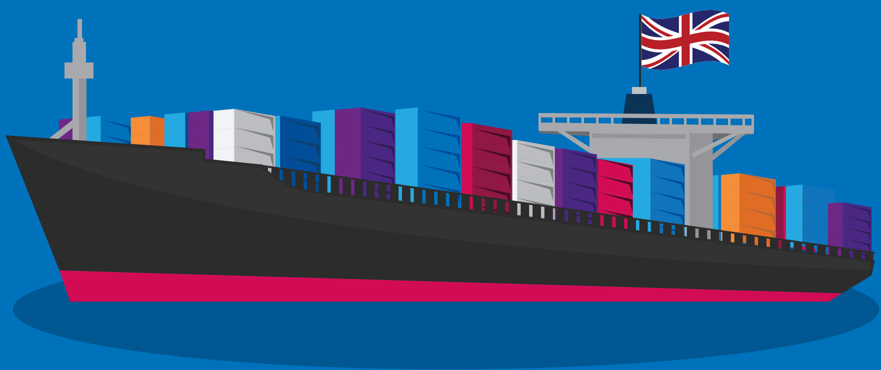
Succeeding in uncharted waters

Assessing the competitiveness of the UK



“Overall, this year’s study demonstrates that businesses continue to see the UK as an attractive place to do business. The material change, however, is that finance executives are now grappling with the question of how Brexit might impact current and future investment.

The challenge for the UK Government during the next two years will be to avoid the trap of inertia during exit negotiations and to recognise there are still levers that can be pulled to help ensure the UK retains its appeal.”

Robin Walduck
Partner and Head of International Tax
KPMG in the UK

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Executive summary

2016 has to be one of the most interesting years in recent times. Buffeted by a unique set of domestic, political and international economic pressures over the past 12 months, UK businesses now face a period of flux and uncertainty as the Government resets the country's future on the global stage.

Despite possible turbulence ahead, as we enter exit negotiations, it's still, in some respects, business as usual, a sentiment reflected in KPMG's annual research into the competitiveness of the UK tax regime.

Our 2016 study shows that UK and other G7 companies are continuing to assess where to locate their business activities and investments in exactly the same way as they have in previous years. In other words, they are making these judgments based on a consistent set of factors: a country's political and economic stability, its market size and the cost and availability of its skilled labour force. Likewise, national tax regimes still exert a strong influence on where companies place their business functions.

Evaluating UK prospects

In the 11 years we have conducted this annual study, the top concerns of tax and finance professionals have consistently included levels of stability, change and complexity in both the UK and global economies. The main issue companies are now grappling with is: 'how should Brexit affect our current and potential future investments and high-value activities in the UK?' In this, the first detailed study since the EU referendum, we can see substantial differences emerging between how UK company tax and finance executives view the challenges ahead, compared to their G7 peers.

Whereas UK companies remain broadly confident about the UK's future attractiveness, non-UK businesses are now markedly more bearish. This is due to heightened concerns over disruptions in trade deals and tariffs, an end to the UK's access to the single market, and the mobility of skilled labour. As a consequence, the picture this year is far more mixed and has meant the UK has lost ground in KPMG's assessment of both tax competitiveness and its appeal as a destination for Foreign Direct Investment (FDI).

On the one hand, it is reassuring to note that few companies are planning to withdraw their entire operations from the UK as more pessimistic Brexit commentators feared. In fact the number of companies considering taking business functions out of the UK is broadly unchanged from recent years. This suggests most are adopting a 'wait and see' approach to Brexit - postponing many location and investment decisions until more details of the UK's post-Brexit trade and regulatory systems emerge.

On the other hand, tax executives' report that the potential disruption of leaving the EU and ambiguity over the UK's future economic prospects now weigh heavily on their minds. This has resulted in companies' estimating that Brexit could ultimately lead to substantial reductions in investment and high-value activities, such as capital expenditure, employment and R&D investment.

In addition, the proportion of both UK and non-UK respondents looking to move business functions into the UK dropped considerably in 2016. This means that, overall, companies report possible net outflows of most business functions this year, reversing the overall position reported in 2015.

Our study suggests that G7 companies expect the UK can remain a top investment destination despite the turbulent times ahead

Positive steps forward

And yet, despite the present – and potential – disruption that Brexit represents, there are also more positive messages from business in terms of the UK's future as a leading destination for business investment. Many companies we spoke intend to stay and propose a number of constructive measures the UK Government could take, in order to bolster the UK's appeal to companies both at home and abroad.

Managing change and complexity are top priorities on business agendas. In that light, tax executives consistently call for simplification of the UK tax regime, as well as support to help companies manage its current complexity. Implementing current plans to drop tax rates to 17% is one highly popular measure: companies believe this could achieve material increases to capital expenditure, employment and R&D investments.

That's not all. Companies list a number of other priorities to boost UK investment and activities, including investment in infrastructure – particularly regional transport links and broadband networks – and developing workplace skills. They also believe that the creation of enterprise zones (with preferential tax rates, planning rules and other financial benefits) would have a huge impact in encouraging FDI in the UK.

Brexit is unquestionably a pivotal decision for the UK with the long and medium term outcomes of leaving the EU ranging from the challenging to the potentially positive. The final Brexit framework is not yet known and may not be clear for many months. The challenge for the UK Government during the next two years will be to avoid the trap of inertia during negotiations and to recognise that there is still much that can be done to promote and enhance the UK as an attractive place for both domestic and foreign investment.

01

Key drivers of location decisions and tax competitiveness are broadly stable in 2016

Non-tax issues: 'Skilled labour' drives decisions to relocate business functions, and to retain them in the UK

In spite of the many political and economic changes faced in 2016, the top five factors that influence where companies choose to locate their business functions are consistent with those identified in 2015.

This year, the 'availability and cost of skilled labour' is of particular importance to companies, with half of those interviewed selecting this as one of the top three factors they consider when choosing where to locate business functions. This was particularly important for those operating in the media/entertainment, business services, technology, pharma and engineering/construction sectors. 'Market size', 'macro-economic stability' and 'political stability' also influence location decisions for more than one-fifth of companies. These same three elements also dominate companies' responses when asked what factors influence their decisions to retain business functions in the UK (Figure 1).

While companies hold broadly consistent views on the most important factors influencing location and retention decisions, there exists some variation between the industry sectors examined. For example, 'passporting rights' is regarded as being crucial for Financial Services / Insurance firms, with almost half of this cohort selecting it as a top-three factor they consider. Similarly, 'regulatory scrutiny' stands out as a key concern for both Financial Services and Energy & Natural resources organisations, with around one-third of each group indicating that this is among their top three concerns when making location decisions.

Figure 1: Factors that influence location of business functions and retention of functions in the UK

