APD. It is ranked 133 out of 136 in the World Economic Forum's Travel and Tourism Competitiveness Report for air ticket taxes and airport charges and 135th for price competitiveness.[159]

Wider impact

The plethora of taxes aimed at drivers of motor vehicles increases the cost of doing business in the UK. This is money which could be spent on higher wages for workers or for cheaper goods and services for consumers. APD increases the costs for companies who are engaged in international business. Not only does this hurt these businesses directly, but also has a negative impact on the economy as it hampers tourism, trade, and inward investment.

Conclusions and recommendations

- ✔ The government exacerbates the cost of doing business, by levying fuel duty and VAT on petrol and diesel, and by imposing vehicle excise duty, insurance premium tax and APD.
- ✔ Cut the rate of fuel duty by 5p a litre.
- ✔ Freeze vehicle excise duty immediately, but link the HGV road user levy to road use costs.
- ✔ Abolish vehicle excise duty when possible, but retain HGV road user levy.
- ✔ For insurance premium tax, scrap the rise to 12 per cent and instead cut the rate to make it equivalent to VAT.
- ✔ Further reform insurance premium tax by allowing insurers to deduct their payouts from their total VAT base while raising the rate to the same as VAT.
- ✔ Scrap the higher rate of insurance premium tax of 20 per cent.
- ✔ Abolish air passenger duty. In the meantime, cut it by 50 per cent across the UK.

VAT

Value added tax (VAT) is a tax levied on the purchased price of most goods and services. It was introduced in 1973 and replaced the purchase tax brought in during the Second World War which had been designed to discourage waste.[160]

The standard rate of VAT has been 20 per cent since 4 January 2011. A reduced rate of 5 per cent applies to domestic fuel and power, women's sanitary products, children's car seats, contraceptives, certain residential conversions and renovations, certain energy saving materials, and smoking cessation products. A number of goods are either zero rated or exempt.

Businesses and those who are self-employed must register if turnover of non-exempt sales exceeds the threshold. VAT paid on businesses' purchases is deducted from VAT charged to customers.[161]

Impact on businesses

VAT places a substantial burden on businesses. All businesses along a supply chain must levy the charge, not just retailers. As such, it impacts all these businesses, not just those involved in the final sale. VAT also means that businesses have to monitor their purchases as well as sales to deduct the VAT they have paid from their bills.[162]

Small businesses spend on average 45 hours a year complying with VAT.

As with taxes such as corporation tax and national insurance contributions, this places a heavy administrative burden on businesses. They either have to pay people to administer VAT, or they do it themselves which diverts their attention away from more productive activities. The administrative burden is particularly high with VAT, and a study conducted by PwC found that on average, it takes longer for a business to comply with VAT than with corporation tax.[163] For small businesses, complying with VAT takes longer than for any other tax, with small businesses spending on average 45 hours a year.[164] A major contributor to this is the complex nature of the VAT system, with its different rates and exemptions.[165]

Given that some products attract VAT and others do not (or at a reduced rate), a business may disagree with HMRC regarding the VAT status of the product. As a result, many businesses become embroiled in lengthy disputes with HMRC.

Impact on consumers

Consumers pay VAT on the goods and services which they purchase. Although the richest households pay the most in VAT, the poorest households pay a higher proportion of their income. The richest fifth of households paid nearly three times as much in indirect taxes as the poorest fifth. This reflects greater expenditure on goods and services subject to these taxes by higher income households. However, although richer households pay more in indirect taxes than poorer ones, they pay less as a proportion of their income.[166]

Conclusions and recommendations

- ✔ *VAT increases the costs of doing business for all organisations along the supply chain. Administering and complying with VAT places a financial and time burden on businesses. VAT is ultimately paid by consumers when they make purchases.*
- ✔ *No increases, rate rises or item reclassifications.*

Conclusion

Businesses in the UK face many taxes and regulations. The ones covered in this paper do not constitute a comprehensive list, but rather highlight some of the most onerous ones imposed on them.

Some of the regulations imposed on businesses are well intentioned. However, they, along with the various taxes discussed in this paper, increase the cost of doing business. As we have seen, businesses ultimately do not pay tax, people do. As such, these additional costs are passed on in various ways. Shareholders see smaller returns, workers have lower wages and fewer employment opportunities, and consumers face higher prices for goods and services. Investment also decreases as a result, lowering productivity and economic growth, and depressing living standards.

