co-operative party

# A PLAN FOR FAIR TAX

OWNING THE FUTURE

# INTRODUCTION

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**Covid-19 has been a major shock to much of the economy. In some sectors, this has been particularly serious – from travel, non-food retail and leisure, to the construction and education sectors, many companies are facing an existential threat.**

This threat looms despite unprecedented Government intervention in the economy. The taxpayer has become the employer of last resort for hundreds of thousands of workers who have been furloughed through lockdown, with the state covering 80% of their wages in order to help businesses stay afloat. Government-backed loans are keeping many companies afloat, as are temporary subsidies and tax breaks. The costs of these bailouts are already stacking up – reaching over £100 billion already according to the Office for Budget Responsibility[i].

And it is quite right that the state should step up. Businesses are employers and providers of goods and services. We will need them to be able to reopen their doors for our economy to recover after this crisis.

This is particularly acute in the sectors hardest hit, where workers are likely to be least well paid. Analysis shows that nearly 50 percent of all jobs at risk are in occupations earning less than £10 an hour and the proportion of jobs at risk in the 20 lowest-income subregions like Blackpool and Stoke-on-Trent is far higher, on average, than the 20 highest-income subregions[ii]. Action to protect those jobs is critical in our fight to tackle inequality.

But that's not where the story finishes. Just as the state should be there to support the private sector when needed, the private sector owes it to taxpayers to play its part. Tackling the structural causes of inequality requires us not simply to deliver a short-term solution, bailing out companies and leaving them to return to business as usual. We want an economy which works for everyone and which rewards responsible corporate behaviour.

We must learn the lessons of 2008. Quite rightly, the state stepped up then – Labour's bailout package prevented the collapse of our financial services sector. However, in the years that followed many of those banks did little to show that they had changed their ways. Banks paying large bonuses while continuing to close local branches and failing to engage the 1.7 million without access to even the most basic financial products, have lost the public's trust.

Fast forward a few years, and public stakes were sold off by the Conservative coalition Government for bargain basement prices. The state stepped up and assumed the liabilities of finance capital leaving ordinary citizens to ultimately foot the bill while the executives, shareholders and investors profited. Four years after queues of customers withdrawing their savings from Northern Rock, it was sold to Virgin for half the amount the UK taxpayer injected into the bank in the first place.

We are at a crossroads – and with the responsibility to protect jobs in the short-term comes a responsibility to do so in a way which creates a fairer economy in the long term too.

Among those asking for bailouts from the government are businesses for whom profit maximisation has long been a singular focus – to the detriment of the communities in which they operate. Many businesses, thanks to complicated accounting practices or tax haven headquarters, haven't contributed their fair share. Meanspirited accounting can result in a lack of transparency in the way that tax contributions are measured and reported, making it difficult for customers and communities to scrutinise and hold accountable those companies who contribute less than others.

i Philip Inman, 'UK Covid-19 business bailouts have already cost more than "100bn', the Guardian (30 April 2020) https://www.theguardian.com/world/2020/apr/30/uk-coronavirus-business-bailouts-have-already-cost-more-than-100bn
ii Tera Alllas, Marc Canal and Vivian Hunt, 'Covid-19 in the United Kingdom: Assessing jobs at risk and the impact on people and places', McKinsey (11 May 2020) https://www.mckinsey.com/industries/public-sector/our-insights/covid-19-in-the-united-kingdom-assessing-jobs-at-risk-and-the-impact-on-people-and-places

The Co-operative Party has long been concerned with paying a fair share of tax. We are the only political party to be accredited with the Fair Tax Mark, and we support their work to campaign for fairer, more transparent taxation. There is a growing movement of organisations – from co-operatives to local councils – proud to pay their fair share of taxes.