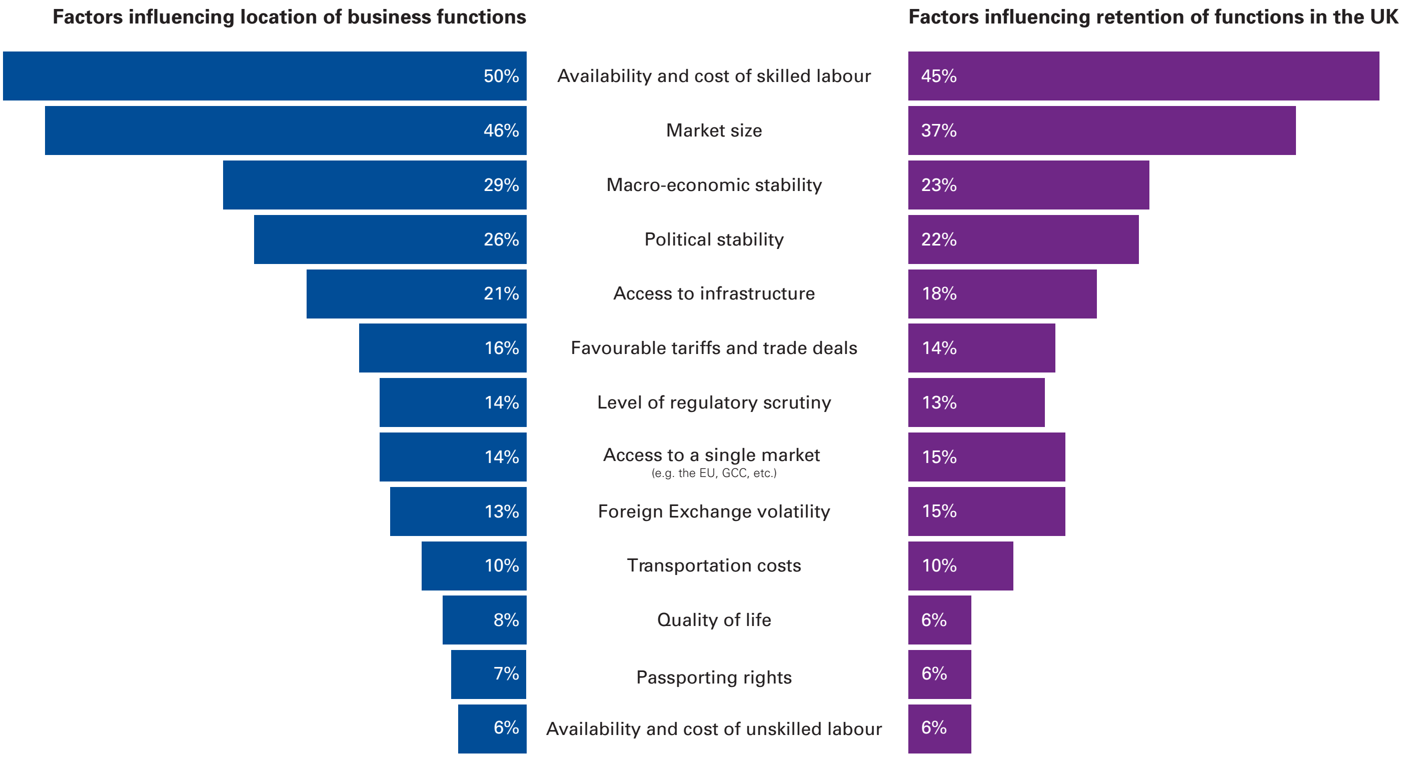


Figure 1:
Looking beyond the tax regime of a country, which three of the following factors are the most important to your company when it chooses where to locate its business functions?
Base size: All respondents (160)

Figure 1:
Thinking about your business functions currently located in the UK, which three of the following factors are the most important when deciding whether to continue to locate business functions in the UK?
Base size: All respondents (160)

Figure 2: Difference between UK and Non-UK company priorities for retaining business functions in the UK

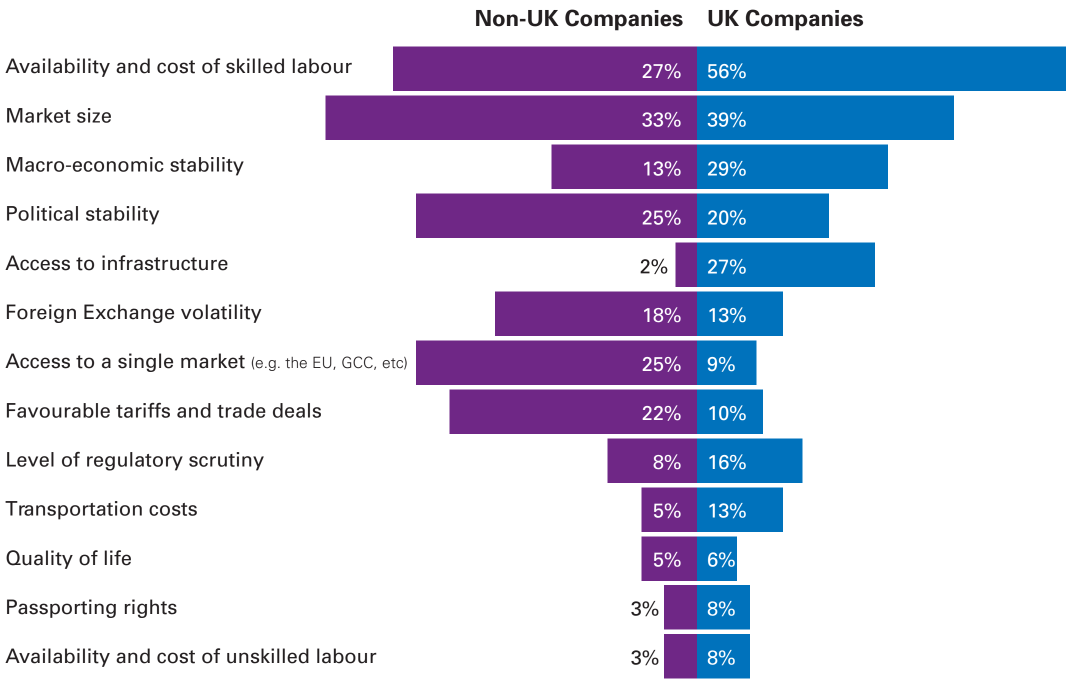


Figure 2:
Thinking about your business functions currently located in the UK, which three of the following factors are the most important when deciding whether to continue to locate business functions in the UK?
Base size: UK companies (100); Non-UK Companies (60)

Gaps emerging between UK and non-UK company priorities regarding location decisions

There are also marked differences between what UK and G7 companies regard as the key factors influencing the retention of business functions in the UK (Figure 2). Non-UK companies clearly demonstrate greater sensitivity than their UK counterparts to two characteristics that impact upon international trade, namely 'favourable tariffs and trade deals' and 'access to a single market' - two key aspects that will also feature prominently in the UK's upcoming Brexit negotiations.

UK companies however show a greater sensitivity to the 'availability and cost of skilled labour', which appears to indicate a very real concern by UK business of the adverse effect that could arise should the Brexit negotiations result in harsh controls over immigration. UK companies are also significantly concerned about 'access to infrastructure' than their non-UK counterparts, a finding which is explored in more detail later in this document.

Brexit has the potential to dent the UK's key strengths in the eyes of UK and international companies

While the terms of the UK's departure from the EU are yet to be defined, this study highlights the perceived benefits of doing business in the UK that both domestic and other G7 companies wish to see preserved or enhanced following Brexit. In 2015's study, UK and international companies identified the top strengths of the UK versus its international competitors; 'political stability', 'availability and cost of skilled labour' and 'access to a single market' all featured in the top-five (Figure 3).

This sentiment was repeated in this year's survey, albeit through a Brexit lens. When the survey was undertaken, 46% of UK respondents and 41% of non-UK respondents identified their preferred Brexit scenario as being the UK joining the EEA, retaining full access to the Single Market and accepting the free movement of people. The second most popular Brexit scenario, and the favoured scenario for the Financial Services and Industrial Products

Figure 3: Top five strengths of the UK versus international competitors in 2015

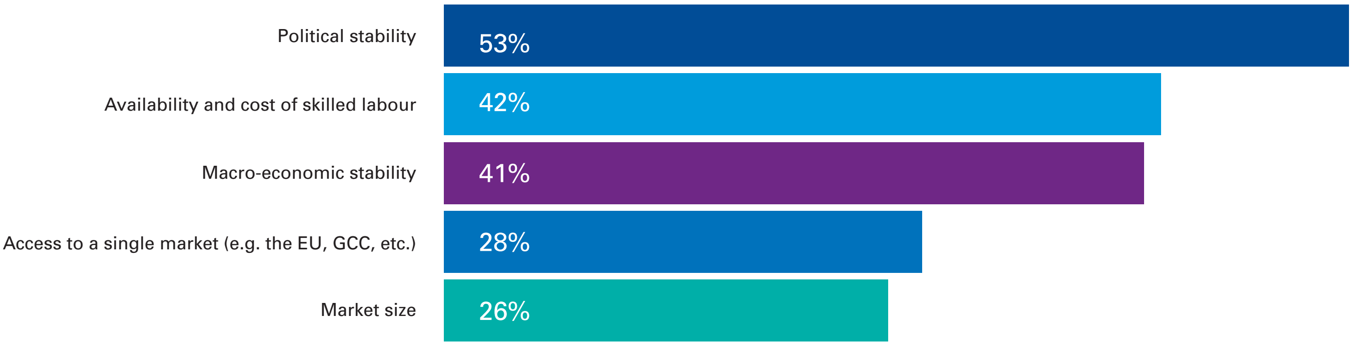


Figure 3:
2015 data: Which three of these factors do you see as particular strengths of the UK versus its international competitors?
Base size: all respondents (167)

markets, was for the UK Parliament to vote not to trigger Brexit, severely delaying or preventing Brexit from taking effect. It is now clear that these scenarios are no longer viable options. However, what these responses do demonstrate is the desire from business for minimal disruption on exiting the EU, and for continued efforts to maintain a competitive tax system.

Therefore wherever steps can be taken to protect, or indeed improve, companies' access to skilled labour, minimise political and economic disruption, and preserve the benefits of single market access, these will serve to reassure companies across the G7 of the UK's strength as a destination for business (see section 4: Promoting growth in the UK: perspectives for the UK Government to consider).

Tax deep-dive: competitive tax regimes continue to influence business location decisions

Our research in recent years has shown that perceptions of the competitiveness of a country's tax regime correlate strongly with its attractiveness as a destination for FDI. Mirroring the sentiment seen in previous years, two-thirds of UK tax and finance executives indicate that tax regimes influence business location decisions (Figure 4). For the executives of non-UK companies, the proportion rises to 74%. These figures would suggest that steps to improve the attractiveness of the UK tax regime could also positively impact FDI in the UK. But what are the specific aspects of a country's tax regime that determine its appeal to potential investors?