The government should commit to reducing the burden on businesses by scrapping many of the most damaging taxes and regulations. If it does so, businesses will thrive, there will be more job opportunities and higher wages for workers, and affordable prices for consumers. There will also be higher investment, productivity and economic growth, and people will enjoy a higher standard of living.

Appendix: corporate tax rates

Location	Corporate tax rate (%)
Afghanistan	20
Albania	15
Algeria	26
Andorra	10
Angola	30
Anguilla	0
Antigua and Barbuda	25
Argentina	30
Armenia	20
Aruba	25
Australia	30
Austria	25
Azerbaijan	20
Bahamas	0
Bahrain	0
Bangladesh	25
Barbados	5.5
Belarus	18
Belgium	29
Benin	30
Bermuda	0
Bolivia	25
Bonaire, Saint Eustatius and Saba	25
Bosnia and Herzegovina	10
Botswana	22

Location	Corporate tax rate (%)
Brazil	34
Brunei Darussalam	18.5
Bulgaria	10
Burkina Faso	28
Burundi	30
Cambodia	20
Cameroon	33
Canada	26.5
Cayman Islands	0
Chile	27
China	25
Colombia	33
Congo	35
Costa Rica	30
Croatia	18
Curacao	22
Cyprus	12.5
Czech Republic	19
Denmark	22
Djibouti	25
Dominica	25
Dominican Republic	27
Ecuador	25
Egypt	22.5
El Salvador	30
Estonia	20
Ethiopia	30
Fiji	20

Location	Corporate tax rate (%)	Location	Corporate tax rate (%)
Finland	20	Korea	25
France	31	Kuwait	15
Gabon	30	Kyrgyzstan	10
Gambia	31	Latvia	20
Georgia	15	Lebanon	17
Germany	30	Libya	20
Ghana	25	Liechtenstein	12.5
Gibraltar	10	Lithuania	15
Greece	28	Luxembourg	26.01
Grenada	28	Macau	12
Guatemala	25	Macedonia	10
Guernsey	0	Madagascar	20
Honduras	25	Malawi	30
Hong Kong	16.5	Malaysia	24
Hungary	9	Malta	35
Iceland	20	Mauritius	15
India	30	Mexico	30
Indonesia	25	Moldova	12
Iraq	15	Monaco	33
Ireland	12.5	Mongolia	25
Isle of Man	0	Montenegro	9
Israel	23	Morocco	31
Italy	24	Mozambique	32
Ivory Coast	25	Myanmar	25
Jamaica	25	Namibia	32
Japan	30.62	Netherlands	25
Jersey	0	New Zealand	28
Jordan	20	Nicaragua	30
Kazakhstan	20	Nigeria	30
Kenya	30	Norway	22

Location	Corporate tax rate (%)
Oman	15
Pakistan	30
Palestinian Territory	15
Panama	25
Papua New Guinea	30
Paraguay	10
Peru	29.5
Philippines	30
Poland	19
Portugal	21
Qatar	10
Romania	16
Russia	20
Rwanda	30
Saint Kitts and Nevis	33
Saint Lucia	30
Saint Maarten	35
Saint Vincent and the Grenadines	30
Samoa	27
Saudi Arabia	20
Senegal	30
Serbia	15
Sierra Leone	30
Singapore	17
Slovakia	21
Slovenia	19
Solomon Islands	30
South Africa	28
Spain	25
Sri Lanka	28
Sudan	35
Suriname	36
Swaziland	27.5
Sweden	21.4
Switzerland	18
Syria	28
Taiwan	20
Tanzania	30
Thailand	20
Trinidad and Tobago	25
Tunisia	25
Turkey	22
Turkmenistan	20
Turks and Caicos Islands	0
Uganda	30
Ukraine	18
United Arab Emirates	55
United Kingdom	19
United States	27
Uruguay	25
Uzbekistan	7.5
Vanuatu	0
Venezuela	34
Vietnam	20
Yemen	20
Zambia	35
Zimbabwe	25

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TaxPayers' Alliance

The TaxPayers' Alliance
55 Tufton Street, London SW1P 3QL
+44 (0)20 7998 1450
07795 084 113 (24-hour media enquiries)

info@taxpayersalliance.com
taxpayersalliance
the_tpa
tpa_uk

www.taxpayersalliance.com

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