



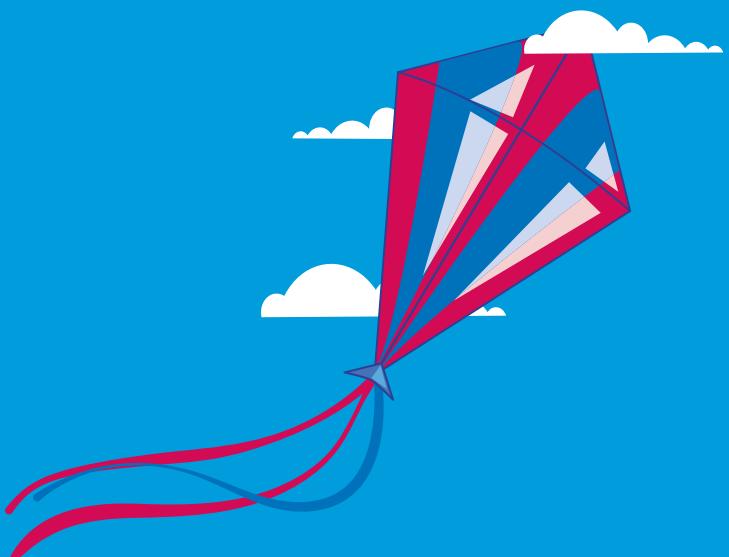
# Navigating turbulent times

**Strategies for maintaining  
UK tax competitiveness**

May 2018

---

[kpmg.com/uk/tax](http://kpmg.com/uk/tax)



## **Business looks beyond Brexit and continues to value the UK's stable and competitive tax regime**

This is the 12th year of our tax competitiveness report and it continues to shine an important light on how businesses view the UK, particularly in relation to tax.

With several geo-political disrupters continuing to cause uncertainty it is easy to become disheartened but this survey shows that the message from business is still overwhelmingly positive. The UK Government's long term commitment to a stable and competitive tax regime is being recognised by business and is valued.

As the UK's future relationship with the EU is being hammered out, this latest survey is particularly timely. Many of the more detailed findings will not be a surprise to keen Brexit watchers and will resonate with those seeking to navigate the particularly complex environment we currently face. Brexit shapes many of the findings of the survey and it is clearly front of mind in the business community we surveyed. However, the findings also show that companies can and do look beyond this to a range of factors when assessing where to locate and invest.

The key value in surveys of this nature is not so much the views that are captured but how these views can be translated into opportunities to build growth for the future.

The message from business is that the UK continues to have a huge amount to offer as a powerful draw for investment. The challenge for Government is how to harness and build on this strong foundation, leveraging Brexit to push the UK to the fore as an effective and dynamic international tax and business environment.



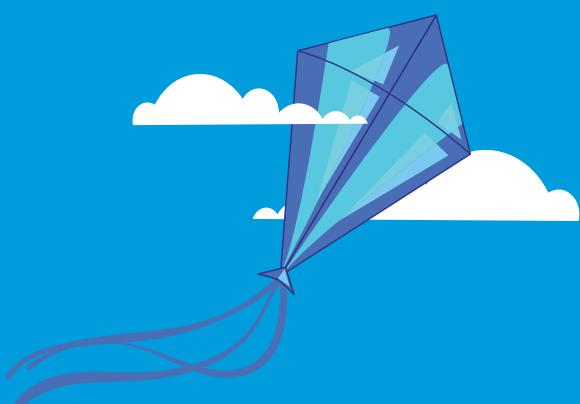
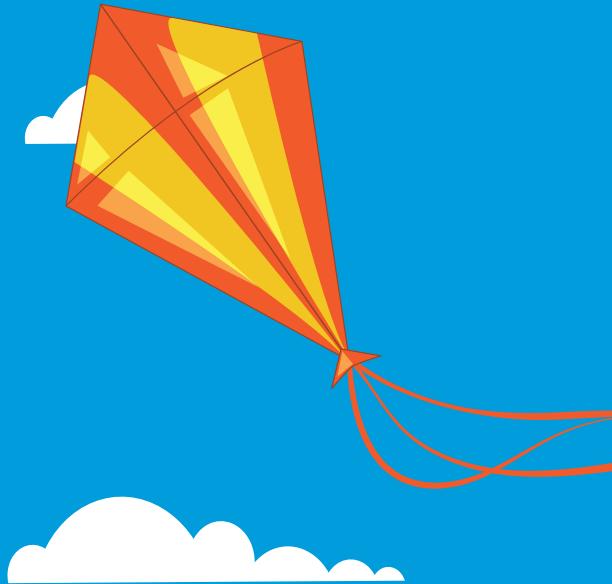
**Melissa Geiger**

Head of International Tax,  
KPMG in the UK

+44 (0)20 3078 4027  
[melissa.geiger@kpmg.co.uk](mailto:melissa.geiger@kpmg.co.uk)

# Contents

1 Introduction - Resilience despite headwinds .....	1
2 The factors driving location decisions and tax competitiveness.....	3
3 The UK in the global tax landscape .....	7
4 A host of new challenges and opportunities on the horizon.....	13
5 Recommended steps for the UK Government .....	19
6 Conclusion.....	25
7 Project participants and approach.....	27



# 01 Introduction

## Resilience despite rising headwinds

2017 was a year of yet more change and uncertainty, both at a geo-political level and within the international tax environment. As we look forward through 2018 and beyond, that uncertainty shows little sign of abating.

These shifting sands are reflected in our latest survey of business attitudes towards the tax environment in the UK. The survey reveals a lot of positives demonstrating that the UK is showing resilience although having to navigate tricky waters. However, the picture is mixed and the UK is slipping in some areas.

In the current environment it may come as little surprise that Brexit tops the leader board as the biggest strategic challenge for the UK. Continuing frictionless trade and ongoing regulatory equivalence are the biggest Brexit worries. Even here, though, there are positives. Although companies continue to project an overall reduction in headcount, capital expenditure and R&D as a result of Brexit, the reductions are less than those anticipated in 2016.