Figure 4: The influence of tax attractiveness on decision of where to locate business activities (% UK companies)

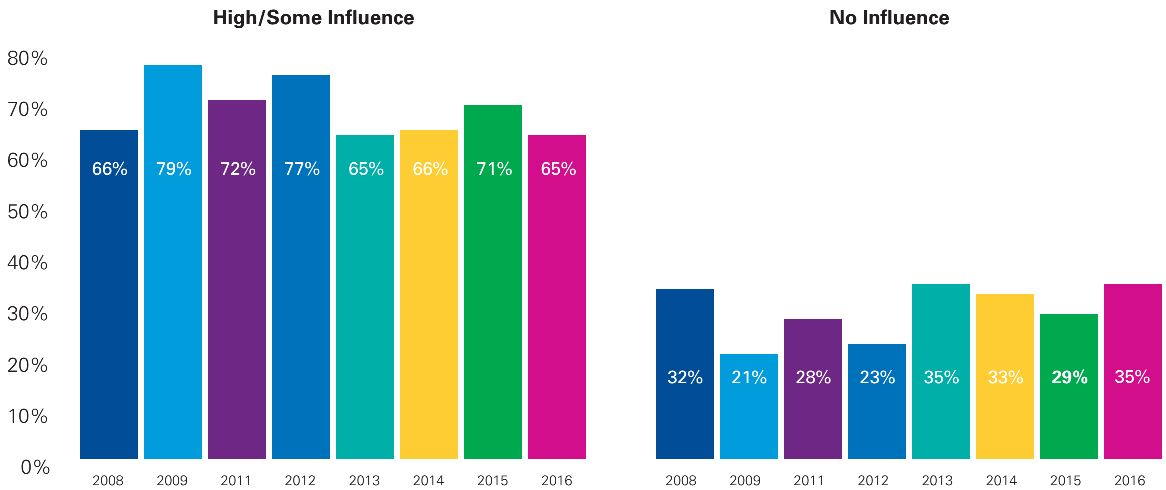


Figure 4:
To what extent does the attractiveness of a country's tax regime have an influence on where your company locates its activities?
Base size: UK companies (100)

Long-term stability, predictability and low tax rates are the troika that drives the appeal of national tax regimes

Over the last decade, tax and financial executives have consistently promoted long-term stability as the key to ensuring the competitiveness of a tax regime. This year, executives add to this by selecting 'predictability of actions taken by tax authorities' as the second most important factor they consider. When coupled with two other dominant aspects considered - 'simplicity' and 'advanced warning of major changes' - the advice to governments is clear: keep disruption to a minimum and, where it is unavoidable, make sure you give companies plenty of warning.

This year, 'low effective tax rate' has risen up the agenda for tax and finance executives from fourth position in 2015 to the third most important factor determining the appeal of a country's tax regime (Figure 5). With this in mind, the UK Government's plans to reduce corporate tax rates to 17% in 2020 should continue to enhance the competitiveness of the UK.

Figure 5: Factors that influence the perceived benefits of a country's tax regime (% UK companies)

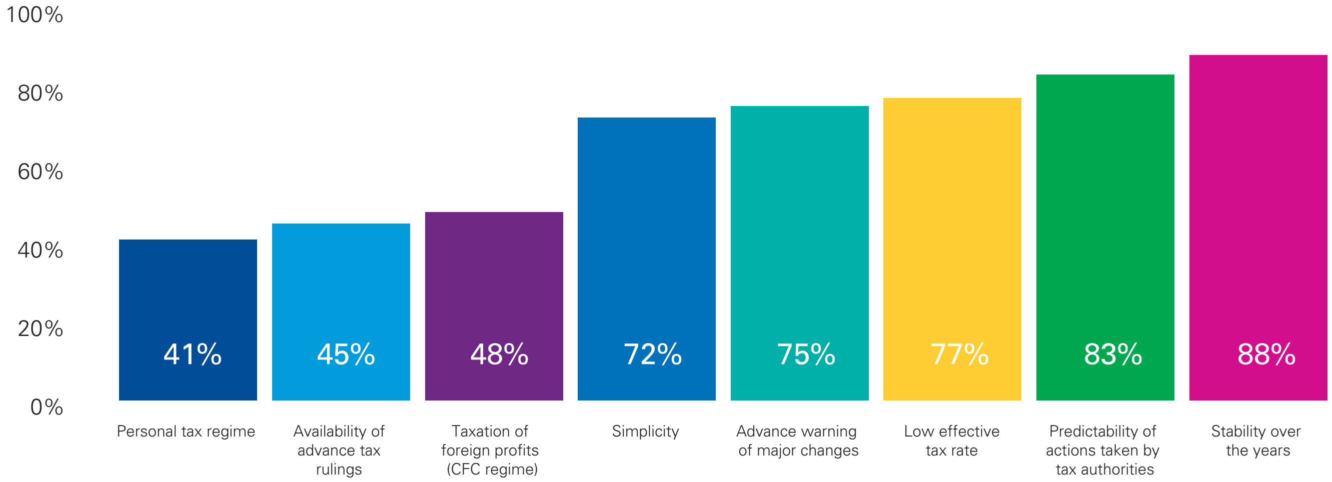


Figure 5:
Thinking about the factors that may be important when assessing the benefits of a particular country's tax system, which of the following factors are important to your company?
Base size: UK companies (100)

The UK Government's plans to reduce corporate tax rates to 17% in 2020 should continue to enhance the competitiveness of the UK

02

UK's appeal as a tax and investment destination falls versus international peers

The UK retains its position as the 2nd most competitive tax regime but its popularity has declined in the last 12 months

Each year since 2012, the majority of UK companies and foreign-owned subsidiaries have selected the UK as one of their 'top three' most competitive tax regimes, when compared to other European and international regimes. This year, the results are broadly consistent with those in recent years (Figure 6). As in 2015, the Irish tax regime tops the rankings with 74% of companies selecting it as one of their 'top three'. The UK again ranks in second place with 65% and Luxembourg follows in third with 42%. What is noticeable however is the widening gap between Ireland and the UK. Whereas in 2015, the difference was just 1% point, Ireland's lead has now been extended to 9%. As explored below, this is primarily driven by the responses of the non-UK companies, where we see a reduction of 28 percentage points in the UK's standing.

Figure 6: Countries with the most competitive tax regimes 2012-2016 (overall mention in top three) (% UK companies)

Figure 6:
Overall, which of the following countries do you think has the most competitive tax regime… and which do you think has the second most competitive tax regime… and which do you think has the third most competitive tax regime? (Any mention)
Base size: UK companies incl. foreign subsidiaries (100)

Looking more closely at companies' responses this year, it is clear that Ireland has retained much of the appeal it has enjoyed since 2014. In contrast, the UK has lost some ground over the last 12 months among both FTSE 350 firms and foreign-owned subsidiaries.

Additionally, the overall view of the UK's tax regime among non-UK companies surveyed this year is much less enthusiastic compared with those executives that participated in 2015. This year, the composition of the executives invited to participate in the study was to ensure perspectives were gathered from the world's major economies – the G7. As such, this year's study includes companies headquartered in France, Germany and Italy but not perspectives from India, Australia and China.

Even taking into account the change in the geographic profile of the survey participants, the decline of the UK's position in the overall rankings by non-UK companies from first to fifth place is marked (Table 1) and illustrates a clear divide in the perceptions of domestic versus international businesses. As we move into the Brexit negotiation period, we expect to gain clarity on whether this is simply a natural division based on commercial drivers, or whether in fact one of the groups has misjudged the tax environment: are UK respondents being too bullish with misplaced optimism, or are non-UK respondents too bearish and too quick to discount the UK?

Table 1: Non-UK company rating of most attractive tax regimes - %

Tax Regime	2015	2015 (exc. DK/NA)	2016 (exc. DK/NA)
Ireland	41% (3)	42% (3)	56% (1)
Luxembourg	53% (1=)	56% (2)	55% (2)
Netherlands	31% (4)	35% (4)	44% (3)
Singapore	14% (NA)	8% (NA)	33% (4)
UK	53% (1=)	59% (1)	31% (5)

KEY:
DK - Don't Know
NA - Not Answered

Table 1:
Overall, which of the following countries do you think has the most competitive tax regime... and which do you think has the second most competitive tax regime... and which do you think has the third most competitive tax regime? (Any mention)
Base size: Rest of world companies (60)

UK remains a popular destination for FDI but its allure has waned

Looking beyond the competitiveness of tax regimes, we also asked respondents to identify the one country they believe to be the most attractive as a destination for FDI. In 2015, the UK emerged as the most appealing destination in the eyes of both UK companies and foreign-owned subsidiaries. This year, Ireland has leapfrogged the UK to take the number one position: Ireland is selected as the most attractive destination for FDI by 39% of respondents, leaving the UK in second place with 24% and Luxembourg in third with 16% (Table 2).

