The Treasury Committee inquiry into the shifting sands of UK tax policy and the tax base

Response by the Chartered Institute of Taxation

1 Introduction

1.1 The Chartered Institute of Taxation (CIOT) welcomes the opportunity to respond to The Treasury Committee inquiry into the shifting sands of UK tax policy and the tax base.

1.2 Our comments build upon the oral evidence given by John Cullinane, Tax Policy Director of the CIOT, at The Treasury Committee hearing on 2 February 2016.

1.3 The inquiry is wide ranging, and covers a large number of issues. We have set out in the appendix to our submission each question raised by the Committee. However, in the interests of clarity and brevity, we have sought to limit our comments to the key themes identified by the Committee.

1.4 We would be willing to elaborate on our high-level comments if the Committee would find it helpful for us to do so.

1.5 Our response draws upon comments made by our members, both in industry and professional practice.

2 Executive summary

2.1 The government should consult fully before making any significant changes to the tax system. We are concerned that an increasing number of measures seem to be introduced with little or inadequate consultation, resulting in ill-thought-out legislation and uncertainty for taxpayers.

2.2 We welcome the use of road maps to communicate the government’s short, medium and long term intentions in relation to taxes. However, too many immediate changes still go unannounced, such as the recent changes to Stamp Duty Land Tax (SDLT) for non-residential property. While road maps may not be feasible for all areas, we
believe that there are other parts of the tax system, eg environmental taxes where a medium term indication of government policy would be helpful.

2.3 The international corporate tax system is in the process of being made fit for purpose by virtue of the OECD/G20 BEPS project actions. We would recommend that these plans are given time for implementation, bedding in, and evaluation.

2.4 The challenge to the Professional Bodies made at March 2015 Budget has been accepted by those bodies and proposals are being developed, in discussion with HM Revenue & Customs (HMRC), to Professional Conduct in Relation to Taxation to codify the behaviours expected of responsible tax advisers and agents.

2.5 While we consider the merger of the Inland Revenue and HM Customs & Excise to have been desirable and broadly successful, we remain concerned that the merged Department has to administer an increasingly complex tax system with continually reducing resources. This has a direct impact on the level of ‘customer’ service it provides, and puts more pressure on agents and taxpayers themselves to do what might properly be considered to be HMRC’s job in the first place.

2.6 We are broadly supportive of the government’s plans to bring tax into the 21st century with its Making Tax Digital plans. However, some aspects such as compulsory digital record keeping for businesses and landlords will require a radical and substantial change in the behaviour of many taxpayers and businesses, yet the key parts of Making Tax Digital, and the timescales, were announced before any meaningful consultation was undertaken. We are concerned that implementation of Making Tax Digital will be rushed, when in reality it will be both challenging and costly for individual taxpayers and businesses to comply with, and will likely require many corrections post-implementation. We question whether the hoped-for benefits of reducing the tax gap by ‘forcing’ smaller businesses to keep better records by more frequent reporting are sufficiently large or reliably estimated to justify departing from what would be the more ‘standard’ approach; to roll it out starting with the larger businesses and willing volunteers and ironing out problems with that population before extending to those with fewer capabilities. We do welcome the role for the Office of Tax Simplification (OTS) in this major project.

3 The making of tax policy

3.1 The Treasury Committee’s principles of tax policy are set out in the appendix to this submission.

3.2 We have previously commented on the extent to which Autumn Statements and Budgets have complied with these principles, and provided a ‘score’ for each fiscal event. Recent scores have been as follows:

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<tr>
<th>Fiscal event</th>
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<tr>
<td>Autumn Statement 2015</td>
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<td>Autumn Statement 2014</td>
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3.3 We do not believe we provided submissions in relation to the two 2015 Budgets, but we do intend to do a similar excise in relation to Budget 2016. Looking back at the
two 2015 Budgets, and initially at Budget 2016, our scores would likely be similar to that for Autumn Statement 2015.

3.4 We think, therefore, that there is certainly room for improvement in compliance with the Treasury Committee’s principles.