The resounding message from this survey is that business continues to look for growth and stability to deliver on their strategies. When choosing where to locate, companies' primary concerns are the labour market, market size, political and macro-economic stability. Against these indicators the UK performs strongly and business recognises this. But access to the Single Market is also important and here, obviously, concerns arise at the present time.

Tax remains a key factor in any decision on investment and here companies continue to highlight the importance of stability, simplicity and predictability, with all the consequences those principles bring for tax policy and administration.

In the international tax world, ongoing BEPS implementation continues to pose a challenge although there is support for its overall aims. However, 2017 also saw other major international tax changes, particularly in the form of US Tax Reform. Having been proposed, negotiated and enacted within a six week period it leaves in its wake consequences that need to be unpicked with no easy answers. Looking forward, the challenge posed by taxing the digital economy is likely to be the next lever for significant change but there is also the possibility of international responses to US reform, the shape of which are still not clear.

In this turbulent context, the UK's place in companies' rankings of tax competitiveness as a location for FDI has stabilised after falling in 2016's survey. The UK remains in second place behind Ireland. Consistent with last year there are more firms looking to move some activities out of the UK rather than into it, but exceptions to this are holding companies and investment holdings which showed significantly more companies were looking to relocate to the UK.

The overall message is that whilst the UK is proving resilient despite ongoing uncertainty, the UK can do more to maintain its attractiveness. Other countries have not been idle over the last year and are also keen to attract business. Our study shows that, among non-UK businesses based in other G7 countries, these destinations have seen an increase in appeal compared to the UK. This should raise questions for the UK Government as to how it should respond.

Brexit is dominating the landscape at present but it represents an opportunity as well as a threat. During this period of potential disruption, the UK must continue to work hard to remain attractive as a destination. Our survey findings highlight several areas on which the UK Government could focus:

- It should continue to build towards a clear and favourable Brexit agreement, including focusing negotiations on maximising free movement of labour and access to the Single Market.
- It should continue to ensure the UK is an attractive place to do business: invest in skills and education, improve the UK's infrastructure with stronger broadband networks, strengthen regional transport links and promote regional enterprise zones.
- It should demonstrate a continued commitment to providing a stable, simple and competitive tax and economic policy.

This should help ensure the UK remains a leading location for businesses, with a vibrant and thriving economy.

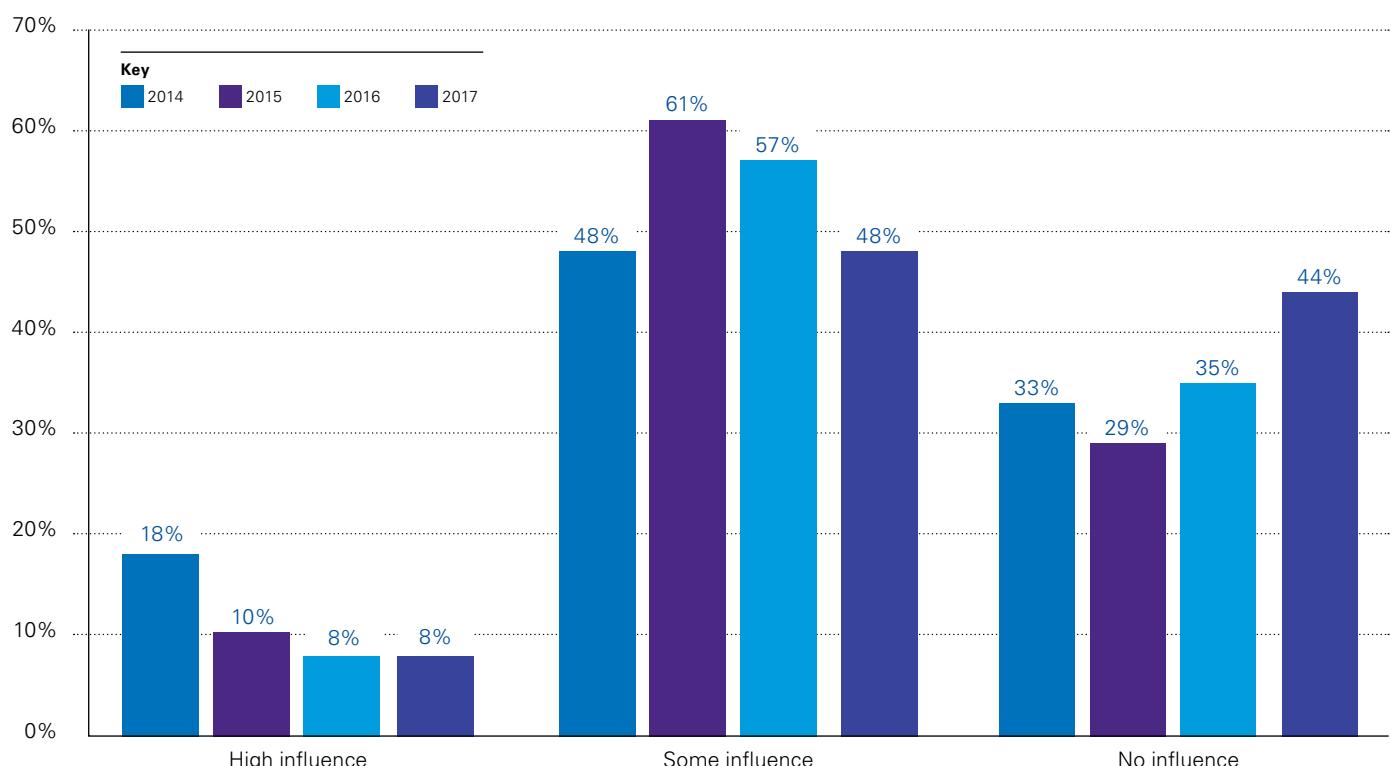
# 02 The factors driving location decisions and tax competitiveness

## Tax remains important when choosing where to locate

Each year we examine the importance of the tax regime and other factors when organisations decide where to locate their business functions. This year, tax continues to be an important factor for companies, with 56% saying it has some or high influence. Over the past four years, however, there has been a moderate downward trend in its importance within the mix

of factors which influence location decisions (Figure 1). There are several plausible explanations for this trend, including changing attitudes to tax (with an increasing focus on the social responsibilities of tax), the overall flattening of the global tax landscape with regards to rates, the increased influence of other geopolitical factors and the impact of the BEPS agenda.