Among non-UK companies, Ireland has significantly improved on its position in a short period of time. In 2015, it ranked sixth but it is now the most attractive destination for FDI, having been selected by 28% of non-UK executives this year. Singapore's appeal is also on the ascent, entering the rankings in this year's study in second place with 14%. Non-UK companies report a slight weakening of the UK's position versus its international peers, with the UK falling from second place in 2015 to third place this year, earning 12% of preferences.

Given the sensitivity of non-UK companies to stability, labour issues and access to the single market, this is a further indication that the Brexit vote has raised questions about the UK's overall appeal and the competitiveness of its tax regime versus other, comparatively more stable, European peers.

Table 2: The UK loses ground to Ireland as the most attractive destination for FDI from a tax perspective - % respondents

Overall	2016
Ireland	35%
UK	20%
Luxembourg	14%
Singapore	9%
Switzerland	7%
Netherlands	7%
USA	2%

UK (inc. Foreign Subsidiaries)	2016
Ireland	39%
UK	24%
Luxembourg	16%
Singapore	6%
Switzerland	6%
Netherlands	6%
USA	1%

Rest of World	2016
Ireland	28%
UK	14%
Luxembourg	12%
Singapore	10%
Switzerland	8%
Netherlands	8%
USA	6%

Table 2:
And which one of these countries do you think is the most attractive as a destination for Foreign Direct Investment from a tax perspective?
Base size: All respondents (160); UK companies incl. foreign subsidiaries (100); Rest of world (60)

03
Brexit: a potential drag on UK growth

Choppy waters ahead: Brexit could cause reductions in investment and high-value activities

For over a decade, tax and financial professionals of the UK's largest companies have reported that uncertainty, change and complexity are among the greatest challenges they face in their professional roles. This year, Brexit and the disruption it may bring to companies is a predominant concern among G7 corporates. When asked what factor would have the greatest impact on investments and activities in the next 12 months, 46% of companies (a relative majority) replied, 'Brexit'.

Moreover, when invited to quantify the impact Brexit may have on investments and activities, around 40% of these organisations shared their best estimates of what may change (Figure 7). These estimates show that substantial reductions in capital expenditure, employment and R&D investment may be on the cards for a significant minority of companies.

46%

of respondents suggest that Brexit would have the greatest impact on investments and activities in the next 12 months

Figure 7: Possible impact of Brexit on investment and high-value activities

Capex

-20% Average reduction in Capex among 29 companies (5 x FTSE 100)

Headcount

-15% Average reduction in Headcount among 30 companies (6 x FTSE 100)

R&D

-34% Average reduction in R&D investment among 14 companies (3 x FTSE 100)

Figure 7:
Which one of the following factors could have the greatest impact (positive or negative) on your investment and activities in the UK in the next 12 months? And what impact would this change have on your following activities in the UK?
Base size: All respondents (160)

Widespread departure from the UK appears unlikely but some companies deterred from relocating functions into the UK

Between 2012 and 2015, the number of UK companies looking to take business functions out of the UK fell as perceptions of the UK's attractiveness and competitiveness strengthened. This year, despite the uncertainty surrounding Brexit and speculation in the business media that high-profile businesses may relocate key functions out of the country, the number of UK companies looking to do so this year remains broadly stable (Figure 8). In fact, the proportion of companies that have either actively considered moving their tax regime out of the UK, or have studied the implications of moving, is just 24%, close to the historically low level of 23% seen in 2015.

Figure 8: UK Companies considering the relocation of business functions out of the UK (Source: 2015 report)

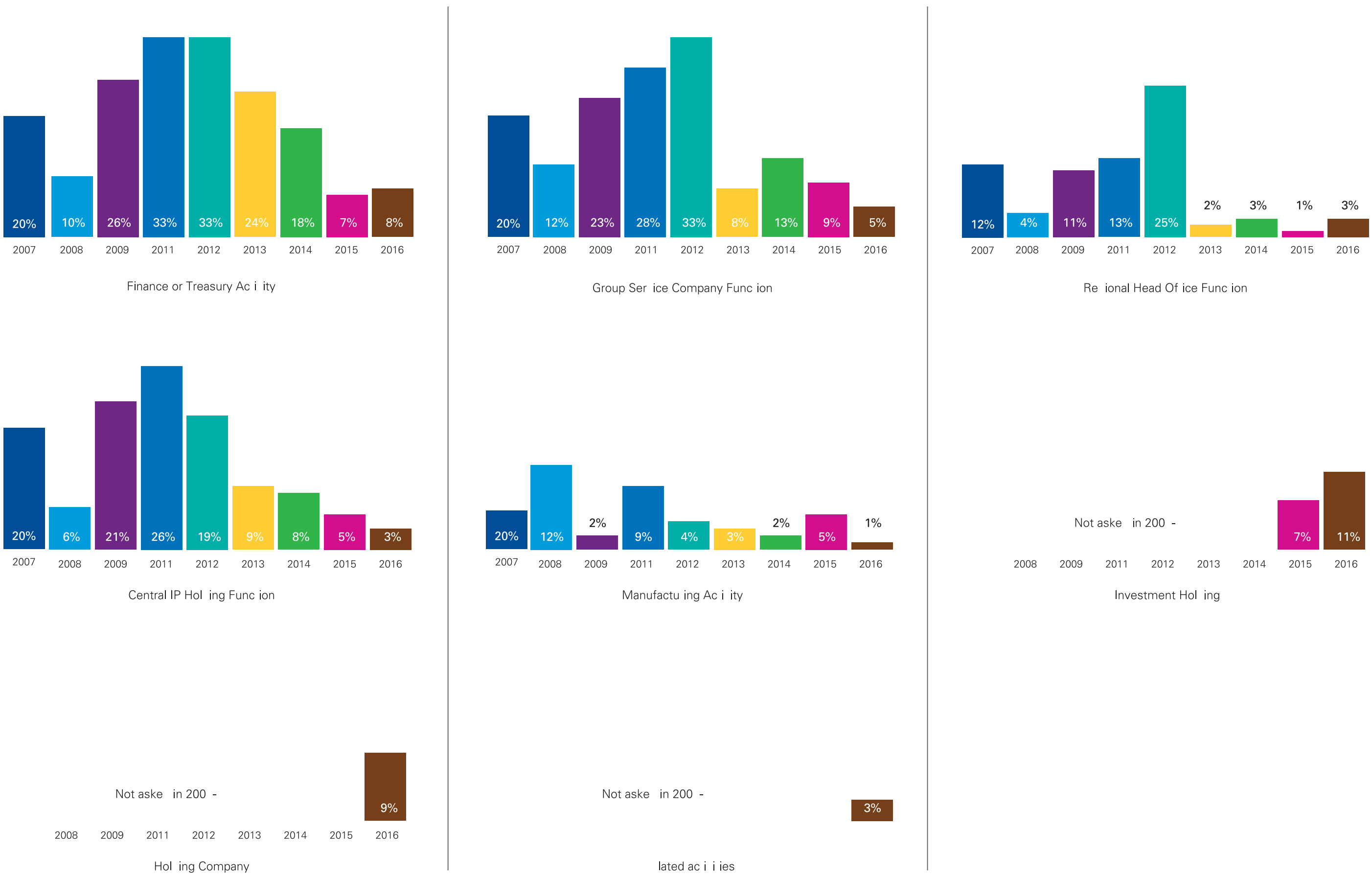


Figure 8:
Are you considering whether to relocate any of these other activities out of the UK for reasons which include tax? (Any mention)
Base size: UK companies incl. foreign subsidiaries (100)

Compared to the high point of 2011 - 2012, the proportion of UK companies looking to relocate key functions is lower. Among all non-UK companies, 'Manufacturing Activity' and 'Group Service Function' in particular are the functions that have seen the greatest increase in potential relocation compared with 2015. Additionally, the number of companies seeking to move business functions into the UK - a crucial source of inbound FDI - has dropped materially for both UK and non-UK participants this year. Taken together, companies' views on migration of business functions point to a possible net outflow of activity from the UK in 2017 and beyond (Figure 9).