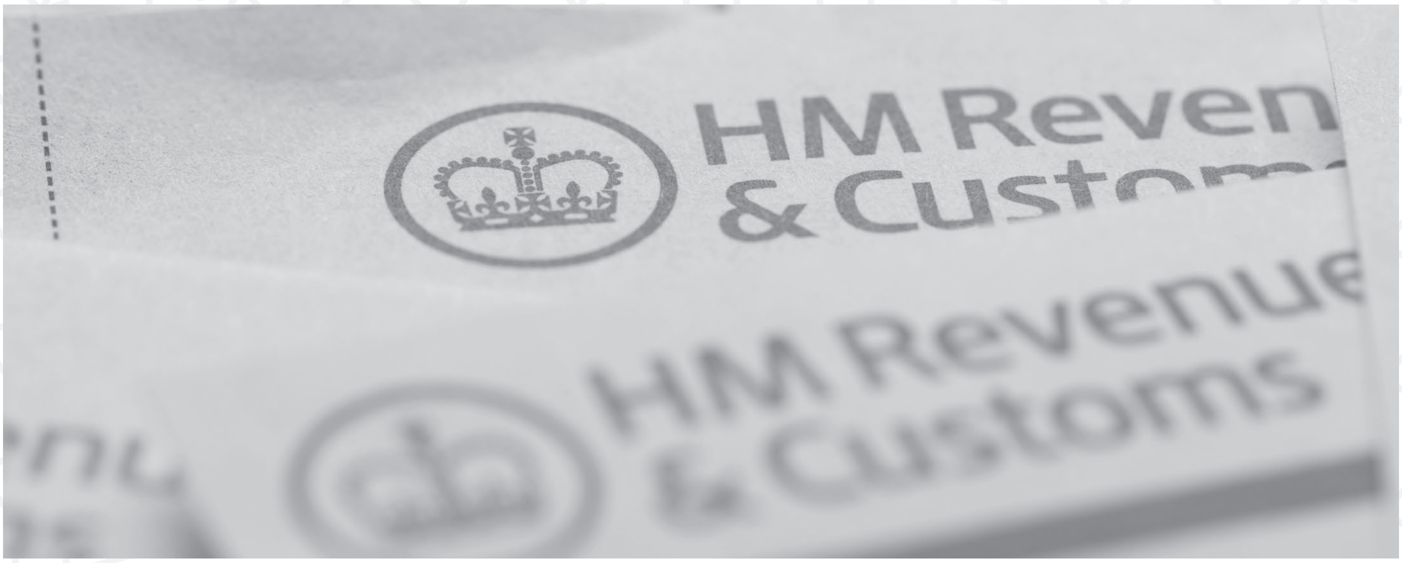
We are also concerned with the importance of protecting jobs. Ideological purity should not come before people's livelihoods, and employees shouldn't be punished for the actions of their employers. But it is reasonable that those businesses in receipt of state support should be expected to change their ways and become better corporate citizens. When so many businesses are able to thrive while paying their fair share, it shouldn't be too great a hurdle for all companies to do the same in the future.

**CORONAVIRUS BAILOUTS HAVE COST THE GOVERNMENT OVER £100BN, ACCORDING TO THE OFFICE FOR BUDGET RESPONSIBILITY**

Not all of the problems with the UK's tax system comes down to businesses and individuals playing the system. Increases to business rates is putting an unnecessary and damaging burden onto small businesses, government tax cuts to corporation tax, antiquated council tax banding, and capital gains relief for wealthy businesspeople are evidence that a more equitable system is needed.

We need a fit for purpose tax system to pay for the public services we rely on. The need for well-funded public services, from the NHS to social care, has never been clearer. And a progressive tax system can do better than simply protecting the jobs that existed pre-lockdown. It can be a tool to stimulate local economies and promote sustainable, bottom up growth and co-operative entrepreneurship. In a progressive system, tax also combats inequality by redistributing wealth, provides a tool to tackle wider issues from carbon emissions to smoking, and creates a level playing field for businesses large and small. ⬢

# FAIR TAX CONDITIONS TO PLUG THE HOLES IN OUR TAX RULES




**Businesses in receipt of taxpayer bailouts – both in terms of the exceptional support given to companies during lockdown and in terms of bailing out big employers in order to protect jobs – should be expected to do better in the future. While it is right that those businesses who need help should, in many cases, benefit from state support when they're in trouble, they should also support the state to provide essential services when they're able to do so.**

These conditions aren't about punishing individual companies – they should be about plugging the many holes in our tax rules. We need to build a fairer economy after coronavirus, and to do so we need a fairer taxation framework to match. These conditions should apply to all businesses and should form the basis of a new system where everyone pays their share. Should we face another crisis in the future, there will no longer be an issue of tax avoiders benefiting from a public purse that they haven't paid into.

### 1. Publish a fair tax policy

Companies should be required to publish a binding tax policy that explicitly shuns tax avoidance and the artificial use of tax havens, as well as committing them to the declaration of profits in the place where their economic substance arrives – preventing profit shifting. To make this meaningful, it should be subject to an annual compliance audit and there should be a designated board director responsible.