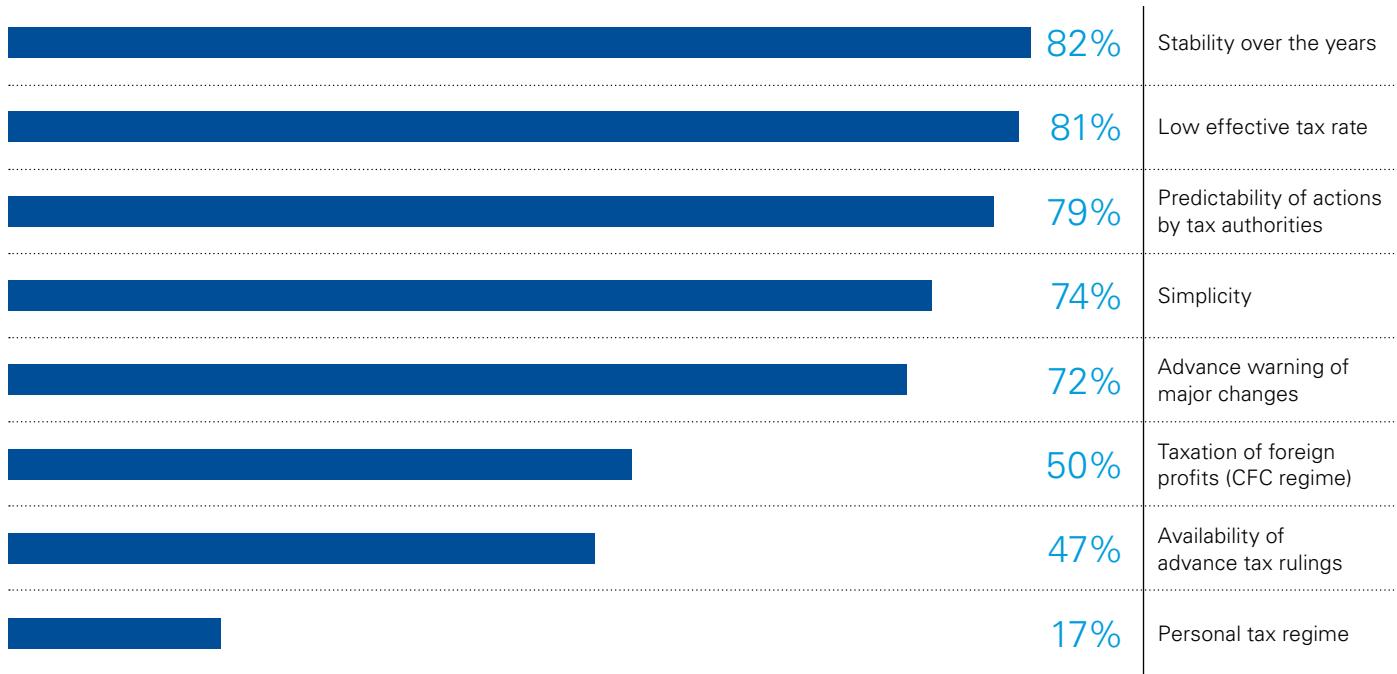
**Figure 1: Impact of country's tax regime on where companies locate activities (UK companies incl. foreign-owned subsidiaries) – %**



**Figure 1: To what extent does the attractiveness of a country's tax regime have an influence on where your company locates its activities? Base: UK companies incl. foreign-owned subsidiaries (77)**

Stability and a low effective tax rate remain the most critical elements of an attractive tax regime, with four out of five companies citing these as important factors (Figure 2). In light of the recent US Tax Reform, this balance between stability and low tax rates as determinants of attractiveness could shift in the future as companies manage uncertainty.