3.5 We have a number of observations in relation to how tax policy is developed, and we have summarised these below.

**Inadequate consultation**

3.6 While we accept that some measures (particularly anti-avoidance measures) require the element of ‘surprise’ to avoid forestalling, that is not the case with the majority of tax measures; yet substantial changes to the tax system are still made without prior consultation, or once the decision has substantially been made. We also note that there are occasions where the government has introduced anti-avoidance law stated to take effect from the announcement date but with consultation built in (and an anti-forestalling measure announced).

3.7 We have previously drawn to the Committee’s attention the changes to Entrepreneurs’ Relief made in Finance Act 2015.\(^1\) Budget 2016 confirmed that the unintended consequences of these changes would be reversed, but this has required significant input by Professional Bodies (particularly CIOT and ICAEW), along with HMRC, not to mention uncertainty for businesses and taxpayers during the intervening period. We consider that these issues could have been avoided had there been proper consultation before the Finance Act 2015 changes were made.

3.8 More recently, changes to SDLT on non-residential property, and the 3% supplement for additional residential properties (both of which are significant changes), have either had no or inadequate consultation;\(^2\) yet the impact on the property sector and investors is significant. This is surprising because, there has been more thorough consultation in the same sector, seeking views on the powers the independent Bank of England should have over the UK’s buy-to-let mortgage market.\(^3\)

3.9 We will mention Making Tax Digital later, but we are concerned that the key elements of this initiative (which will radically transform both record keeping and the tax system) were announced before any real form of consultation took place. HMRC are now committed to delivering an extremely ambitious project, in very tight timescales, to satisfy the announcements that have already been made.

3.10 We have also received comments that consultations are often poorly thought out and explained. The recent consultation on company distributions was given as an example because it did not take adequate account of possible impacts on normal commercial arrangements. This seemed to indicate a lack of in-depth thought on policy matters, and/or a lack of review by more senior HMRC/HMT staff. With the benefit of hindsight, the consultation was also based on a premise of the existing rates of Capital Gains Tax (CGT) which, of course, were reduced in Budget 2016.

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\(^1\) Sections 41 to 43, Finance Act 2015.

\(^2\) The consultation in relation to the 3% supplement was issued on 28 December 2015 with a deadline of 1 February 2016 (less than five weeks), with draft legislation only published on 16 March, just two weeks before the legislation takes effect. The changes to the taxation of non-residential property were entirely unannounced.

\(^3\) Consultation on Financial Policy Committee powers of direction in the buy-to-let market, which ran from 17 December 2015 to 11 March 2016, building on previous development in the residential mortgage lending market.
Without revisiting our comments in detail, it is difficult to say whether they would have been materially different. However, the context of the consultation might have been better understood had the proposed changes in rates been announced earlier.

3.11 It remains our firm view that early and full consultation with relevant stakeholders will lead to better informed and more coherent tax policies and ultimately better tax legislation.

**Certainty and stability**

3.12 These are two of the Committee’s key principles of tax policy, but we feel these principles are often ignored.

3.13 The recent publication of the Business Tax Road Map in March 2016 (building on the Corporate Tax Road Map published in November 2010), was an ideal opportunity to provide some clarity on the government’s key plans for business taxes. Indeed, these road maps are intended to set out the government’s plans for taxes, and give businesses the certainty they need to plan and make the long term investments that are vital for growth and for boosting the UK’s productivity. We believe that road maps which meet these criteria should be extended to other areas, such as environmental taxes.

3.14 The Business Tax Road Map is a lengthy, complex document (some 35 pages), and provides a comprehensive explanation of many tax measures. It also reports some immediate (or almost immediate), previously unannounced changes, such as the reduction in the top and basic rate of CGT (with exceptions), and the changes to SDLT for non-residential property. While elements of these measures might be welcome, these represented significant changes, and we would suggest that any future tax road maps should give adequate forewarning, rather than report immediate changes.

3.15 The recent and ongoing changes to property taxation are just one of a number of examples of instability and uncertainty, ie:

- The increase in the SDLT rates for non-residential property (as noted above), with no prior warning, is likely to lead to even greater use of Special Purpose Vehicles (SPVs) to envelope properties so that they can be sold at the much lower Stamp Duty rate of 0.5%.

- The immediate 100% increase to the SDLT rates on higher value geared leases announced in Budget 2016. Our members in the industry suggest that this will have a detrimental impact on the balance sheet value of many property companies.