It is important too that companies embrace greater transparency. This means making the consolidated annual profit and loss report of the parent company public together with details of association corporation tax payments, beyond a "total tax" accounting charge. This should be accompanied by a tax reconciliation note, to give the company the opportunity to set out when and why there are any deviations from the headline rates you might expect them to pay.

### 2. Country-by-country reporting

Taxes paid should all be disclosed on a country-by-country basis so anyone can see where profits are made and where taxes are paid.

Companies who shift profits to tax havens should play by the same rules as every other business. The Treasury should use its powers under the Finance Act 2016 to properly enforce country-by-country reporting for global corporations, so that public scrutiny of corporate behaviour can put pressure on businesses to be more responsible.

### 3. Transparency on ownership and control

It's only right that businesses are upfront about who owns them. Anonymously-owned companies are one of the key tools used by money launderers and tax evaders to hide elicit gains – so clarity on the ultimate beneficial owners, as well as those with significant control, allows HMRC and law enforcement to make sure everyone pays their fair share.

# PROGRESSIVE TAXATION AS A TOOL TO STIMULATE ECONOMIC ACTIVITY

**Rather than a rising tide that lifts all boats, growth predicated on trickle down economics has been proven time and again to benefit those at the top while leaving many communities behind altogether. So tax can be more than a tool to raise revenue for public expenditure – it is a tool for redistribution, it can stimulate economic activity in places where it's needed most, and it can incentivise the corporate behaviours that benefit communities and the environment.**

Redistributive policies counter rising wealth concentration – and this increasing accumulation of wealth by the rich is at the expense of the squeezed middle and lowest income. As this gap grows, so does the imperative to reduce it, and taxation and redistribution are an important tool at our disposal. If one side of the coin seeks to reform markets and the economy so that it creates a more equal distribution of power and wealth, through widening ownership and growing the co-operative sector, the flip side is to ensure a progressive taxation system redistributes wealth, creates a level playing field, rewards climate action, incentivises productivity, enables thriving local economies, funds public services and creates a strong safety net.

### 5. Supporting high streets

Before Covid-19, high street retailers were being significantly impacted by online retailers who can provide the same products for less because of not having to pay rents or business rates. With lockdown closing down the majority of shops, those existential pressures risk accelerating the decline of the high street as people shift their shopping habits.

Many big online retailers and marketplaces register much of their activity overseas or in tax havens, further reducing their costs as their corporation taxes remain very low. Business rates tax economic activity, creating a perverse disincentive to doing business, and because they are only paid by bricks-and-mortar businesses, high street stores and cafes pay a disproportionate share of corporate taxes based on their profits compared to the large multinationals.

Business rates relief for retail, leisure and hospitality sectors – as well as locally administered relief for other small businesses and charities in England, and similarly in Wales with the addition of further grants and assistance, relief measures and a support package in Scotland, and a rates package and deferred bills in Northern Ireland – has been a temporary salve.

As we emerge from this crisis, there should be a thorough review of business rates – with a view to scrapping them in favour of a more progressive, much fairer form of business taxation including a land value tax. In order to create a level playing field between online behemoths and local high streets, this new tax landscape should reflect the location of the customer in the territory in which large values of sales are generated.

### 6. Incentivising diverse economic growth

The Entrepreneur Tax Relief is an ineffective and unfair policy – not only does it fail to increase entrepreneurship; it simply provides large handouts from the government to some of Britain's wealthiest people. This tax break should be scrapped, and the £2.7 billion additional revenue a year as a result should be invested in measures which create a fairer economy – this could include a combination of creating a new co-operative investment bank, funding the new Co-operative Development Agency, and funding employee buyouts of businesses that are looking to relocate or close for good as a result of Covid-19.

By contrast, the Social Investment Tax Relief (SITR) is of huge help to social enterprises, co-operatives and charities. It supports them as they look for finance and was growing as a new and innovative measure to grow investment. According to analysis by Social Enterprise UK, this is a tax relief, too, with a track record of attracting investment into communities outside of London – including many of the areas worst affected by coronavirus.

The Government plans to scrap this scheme in 2021, just as the sector is getting to grips with it. This should be retained, but with the restrictions on using the relief loosened so that it can be made use of more widely.

# OWNING THE FUTURE

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