**Figure 2: Most important factors when assessing attractiveness of a country's tax regime 2017 – %**



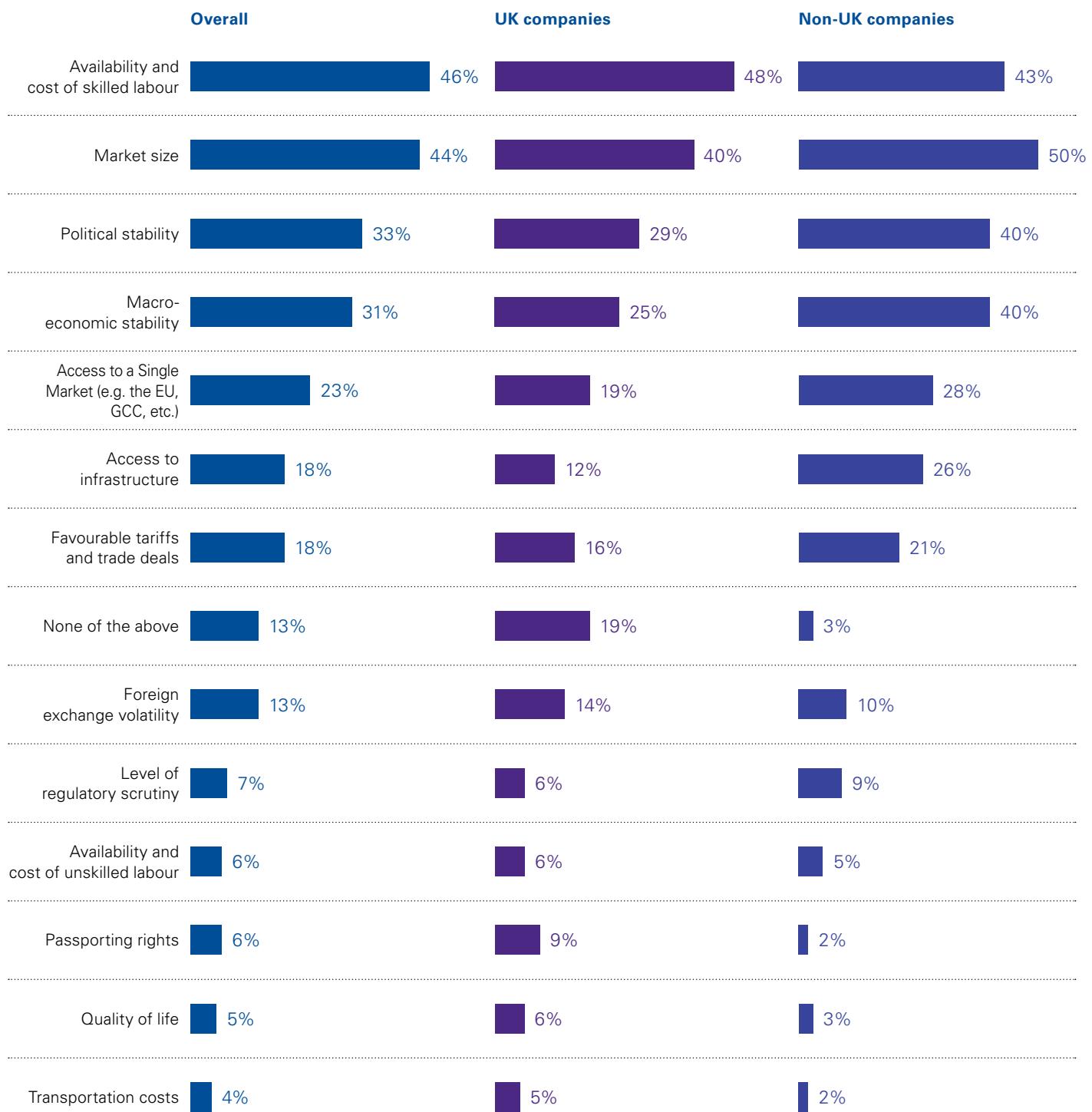
**Figure 2: I am going to read out a list of factors that may be important when assessing the benefits of a particular country's tax system. Which of the following factors are important to your company? Base: 135**

### **Political stability, macro-economic stability and access to the Single Market increase in importance**

Outside of tax, the most important factors influencing location decisions include the availability and cost of skilled labour, market size, political stability and macro-economic stability (Figure 3).

Political stability and macro-economic stability have risen as influencing factors over the past year. Privileged access to the Single Market is also a growing concern, particularly for non-UK companies ("non-UK companies" being those we surveyed

which are based in the US, Canada, France, Germany, Italy and Japan). However, there are significant variations by sector and company location: 86% of business services companies included macro-economic stability in their top three factors, for example, compared with 18% of financial services companies. All pharmaceutical companies interviewed included access to the Single Market as a key factor.

**Figure 3: Most important factors when locating business functions – %****Figure 3: 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: 135**

# 03 The UK in the global tax landscape

## The UK may need to work hard to offset the potential effects of Brexit

The UK remains the second most mentioned tax regime overall in this year's study (when respondents were asked to select which tax regimes would be in their top three most competitive). The UK has reduced Ireland's lead since last year and has extended the gap over Luxembourg and the rest of the pack (Figure 4). The perception of the UK's continued competitiveness is explained in part by a relatively long-term focus on a consistent and transparent tax policy, while other countries are now going through a period of change.

However, these results are primarily driven by UK companies and foreign subsidiaries currently operating in the UK. Among non-UK companies, the UK ranks joint fifth behind Ireland, the Netherlands, Singapore and Luxembourg (Figure 5). There has been little change in this view since 2016, when the perception of the UK's tax competitiveness among non-UK companies

tumbled. This suggests that the UK may need to work hard to offset the potential negative impacts of Brexit, especially with those who have no current operations in the UK.

On a more positive note, when it comes to the views of non-UK companies, although the UK is fifth, the field is a little more concentrated, meaning it is not far behind leading tax regimes.

Most industry sectors agree that Ireland has the most competitive tax regime, with the notable exception of business services, where the UK maintains a comfortable lead over other countries. Other sectors which view the UK as a more or equally competitive tax regime include technology and telecoms, property and transport, engineering and construction, and aerospace (Figure 6).

**Figure 4: Countries with the most competitive tax regimes (overall mention in top three) from 2016 to 2017 – %**

	Overall 2016	Overall 2017
Ireland	67%	62%
UK	52%	50%
Luxembourg	47%	39%
Netherlands	40%	38%
Singapore	28%	33%
Switzerland	27%	29%
USA	5%	7%
Canada	5%	2%
Germany	3%	1%
France	3%	1%
Italy	2%	6%
Japan	1%	

**Figure 4: 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: 160 (2016) & 135 (2017)

**The UK has reduced Ireland's lead since last year and has extended the gap over Luxembourg and the rest of the pack.**

**Figure 5: Countries with the most competitive tax regimes 2017 (overall mention in top three) regional comparison – %**

Overall	UK (incl. foreign subsidiaries)	Non UK
Ireland 62%	Ireland 73%	Ireland 48%
UK 50%	UK 62%	Netherlands 41%
Luxembourg 39%	Luxembourg 42%	Singapore 40%
Netherlands 38%	Netherlands 35%	Luxembourg 34%
Singapore 33%	Singapore 29%	UK 33%
Switzerland 29%	Switzerland 26%	Switzerland 33%
USA 7%	USA 4%	USA 10%
Hong Kong SAR, China 3%	Hong Kong SAR, China 3%	Canada 5%
Canada 2%	Canada -	Hong Kong SAR, China 3%
France 1%	France -	France 3%
Germany 1%	Germany -	Germany 2%
Other 6%	Other 5%	Other 7%