- The additional 3% SDLT charge on purchases of additional residential properties, which suffered from inadequate consultation and (despite representations in the short consultation window) will now impact on large-scale property investors. Our members in the industry consider that this is likely to have a direct impact on the availability of new houses; contrary to the government’s plans to increase the supply of affordable housing.

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4 Executive Summary, Business Tax Road Map, March 2016
5 Prior to Budget 2016
6 The ever changing pensions landscape and, until recently, the significant and frequent changes to First Year Allowances are further examples.
The restriction in deductibility of finance costs on rented property for natural persons rather than legal persons. These suffered from inadequate consultation and a lack of clarity over the policy intent (for example, why natural persons are affected and not legal persons).

Unexplained inconsistencies in reliefs, for example between the 3% SDLT higher rate and the 15% SDLT higher rate.

The lack of a clear, discernible policy for property taxation, and stability, has had a significant impact on the sector; not necessarily impacts which are consistent with the underlying policy objective. Property transactions are inevitably high in value and have long lead-in times, and short-notice changes, with inadequate consultation, can have the opposite of the desired effect.

Simplification

We welcomed the proposals to put the OTS on a statutory footing, but we felt that the proposals could go further.\(^7\)

Historically, we would question whether the OTS has had any significant role in development of tax policy. Its focus has predominantly been on legislation that is already on the statute books.

However, we note that the OTS will continue to develop the design for a look-through taxation system and a new simple business model that protects the assets of the self-employed,\(^8\) and will review the impacts of moving employee National Insurance contributions (NIC) to an annual, cumulative and aggregated basis and moving employer NIC to a payroll basis.\(^9\) We welcome the OTS undertaking projects that can impact on the future design of the tax system.

In particular, we consider that simplification of the tax system for small businesses and incidental income streams is vital to the success of the Making Tax Digital project; otherwise businesses and individuals will continue to struggle with the complexity of the tax system, and we welcome the announcement that, from April 2017, individuals will benefit from £1,000 property and trading income allowances and will save them having to report that income to HMRC,\(^10\) although we are still to see the details of how they will operate.

However, we remain concerned that the OTS is fighting a losing battle in seeking to simplify an increasingly complex tax system. We have previously commented on the increasing amount of tax legislation introduced year on year in the finance acts,\(^11\) which (in non-election years) range from 400 to 600 pages. Finance Bill 2016 is no exception, with some 583 pages of legislation.\(^12\) With rare exceptions, and contrary to the statement in the Business Tax Road Map, simplification seems to be losing out to complexity.

\(^7\) http://www.tax.org.uk/policy-technical/submissions/office-tax-simplification-permanent-establishment-ciot-comments
\(^8\) OOTLR, paragraph 2.32
\(^9\) OOTLR, paragraph 2.63
\(^10\) OOTLR, paragraph 2.14
\(^12\) We recognise that the length of legislation does not automatically mean that it is complex; but it does represent change which of itself brings complexity.
3.22 We consider that as tax rates reduce, the justification for simplicity increases, as the requirement for tax reliefs, etc is negated by the lowering main tax rate.\textsuperscript{13} For example, the rate of Corporation Tax is set to reduce to just 17\% in Financial Year 2020. This might provide an opportunity to review the system of reliefs from Corporation Tax which would have been much more important when the main rate was as high as 30\%.

3.23 We also consider it would be worthwhile considering whether a company’s taxable profits can be more aligned with accounting profits; not just for smaller businesses, but for large businesses too. The requirements on large companies to accurately report profits and losses, and adopt international accounting standards, suggests that some closer alignment of tax and accounting profits might be possible.

4 The problem of the shrinking tax base

4.1 Corporation Tax receipts are expected to increase from £43.0bn in 2014/15, to £50.2bn in 2020/21.\textsuperscript{14} During that period, the main rate of Corporation Tax will reduce from 20\% to 17\%. While the economy is expected to grow during that period by just over 2\% per annum,\textsuperscript{15} these forecasts indicate an increase in the UK Corporation Tax base, not a reduction.