Figure 9: % of companies looking to re-locate functions into or out of the UK

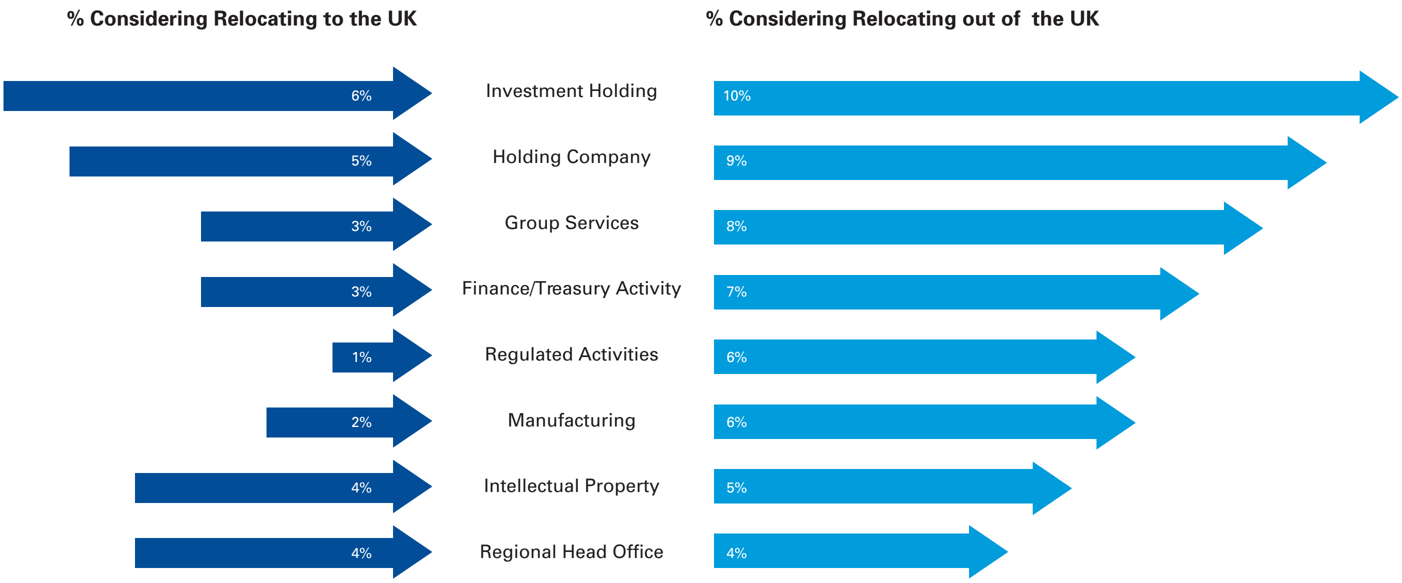


Figure 9:
Are you considering whether to relocate any of these other activities into or out of the UK for reasons which include tax?
2016 Base size: all respondents (160)

Is the grass greener elsewhere? Netherlands and Ireland likely beneficiaries of any relocations out of the UK

For those companies looking to relocate key business functions out of the UK, the Netherlands and Ireland are identified as the most likely destinations. While Ireland leads the rankings for the competitiveness of its tax regime and its appeal as a destination for FDI, the Netherlands' scores in these areas belie its popularity as a possible destination for business functions (the Netherlands is voted the most likely destination for all but one business function: manufacturing).

What these responses indicate is that the attractiveness of the UK as a destination for FDI was dented in 2016. While this has the potential to hamper the UK's growth, it is reassuring that companies do not report departures en masse. Rather, respondents suggest that they are adopting a 'wait and see' approach to Brexit - postponing many location decisions until more details of the UK's post-Brexit trade and regulatory systems are defined.

04

Promoting growth in the UK: perspectives for the UK Government to consider

Provide clarity to business on future change & reduce complexity

A recurring theme throughout our conversations with tax and finance executives this year is that complexity and change in tax legislation are the greatest challenges facing businesses in managing their tax affairs (Figure 10). While this sentiment has been present throughout the 11-year lifetime of this study, this year's results show an increase in these responses. Whilst Brexit played a part in exacerbating participants' sensitivity to these factors, we would argue that the explanation is more likely to be driven by the implementation of the OECD's Base Erosion Profit Shifting (BEPS) recommendations and associated ongoing change. In 2017, the UK will see a raft of complex and wholesale changes to its tax regime, which are no doubt front of mind for those participants with significant UK activities.

Figure 10: Top challenges faced by companies in managing tax affairs

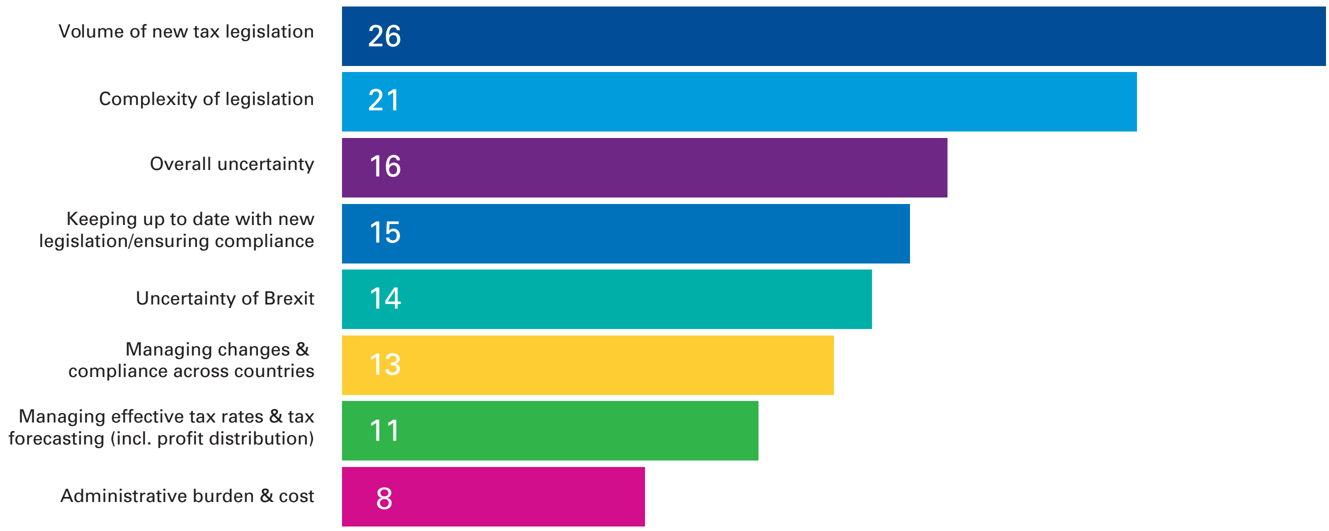


Figure 10:
We have just spoken about a number of changes in tax in the UK and internationally. In this context of a changing tax and business environment and Brexit, what would you say is the single biggest challenge you face in managing the tax affairs of your organisation? Base size: all respondents (160)

When asked what the UK Government could do to drive growth and FDI in the UK, executives stress the importance of reducing tax complexity and providing clarity on future changes. While the desire for clarity on future tax changes is consistently articulated by both UK and non-UK companies, calls to reduce tax complexity are strongest among UK organisations.

There is also an anticipation of the further complexity that Brexit may bring, including across taxes which have historically been lower profile.

In line with concerns over change and complexity in the UK tax system, the vast majority of companies (81%) oppose decentralisation of tax to countries, regions, or cities (Figure 11 overleaf). While federal tax systems in countries such as Switzerland and Canada have historically proven popular with corporates - often offering competitive tax rates - fears over additional disruption and complexity currently prevents widespread support for tax devolution in the UK.

“Our greatest challenge is the huge complexity and ever changing legislation. In my office I have the current UK tax legislation. When I got it, there was so much there that I thought they’d sent me two copies. Bear in mind that they are really thin pages!”

Tax Director – FTSE 250 –
Industrial Products/Manufacturing

“Uncertainty due to changes in rules and regulations is very challenging. As things keep changing, I have to give my best guess a lot of the time when someone comes to me with a question.”

Group Tax/Finance Manager – FTSE 100 –
Financial Services/Insurance

“The biggest challenge will be Brexit coming and then the custom taxes increase. That will then result in jobs and institutional bodies returning to Europe.”