**Figure 5: 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: 135

**Figure 6: Countries with the most competitive tax regimes 2017 (overall mention in top three) industry split – %**

	Business services	Consumer services	Financial services	Industrial products & Manufacturing	Technology / Telecoms	Pharmaceuticals / Life Sciences / Healthcare	Energy / Natural resources	Property / Transport	Travel / Leisure	Engineering / Construction	Media / Entertainment	Aerospace / Defence	Other
<b>Ireland</b>	14%	81%	64%	56%	50%	83%	69%	78%	75%	54%	67%	50%	67%
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>UK</b>	100%	50%	27%	44%	50%	17%	38%	78%	38%	54%	33%	100%	100%
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Luxembourg</b>	43%	25%	55%	32%	20%	.....	62%	56%	75%	38%	67%	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Netherlands</b>	43%	50%	45%	44%	30%	50%	31%	44%	25%	23%	33%	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Singapore</b>	43%	25%	64%	32%	40%	33%	8%	11%	50%	23%	67%	100%	33%
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Switzerland</b>	57%	25%	.....	24%	60%	50%	31%	33%	.....	31%	33%	50%	33%
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>USA</b>	.....	.....	15%	.....	.....	.....	8%	.....	25%	8%	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Hong Kong SAR, China</b>	6%	.....	3%	.....	.....	.....	8%	.....	.....	8%	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Canada</b>	.....	.....	3%	.....	.....	17%	.....	.....	.....	8%	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>France</b>	6%	.....	.....	.....	.....	.....	.....	.....	.....	8%	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Germany</b>	.....	.....	.....	.....	.....	.....	8%	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Other</b>	.....	.....	9%	.....	.....	15%	.....	13%	15%	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Don't know / Not answered</b>	6%	9%	6%	10%	.....	.....	.....	.....	.....	.....	.....	.....	.....

**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: 135

## FDI attractiveness: UK remains in second place

Our previous studies have shown a strong correlation between perceived tax competitiveness and the attractiveness of a country for FDI. This year, the UK remains in second place behind Ireland in terms of FDI attractiveness from a tax

perspective (Figure 7) – but this was mainly driven by an improvement among those respondents which were UK subsidiaries of foreign multinationals.

**Figure 7: Most attractive countries as a destination for FDI (from a tax perspective) - %**

	Overall 2016	Overall 2017
Ireland	35%	30%
UK	20%	16%
Luxembourg	14%	14%
Singapore	9%	10%
Switzerland	7%	7%
Netherlands	7%	4%
USA	2%	1%
		1%
		1%
		1%

**Figure 7: Which one of these countries do you think is the most attractive as a destination for Foreign Direct Investment from a tax perspective? Base: 160 (2016) & 135 (2017)**

## The UK as an investment destination

The UK's continued attractiveness as an investment destination should be celebrated. Since the start of this study 12 years ago, the percentage of UK companies firmly committed to keeping their tax residence in the UK has reached an all-time high.

But as with last year's survey, among all respondents there are more firms looking to move other activities aside from tax residency (these include regulated activities, regional head office, intellectual property, manufacturing, group services company and finance / treasury activity) out of the UK rather than into it. The exceptions are holding companies and investment holding companies where significantly more companies are looking to relocate these activities into the UK in 2017 compared with 2016 (Figure 8).

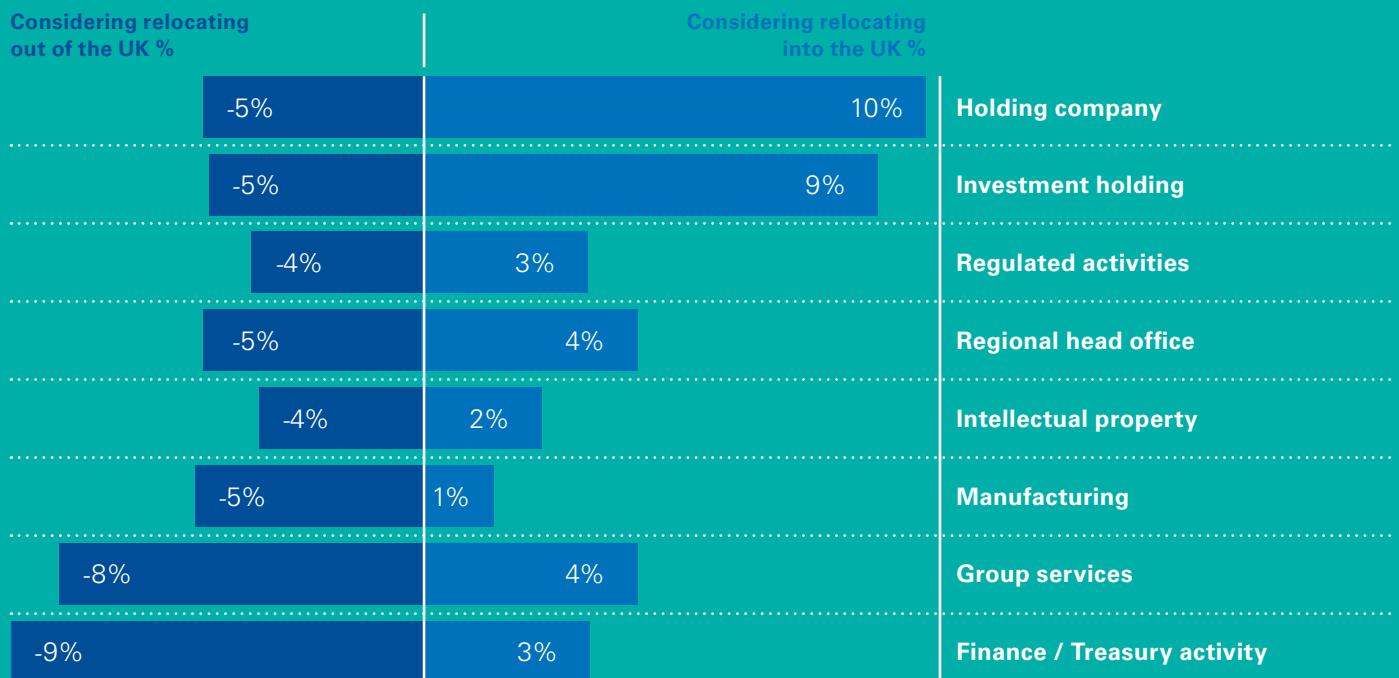
There is a clear division between the attitudes of UK and non-UK parented firms. Among UK parented firms the picture is stable or net negative. However, among non-UK parented

firms, more are looking to move functions in, and fewer companies are looking to move functions out.