4.2 Looking at the available figures for Corporation Tax in more detail,\textsuperscript{16} the majority (>75\%) of the Corporation Tax receipts in 2013/14 of £40.2bn came from ‘tangible’ sectors such as manufacturing, construction and retail. Yield from ‘intangible’ sectors made up the minority of Corporation Tax receipts (<25\%), such as from information and communication (£3.3bn) and finance and insurance (£5.3bn). While we recognise the potential flaws in this analysis (ie that ‘tangible’ industries are not free from cross-border avoidance, and income from ‘intangible’ sectors might be low because of cross-border avoidance, etc), the overall cost to the Exchequer from perceived abuse does need to be put into perspective.

4.3 While intangible sectors might be considered to be more mobile than tangible sectors, and potentially therefore more susceptible to cross-border avoidance, issues do arise in the tangible sector, through royalty payments, interest deductibility and so on (see below).

5 Radical solutions to the problem of the shrinking tax base

5.1 At the moment, we would warn against significant or radical changes to the tax system.

5.2 The international regime for corporate taxation has been the subject of detailed review as a result of the BEPS project undertaken by the OECD at the request of the G20 and we consider that those measures should be given time be fully implemented, ‘bed in’ and, importantly, evaluated, before any further significant changes are made.

\textsuperscript{13} Unless perhaps the tax rate is not reduced across the whole tax base, such as the recent changes to Capital Gains Tax rates, see paragraph 2.187 of Budget 2016 Red Book.
\textsuperscript{14} Table B.5, Page 139, Budget 2016 Red Book
\textsuperscript{15} Table B.1, Page 136, Budget 2016 Red Book
\textsuperscript{16} Table 11.5, Corporation Tax Statistics, published 28 August 2015
5.3 Any changes which are made to the UK Corporation Tax system should be done in conjunction with the rest of the world – no mean feat. If the UK made changes unilaterally it would open up more differences between national tax regimes and so potentially create, rather than reduce, opportunities for tax avoidance.

5.4 Similarly, any fundamental change in the basis of corporate taxation would need detailed thought. For example, corporate taxation based on turnover would increase revenues from overseas companies trading in the UK, but would reduce revenues from UK companies trading overseas.

5.5 Under the current profits-based regime, Corporation Tax is a ‘below the line’ cost, and we understand many companies incentivise senior staff to maximise profit before tax; fortuitously beneficial for the tax authorities. Changing to a turnover-based tax would bring corporate tax ‘above the line’ and is likely to mean it becomes a cost much more actively managed.

5.6 While the UK rules for taxing multinational businesses are based on agreements dating back to the 1920s, the OECD/G20 anti-BEPS measures seek to bring those rules into the 21st century.

5.7 There is perhaps a case for a similar review of other forms of taxation, such as capital taxation and succession taxes. However, any such review should be undertaken as part of a full and transparent consultation, with any structural changes benefiting from long lead-in times.

6 Other mitigations of the problem of the shrinking tax base

6.1 It is important to note that the public perception of tax avoidance is changing. Particularly in times of austerity, there is a greater emphasis on being seen to ‘pay your way’.

6.2 So, whilst recent initiatives such as Accelerated Payment Notices (APNs), the General Anti Abuse Rule (GAAR), and the tightening up of the Disclosure of Tax Avoidance Scheme rules (DOTAS), etc have no doubt acted as a deterrent, we suspect that HMRC’s successes in litigating avoidance cases, and public opinion, have also contributed to a reduction in the marketing and adoption of aggressive and artificial tax avoidance schemes.

6.3 The ongoing work in relation to Professional Conduct in Relation to Taxation (PCRT) continues and we are pleased to be part of this process. However, we do not believe that professional tax advisers are a significant contributor to the tax gap. We note that some commentators on the tax gap include in their (much higher) estimates possible taxation in the UK if the system of corporate taxation was fundamentally different. It seems to us that such notions are not properly a ‘tax gap’ at all. We note that tax evasion remains the biggest element of all estimates of the tax gap. We consider there is a case for looking at structural changes to make tax easier to comply with for the self-employed and micro businesses. We worry that additional costs of compliance in some areas, eg Making Tax Digital, could actually inadvertently encourage tax evasion.

6.4 Measures such as the Promoters of Tax Avoidance Schemes (POTAS) rules\textsuperscript{17} might strengthen the deterrent (for both PCRT and non-PCRT advisers), but the rules are so new it is too soon to comment. There does remain a danger, however, that such

\textsuperscript{17} Draft clause 148, Finance (No. 2) Bill 2016
rules inadvertently catch or impact upon the many, when they are targeted at the few; as well as some promoters considering action taken by HMRC to be some form of ‘badge of honour’.