International Tax Manager – Germany –
Industrial Products/Manufacturing

Figure 11: Views on whether tax UK should be decentralised - %

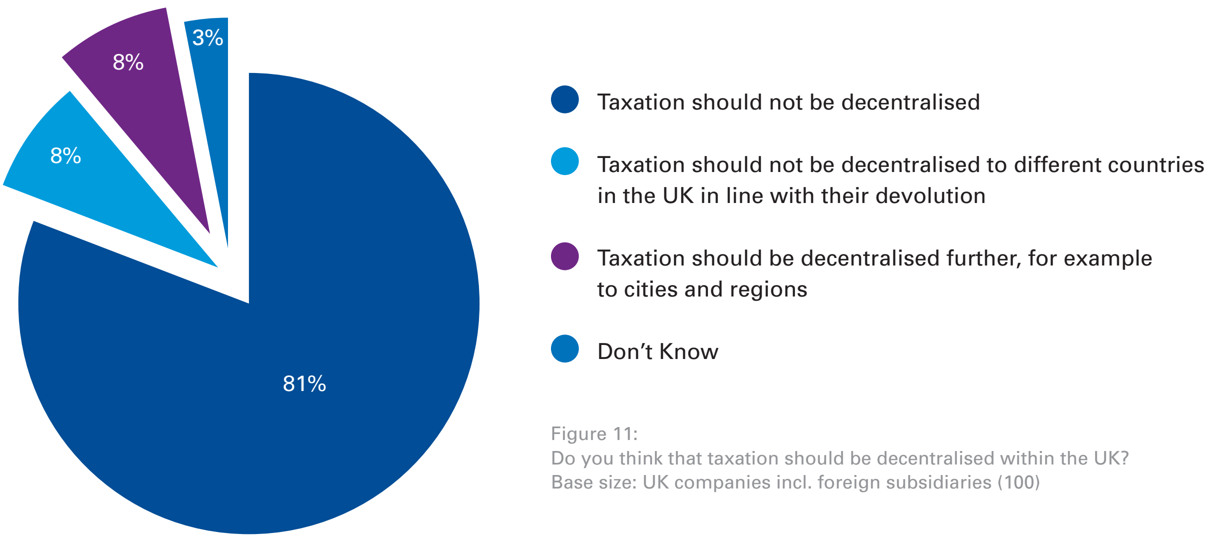


Figure 11:
Do you think that taxation should be decentralised within the UK?
Base size: UK companies incl. foreign subsidiaries (100)

Continue with current plans to cut Corporate Tax rates; then cut them further still

The headline rate of corporate tax has played a prominent part in the UK Government's business agenda over the last few years. Our research in 2015 revealed that many companies projected that announced cuts in corporate tax would lead to large increases in their UK investments and activities as a result. This view is again reinforced this year, with a significant minority of companies predicting a c. 10% increase in capital expenditure, employment and R&D investment as a direct result of corporate tax cuts (Figure 12).

The current plans to cut corporation tax could clearly result in substantial increases in business activity for many organisations. Furthermore when looking at the responses of all companies (UK and non-UK), these also suggest that the Government could also consider further cuts in order to drive growth over the next 12 months (Figure 13). And when these companies are asked to evaluate the effect that such cuts could have on investments and high value activities, they suggest that the gains described above could in fact be greater still.

However, when we consider the responses in more granular detail, it is interesting that the driving force behind the suggestion for further cuts are the non-UK respondents. In fact, 80% of US respondents identified a reduction in the headline rate of corporation tax as the single most important measure. It was also popular with the Canadian respondents (50%), Italian respondents (40%) and Japanese respondents (30%). For the UK population, this measure was significantly less important (only 11% of respondents chose this option), and it was considerably less popular than measures to reduce tax complexity and measures to simplify the existing regulatory burden.

This suggests that, in this instance, the popularity of the measure across the full population (of UK and non-UK respondents) is somewhat misleading, and is most likely driven by the different cultural and historical attitudes to taxation of certain sub-sets of respondents. In the case of the US multinationals in particular, there is often a desire for low overseas headline tax rates to neutralise the impact of the high US federal tax rate.

Instead, we consider that there are benefits to be gained from looking at the tax (and business) landscape more holistically. Historically, the UK's attractiveness has been driven by its status as a trading nation, stable politics and tax systems - but Brexit is challenging this. The UK could consider the benefits of the steps taken by some of its competitors who have established a more joined up business environment, incorporating not just tax reliefs, but also planning, grants, incentives, employment and other measures which are important to driving FDI.

Figure 12: Projected impact of announced Corporate Tax cuts on investment and high-value activities

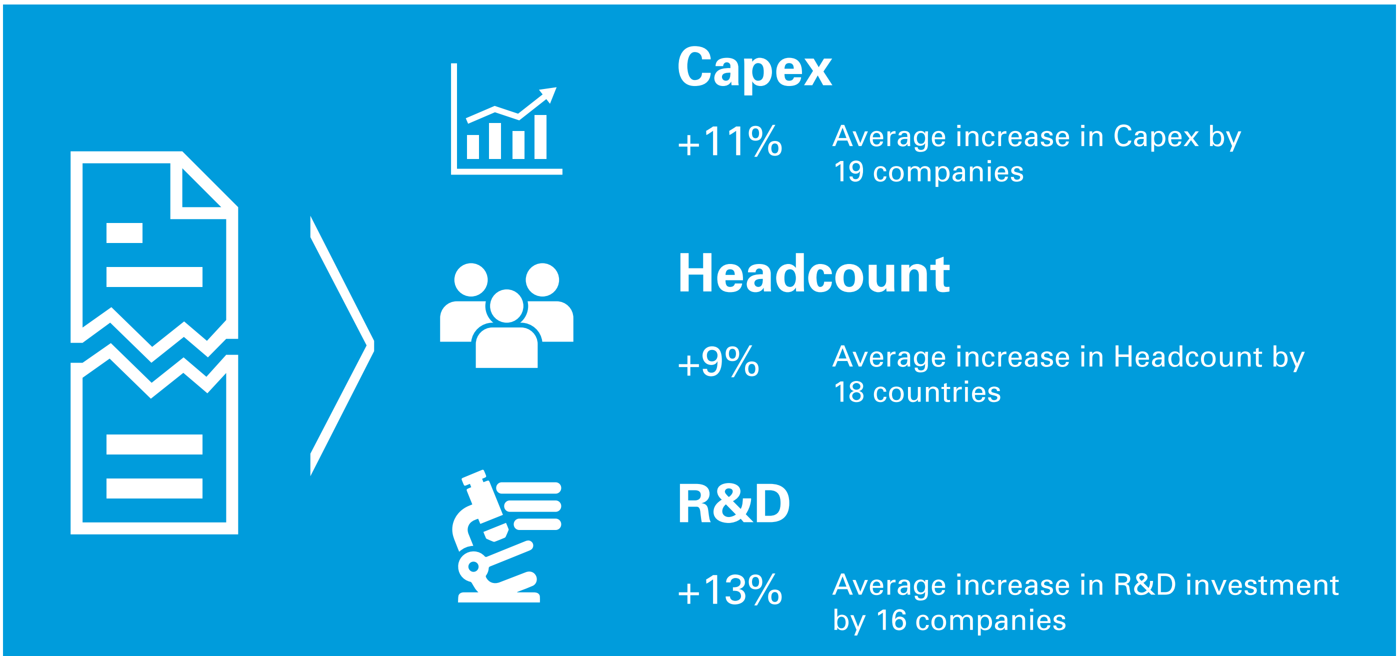


Figure 12:
UK companies or those that do not think that a reduction in headlines rates will have the greatest impact (90)

Figure 13: Priority actions the UK Government should take to drive growth in the UK over the next 12 months - %

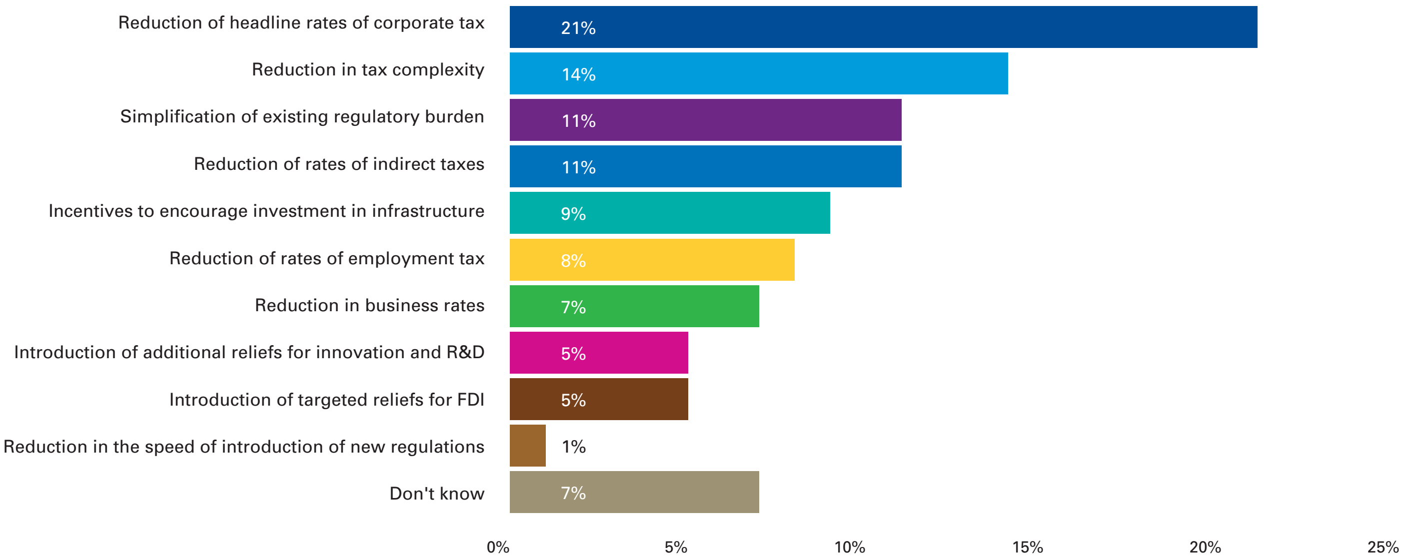


Figure 13:
In light of Brexit, what single measure in the UK Tax or regulatory regime should the UK Government prioritise to drive growth over the next 12 months?
Base size: All companies (160)