It is worth noting, though, that the activities companies are looking to move to the UK are not necessarily those that will create a significant number of jobs and increase productivity – the activities which typically drive jobs and productivity include manufacturing, R&D, innovation and technology based activities.

It is reassuring that there is a significant decline in non-UK parented businesses (across all sectors) looking to offshore their UK manufacturing activity (from 15% of businesses in 2016 to 3% in 2017).

The largest net withdrawal from the UK is from US parented companies. Will the current administration's tax and international trade policies encourage this trend to continue?

**Figure 8: Companies looking to locate in or out of the UK - %****Figure 8: Are you considering whether to relocate any of these other activities into or out of the UK for reasons which include tax? Base: 135**

# 04 A host of new challenges and opportunities on the horizon

## Brexit: The biggest strategic challenge

Brexit continues to be the upcoming change with the most impact on investment activities for firms – both positive and negative (Figure 9), although the percentage of participants citing this as a response has fallen from 46% to 42% over the past year. Continuing frictionless trade and ongoing regulatory equivalence are the biggest Brexit worries.

Generally, UK-focused companies are more concerned about their ability to attract and retain talent. For these companies, workforce skills are of equal importance to Brexit in determining investment activities, with investment in infrastructure not far behind. While these factors remain important for companies that are not focused on the UK, Brexit is the overwhelming concern.

**Figure 9: Upcoming changes with the most impact on investment (2017) – %**

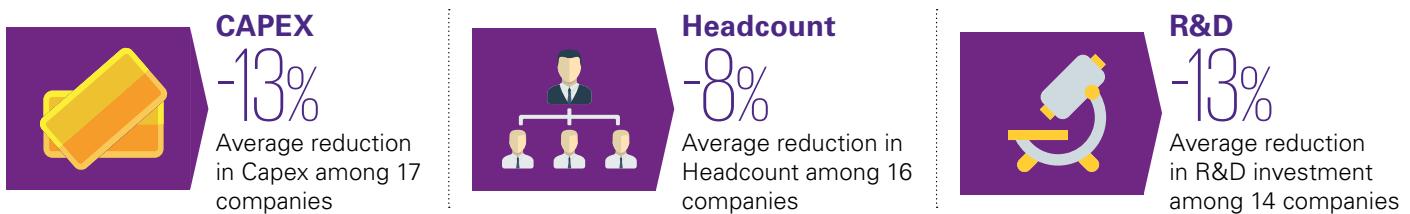


**Figure 9: Which one of the following factors could have the greatest impact (positive or negative) on your investment and activities in the UK in the next 12 months? Base: 135**



Of those companies that identified Brexit as having the most impact on their investment and activities, we see a net negative across three areas. Companies project an overall reduction of 13% in capital expenditure and R&D in response to Brexit, and an 8% reduction in headcount (Figure 10).

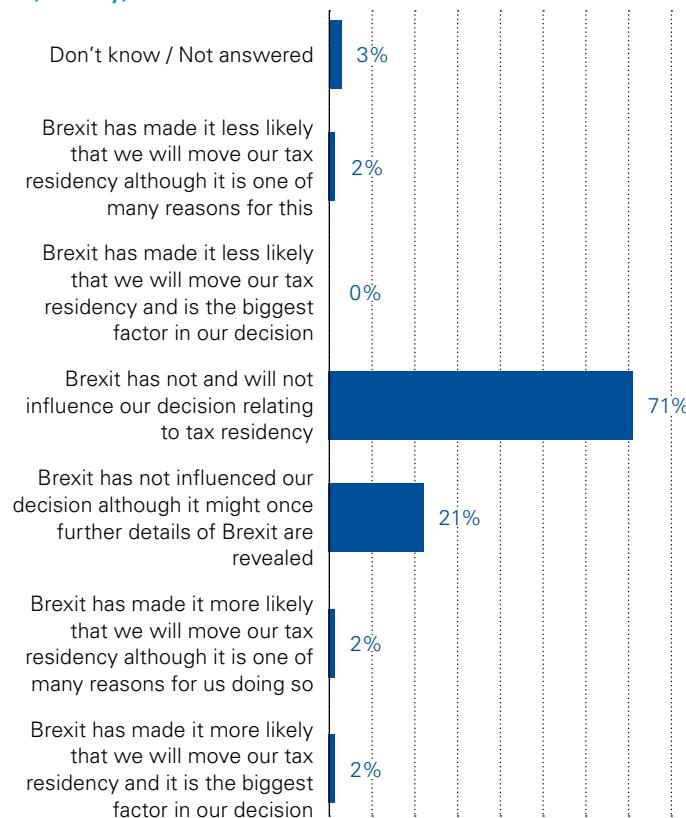
**Figure 10: Impact of Brexit on investment and activities – %**



**Figure 10: 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: 135**

The number of UK companies claiming that Brexit has made them more likely to move their tax residency has increased from 2% to 10% (Figures 11 and 12).