6.5 As noted above, the OECD/G20 BEPS project recommended a number of actions, most of which are being taken forward in the UK. The UK should continue to liaise with other countries to ensure that these measures are introduced globally and in a co-ordinated manner, to avoid opening up new differences in treatment during the process of implementation.

6.6 The impact of these measures should then be assessed to ensure that they are having the desired effect, with further co-ordinated measures developed to address any weaknesses.

7 The administration of tax

HMRC

7.1 We consider that, on the whole, the merger between the Inland Revenue and HM Customs & Excise was a sensible idea and has many successes, alongside some well-known failures. Taxpayers and agents benefit from dealing with a single tax authority, and cost savings can be achieved through the operation of one government department rather than two.

7.2 Subject to our comments on Making Tax Digital below, we are also broadly supportive of the proposed rationalisation of HMRC’s offices, and the inevitable move to digitalisation which will have the effect of reducing the level of face-to-face interaction required by most taxpayers. We consider it is essential that the government supports this through much greater investment in broadband which clearly does not reach everyone today. Those living a few miles away from a town, or in a rural area, are often put at a significant disadvantage when engaging digitally with the government.

7.3 However, while we understand that the level of qualified staff within HMRC has remained constant (at around 17,000), there is a real risk that valuable expertise will be lost when employees leave because they are unable to work at their nearest regional hub. In addition, previous spending constraints mean that HMRC have to recruit around 200 graduates a year to meet the increasing need for qualified staff. Long term planning remains important for HMRC and clearly have not always worked well in the past. At the same time, as an external observer, there is concern that funding constraints may impact on HMRC’s ability to deliver customer service and manage the UK’s complex tax system.

7.4 The above streamlining of HMRC is putting more onus on taxpayers or their agents to self-serve, and HMRC need to step up their game in relation to customer service, so the announced additional investment of £71m to improve customer service is very welcome. However, we remain concerned at the general direction which is to put greater burdens on taxpayers and their agents, and harsh penalties when these requirements are not met, when much of this is arguably the role of HMRC.

18 Paragraph 1.186 of Budget 2016 Red Book
19 The client notification requirements in section 50 of Finance (No 2) Act 2015 are an example of advisers being required to undertake what are essentially HMRC’s compliance activities.
Shifting sands of UK tax policy and the tax base: CIOT Comments 4 April 2016

7.5 The Making Tax Digital proposals represent a significant and unprecedented change in the way taxpayers maintain their records and interact with HMRC. The CIOT is engaging with HMRC on these proposals in a constructive manner, but we do have fundamental concerns:

- Aspects of the Making Tax Digital proposals relating to mandatory quarterly reporting are predicated on the assumption that around £600m of the tax gap relates to errors in bookkeeping and accounting records which can be eradicated by the requirements proposed. We are concerned that this figure is questionable and unsupported by evidence; yet it is the driving force for the focus of the initial roll-out on mandatory reporting by smaller businesses and individuals which we fear could distort and endanger the whole Making Tax Digital project.

- The headline measures and timescales were announced before any real form of consultation took place. Our concern is that this will reduce the prospect of the subsequent consultations changing the proposals in any meaningful way. This would be unfortunate since the Making Tax Digital project has the potential to create a simpler, more workable tax system if it is developed and implemented in the right way but it must be managed carefully and in consultation with taxpayers, tax professionals and software developers alike.

- The timescales for implementation are extremely optimistic, as is the fact that Making Tax Digital will somehow contribute towards the £400m cost savings to businesses – when in fact complying with Making Tax Digital is likely to result in increased costs for many businesses. For instance, when the filing of VAT returns became compulsory we are aware of businesses having to pay agents to submit the returns on their behalf, thus increasing (not reducing) their administrative costs.

- Whilst HMRC state they will assist the digitally excluded, we expect HMRC to underestimate the number of individuals and businesses who will find it difficult to comply without significant support and education from HMRC. Those who currently assist friends and family with their tax affairs may be unable to provide the level of support required post-digitalisation. Further, many individuals are fearful of HMRC and will want the reassurance of an agent’s review before submitting anything to HMRC. Both those groups are likely to incur increased costs in complying with the MTD proposals.