Figure 14: Projected impact of infrastructure investment on investment and high value activities

Capex

+15% Average increase in Capex by 15 companies

Headcount

+12% Average increase in Headcount by 14 countries

Figure 14:
Which one of the following factors could have the greatest impact (positive or negative) on your investment and activities in the UK in the next 12 months? And what impact would this change have on your following activities in the UK? Investments in Infrastructure.
Base size: all respondents (160)

Infrastructure investment will also fuel the engine of UK growth

9% of companies surveyed view infrastructure investment as the one measure the UK Government should prioritise to boost growth. Perhaps predictably, this sentiment is strongest amongst Industrial Products & Manufacturing companies, however the potential benefits of infrastructure investment could also produce a meaningful improvement in UK investment overall: a possible boost of 15% to capital expenditure and 12% to employment (Figure 14).

Given the limited resources at its disposal, where should the Government focus its investment in infrastructure? Two areas in particular stand out as priorities in the view of respondents: (i) transport links within and between the UK's regions and (ii) a faster and more reliable broadband network (Figure 15).

Figure 15: Priority areas for infrastructure investments

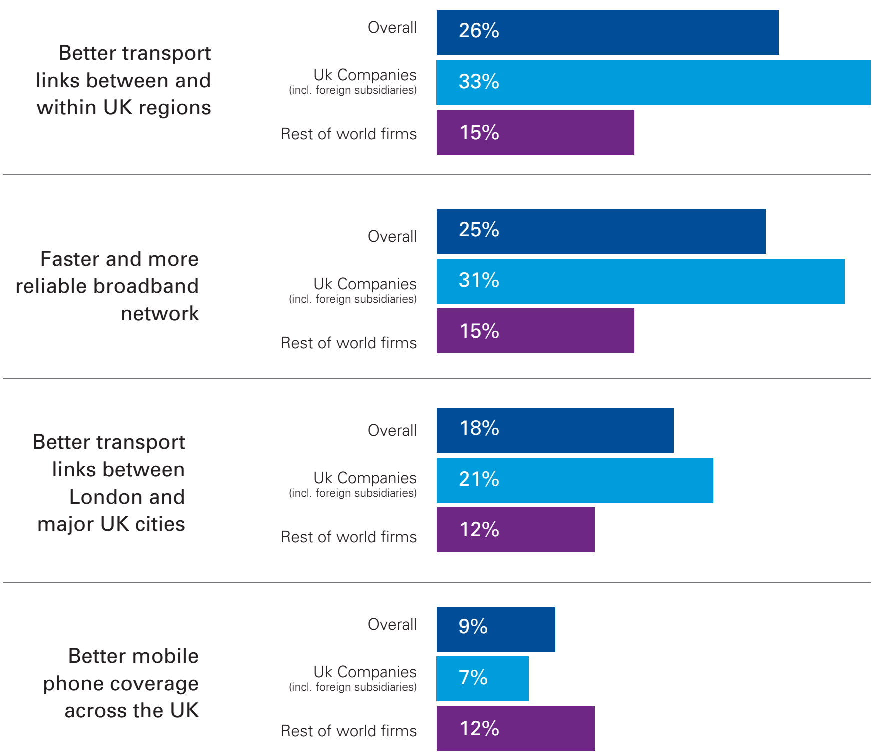


Figure 15:
With unlimited resources at the government's disposal, what one type of investment in infrastructure should it prioritise to support your organisation?
Base size: All companies (160)

Drive FDI through establishing Enterprise Zones

While Brexit continues to weigh on the minds of executives and raise questions about the merits of investing in the UK, companies constructively suggest a number of measures the UK Government could take to drive FDI and make the most of any opportunities that Brexit creates (Figure 16). Almost a quarter of companies favour enhanced clarity on tax changes as a crucial measure - particularly UK companies. However, overall, the most popular measure to boost FDI is the creation of Enterprise Zones, where companies receive preferential tax, planning and other financial advantages. This measure is most popular among non-UK companies, who have consistently advocated the creation of enterprise zones over the past two years.

Figure 16: Priorities to encourage further FDI over the next 12 months

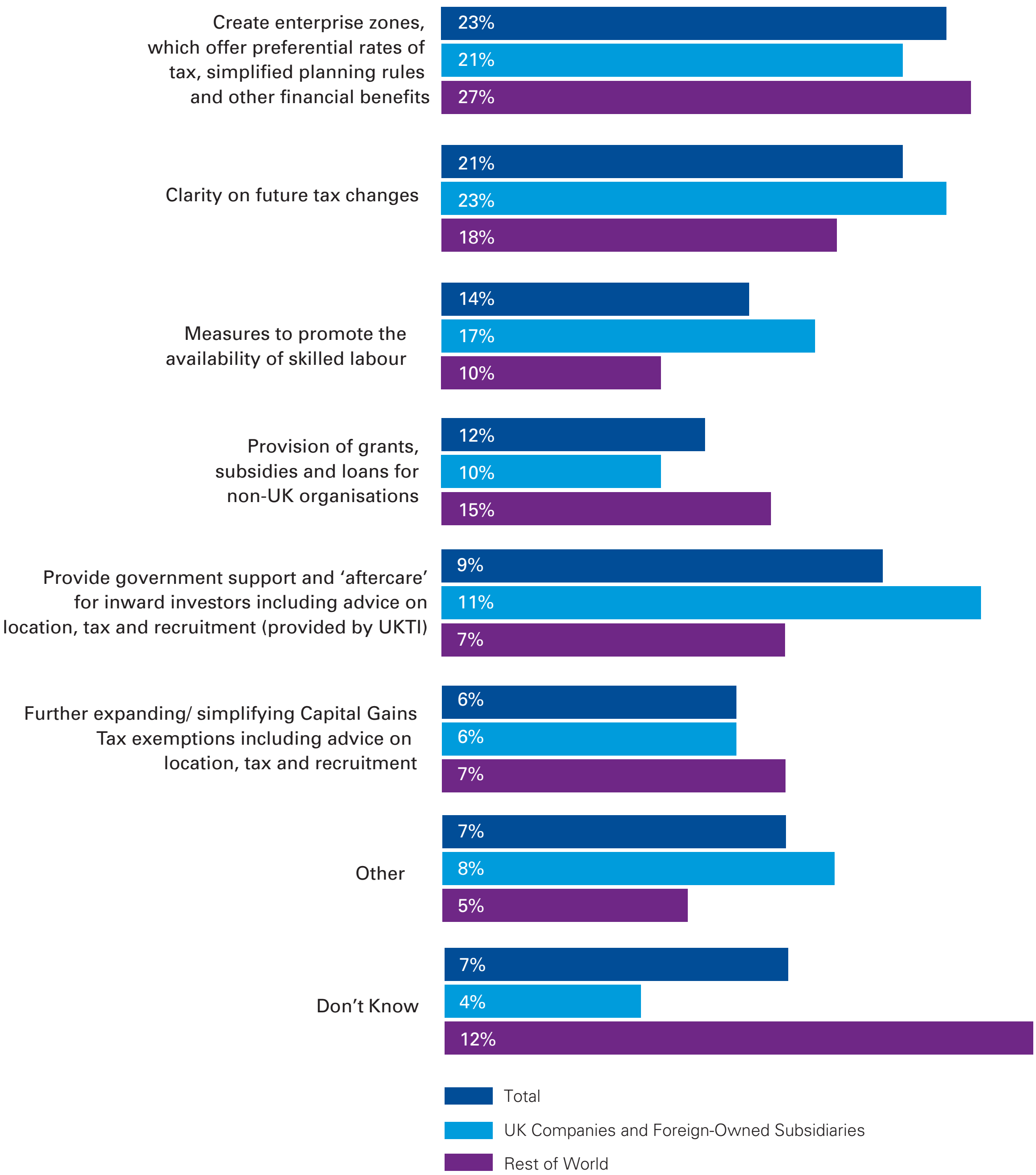


Figure 16:
In the light of Brexit, what single measure should the UK Government prioritise to increase Foreign Direct Investment into the UK over the next months? Base size: All companies (160)

Develop workplace skills & strengthen availability of skilled labour

A key concern of many companies - and one that is closely tied to the UK's Brexit negotiations - is the availability, cost and skillset of the labour force in the UK. This study reveals that companies include improvements to the availability of skilled labour among their top three recommendations to Government to boost FDI this year. The cost and availability of skilled labour is also the number one factor that influences decisions on where businesses relocate key functions, and as well as decisions on whether to retain functions in the UK. Improvements in this area could both reassure companies with UK operations, while also encouraging businesses to continue investing in the UK.