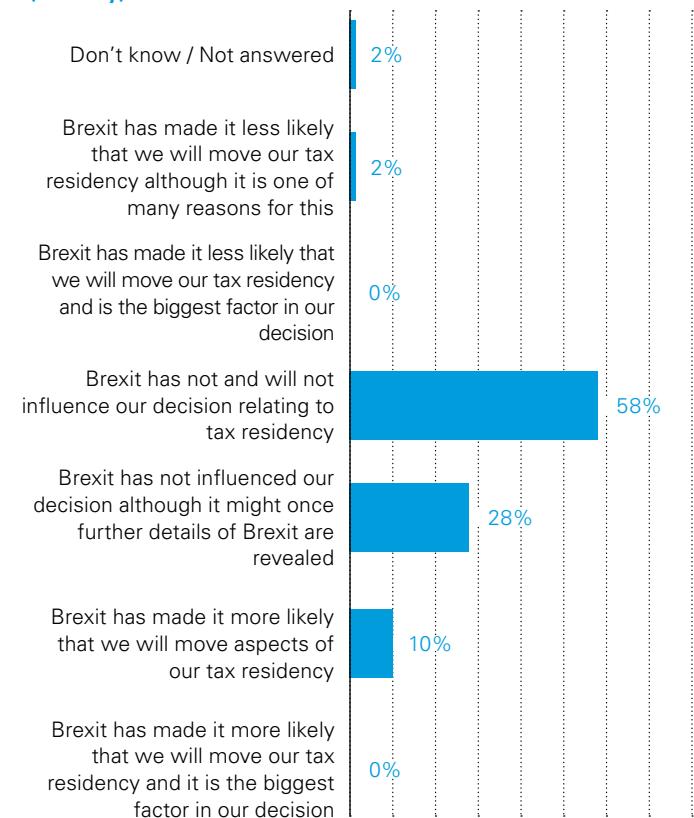
**Figure 11: 2016 impact of Brexit on tax location decisions - % (UK only)**



**Figure 11: Thinking of the Brexit referendum and the UK's decision to leave the EU, which of the following statements best represents your view? Base size: All UK companies who have not moved their tax residence away from the UK (50)**

However, companies will usually plan for the worst case scenario and a successful Brexit agreement could see these numbers tumble. This year's predictions are considerably lower than in 2016, when companies predicted a 20% fall in capital expenditure, a 15% reduction in headcount and a 34% reduction in R&D.

**Figure 12: 2017 impact of Brexit on tax location decisions - % (UK only)**



**Figure 12: Thinking of the Brexit referendum and the UK's decision to leave the EU, which of the following statements best represents your view? Base size: All UK companies who have not moved their tax residence away from the UK (50)**

## US Tax Reform and the global tax landscape

Perhaps the biggest international tax story of 2017 came in the final days of the year. US Tax Reform is expected to have a sweeping impact on the tax affairs of multinationals and it is only now that tax professionals are starting to work through the implications for their business.

We conducted this survey between October and December 2017, when the tax reform package was still being debated, but we identified and included in our questions the main measures most likely to be implemented:

- a lower headline rate of tax for companies
- repatriation tax on accumulated foreign earnings
- the removal of certain deductions
- enhanced deductions for capital investments, and
- repeal of the Alternative Minimum Tax.

Respondents were roughly divided between those expecting the reforms to have a positive impact (24%), those expecting a largely neutral impact (20%) and those expecting a negative impact (18%). The most influential factor in the respondents' views was the lower headline rate of tax (Figure 13).

This view has been confirmed by our recent discussions with clients. While it may take some time to fully filter through into the wider business, economic and (tax) policy environment, if the tax reform agenda endures, one of the long-term impacts could be broader pressure on other countries to reduce their own tax rates. This could herald a further global downward shift.