8 The Chartered Institute of Taxation

8.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT’s work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

The CIOT draws on our members’ experience in private practice, commerce and industry, government and academia to improve tax administration and propose and

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20 The recent Business Records Checks programme was scrapped because it failed to identify the level of errors expected.
explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries. The CIOT's comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.

The CIOT's 17,500 members have the practising title of ‘Chartered Tax Adviser’ and the designatory letters ‘CTA’, to represent the leading tax qualification.

The Chartered Institute of Taxation
4 April 2016
Appendix – the nature of The Treasury Committee inquiry

Call for written submissions

The Treasury Committee invites written submissions addressing the following points:

The making of tax policy

- To what extent, if at all, has the Treasury complied with the principles of tax policy, set out in the annex?
- Have the entities involved in tax policy (HM Treasury, HMRC and the Office for Tax Simplification) performed adequately?
- Does the Treasury have the expertise to design tax policy? Does it make effective use of HMRC advice?
- What simplification measures, whether or not considered already by the OTS, now need examination?

The problem of the shrinking tax base

- To what extent is the UK’s corporate tax base being eroded as business is increasingly conducted globally?
- Are there particular sectors that are more mobile and do those sectors make a disproportionate contribution to overall tax yield?
- What other changes are occurring in the UK tax base, and how should the UK Government react to these changes?

Radical solutions to the problem of the shrinking tax base

- Given the inevitability of some sort of tax gap and of differences in interpretation of the "correct amount of tax", should the Government address the problem of the shrinking corporate tax base through more radical changes to the tax system?
- If so, what type of corporate tax structure could ensure that revenue is collected in accordance with the principles of tax policy and in a way which minimises the risk of base erosion? For example, should business taxation be based on turnover rather than profits?
- Should the Government consider other forms of taxation (such as the proposals of the 2020 Tax Commission) when considering how to raise tax in the future, particularly from businesses and wealthy individuals?
- Is there a case for a wholesale review of capital taxation?

Other mitigations of the problem of the shrinking tax base (addressing tax avoidance and non compliance)

- Have the recent initiatives (GAAR, the accelerated payments regime and notifications under the Disclosure of Tax Avoidance Schemes) been effective in tackling avoidance?
- To what extent will projects such as the OECD’s Base Erosion and Profit Shifting (BEPS) project and common reporting standards help in tax collection?
- What further international cooperation is required?
- March 2015 Budget contained a challenge for the tax professional bodies to take a greater lead in setting and enforcing clear standards around the facilitation and promotion of avoidance. Is that likely to succeed in encouraging more responsible behaviour from tax advisers? Do tax advisers need to be regulated?
- What, if anything, should be done to maintain or improve a culture of compliance or a sense of tax morality among the full range of taxpayers?
The administration of tax

- Has the merger of the Inland Revenue and Customs and Excise been a success, and have there been too many subsequent reorganisations within HMRC?
- Are the Treasury’s and HMRC’s plans for "Making Tax Digital" (as set out in the "roadmap" published on 14 December 2015) adequately designed and acceptable?

Note:

The Treasury Committee published a report on the Principles of Tax Policy in March 2011, recommending that tax policy should:

1. **Be fair.** We accept that not all commentators will agree on the detail of what constitutes a fair tax, but a tax system which is considered to be fundamentally unfair will ultimately fail to command consent.

2. **Support growth and encourage competition.**

3. **Provide certainty.** In virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs. **Certainty about tax requires:**
   
i. **Legal clarity:** Tax legislation should be based on statute and subject to proper democratic scrutiny by Parliament.

   ii. **Simplicity:** The tax rules should aim to be simple, understandable and clear in their objectives.

   iii. **Targeting:** It should be clear to taxpayers whether or not they are liable for particular types of charges to tax. When anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system.

4. **Provide stability.** Changes to the underlying rules should be kept to a minimum and policy shocks should both be avoided. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.

5. The Committee also considers that it is important that a person’s tax liability should be easy to calculate and straightforward and cheap to collect. To this end, tax policy should be **practicable.**

6. The tax system as a whole must be **coherent.** New provisions should complement the existing tax system, not conflict with it.