Companies add further support to this view when discussing the potential effects of bolstering the skills of the UK's workforce: predicting increases of more than 10% across capital expenditure, employment and R&D Investment (Figure 17).

Figure 17: Projected impact of investment in workplace skills on investment and high-value activities

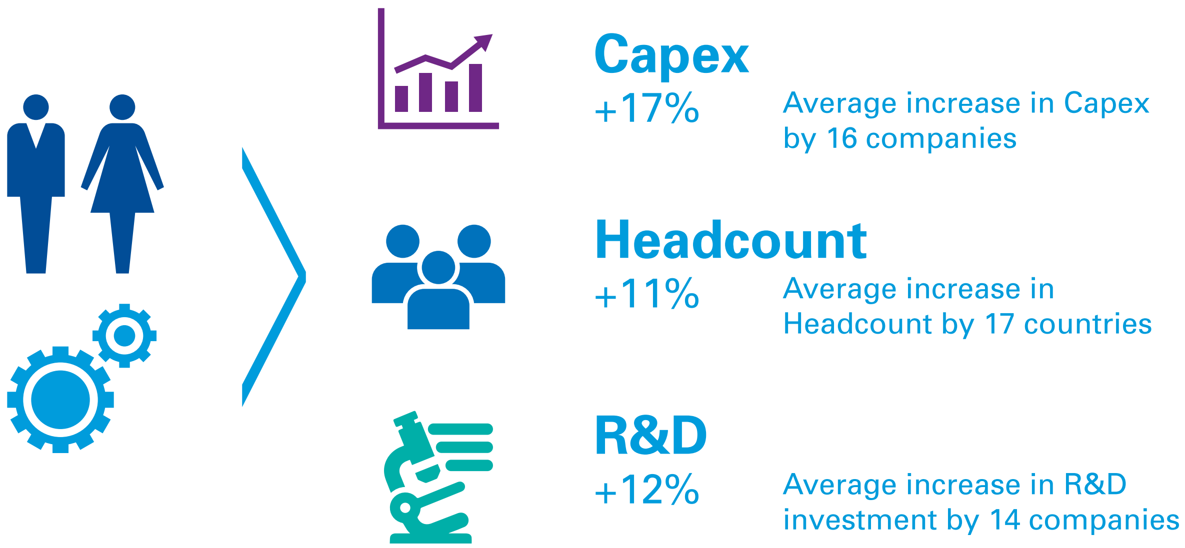


Figure 17:
Which one of the following factors could have the greatest impact (positive or negative) on your investment and activities in the UK in the next 12 months? And what impact would this change have on your following activities in the UK? Investment in workplace skills.
Base size: all respondents (160)

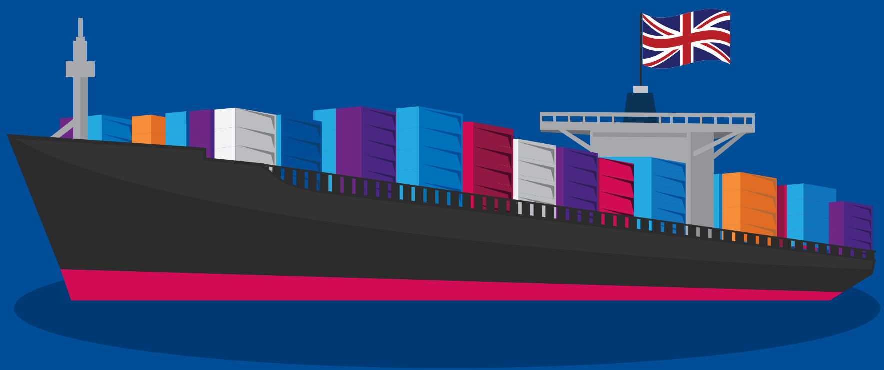
Conclusion

The Brexit vote has clearly had a strong influence on executives responding to our study this year, with the overriding sense being that the UK's appeal as a destination for investment and high value business activities has weakened. While the potential pitfalls of leaving the EU are apparent, the benefits of Brexit are very hard to quantify at this stage.

The starting gun has only just been fired and still to come in 2017 are the French and German elections which are widely expected to prolong the start of any meaningful discussion on the terms of the UK's exit until later in the year. This means that we will likely have a more protracted period of uncertainty which may cause companies to hold off location and investment decisions regarding the UK in the near term.

Nevertheless, the UK enters the exit negotiations in a position of strength and it remains competitive compared with many of its peers, both within and beyond the G7. It is therefore important that the Government considers levers that can be pulled in tandem with the Brexit talks to guide companies through upcoming changes will help ensure that the UK retains its appeal.

The results of this year's study also show the importance of resisting the temptation to focus all attention on Brexit. The results of our survey over the past 11 years have shown there are a number of consistent messages when considering the competitiveness of a country's tax regime: stability, predictability, simplicity, advance warning of major change and low effective tax rates. We also know that when it comes to attracting FDI, investors value a more joined up business environment, incorporating not just tax reliefs, but also planning, grants, incentives, employment and other measures. On these factors, the UK has the opportunity to continue to build on its recent progress, and reap the benefits this will bring to its overall attractiveness as an investment location.



Project participants and approach

Our approach involved interviewing senior tax decision makers from a significant percentage of the largest publically listed companies and foreign subsidiaries in the UK

Interviews were conducted with senior tax decision makers in the largest UK listed companies, foreign-owned subsidiaries and non-UK companies. 54% of respondents also manage the location of business functions. In total, interviews were conducted with 100 UK companies and foreign owned subsidiaries and 60 companies from across the other G7 nations, namely the US, Canada, France, Germany, Italy and Japan. These interviews were conducted between December 2016 and February 2017 by Gulland Padfield, the specialist consultancy. The sample size of UK companies and foreign owned subsidiaries is similar to that of the 2015 study.

56% of the companies interviewed had a turnover of over £1bn. 22 of the companies interviewed were members of the FTSE 100, with another 21 in the FTSE 250. The composition of individuals and companies interviewed were consistent with previous years of the project, allowing for reliable comparison of trends over the last few years.

Figure 18: Group turnover (%)

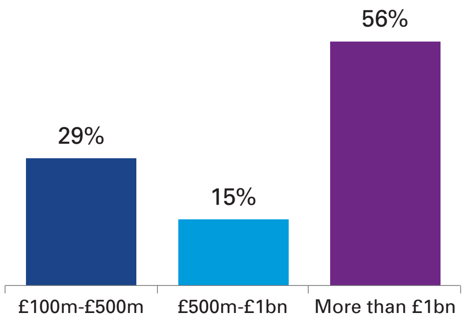


Figure 19: Company status (%)

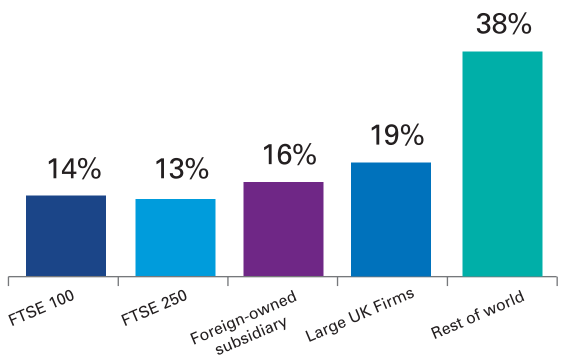
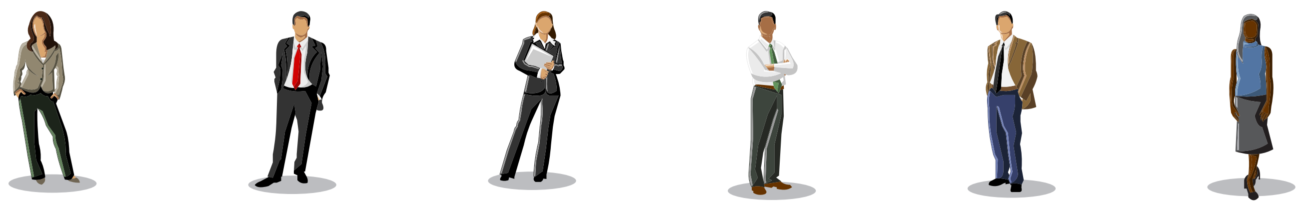


Figure 20: Job title (%) - Demographics of the 2016 research



Tax Director	International Tax Manager	Tax Manager	Finance Director/CFO	Managing Director/CEO	Other
40%	4%	36%	9%	1%	10%

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