Figure 13: US Tax Reform impact – %

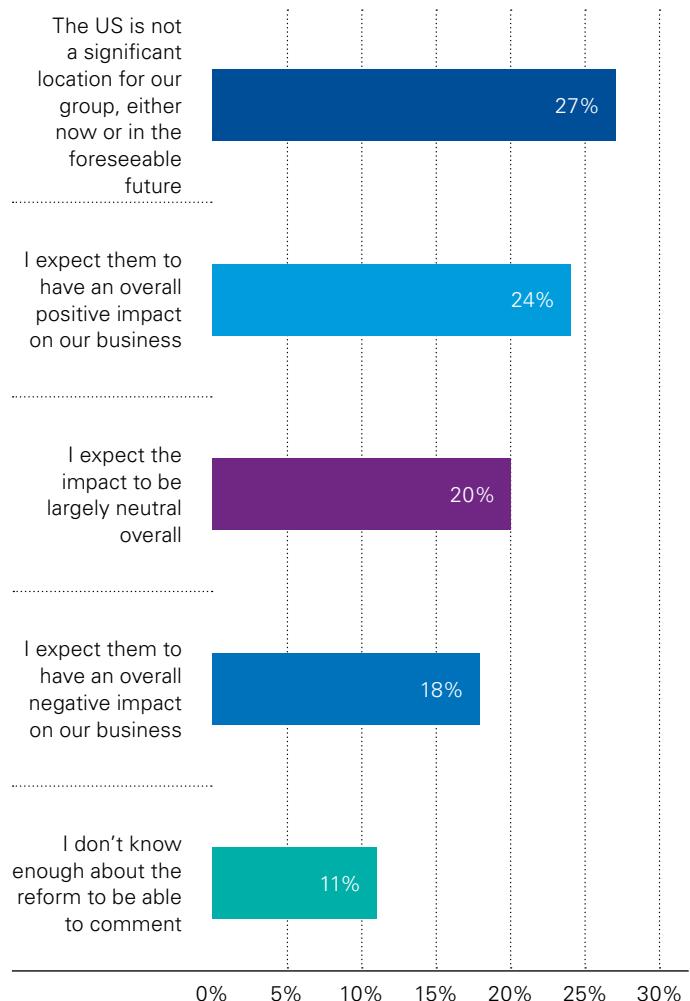


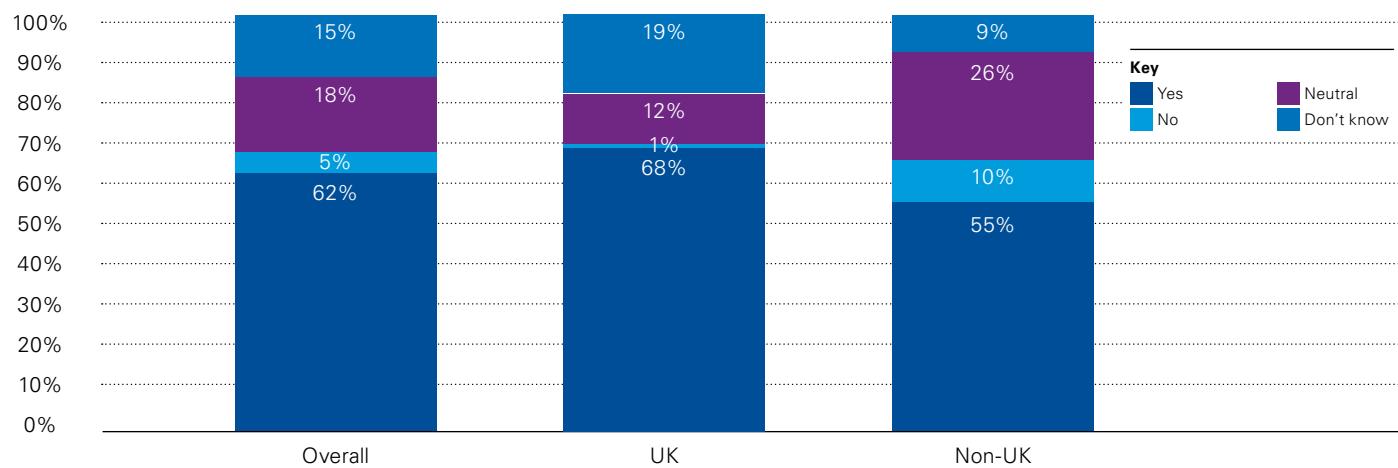
Figure 13: The US Government is considering making changes to its tax regime. If enacted as proposed, how would these changes affect your business? Base: 135

## Qualified support for BEPS Action Plan

Overall support for BEPS Action Plan has remained consistent this year; 62% of respondents are in favour this year compared with 58% in 2016 (Figure 14). This masks a decline in support among UK companies (from 78% to 68%) and a large increase in support amongst non-UK companies (from 38% to 55%).

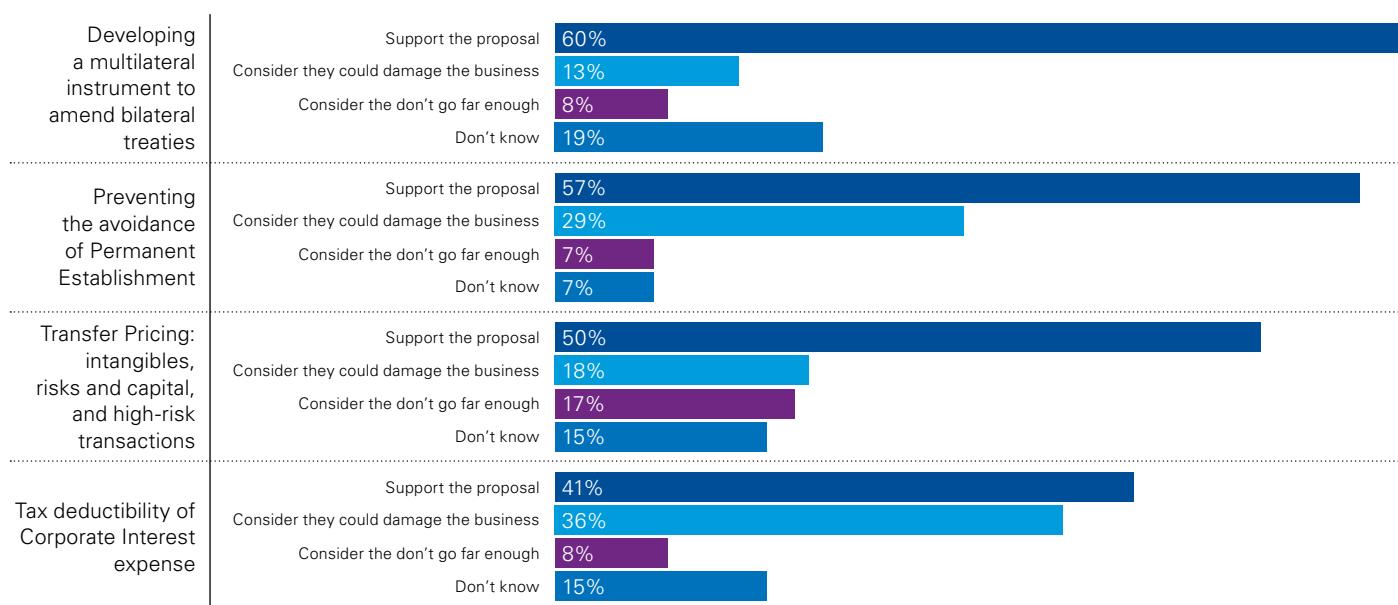
Respondents were most supportive of the 2017 workstream that allows for further simplification, developing a multilateral instrument to amend bilateral treaties (Figure 15).

**Figure 14: Firms that support the general aims of the BEPS Action Plan in 2017 - %**



**Figure 14: Do you support the general aims of the BEPS Action Plan? Base: 135**

**Figure 15: Views on workstreams - %**



**Figure 15: For each of the activities do you 'Support the proposal' / 'Consider they don't go far enough' / 'Consider they could damage business' / 'Don't know'? Base: All familiar with BEPS (115)**

## Taxing the digital economy

Taxation of the digital economy has risen up the global tax agenda during 2017. Since our survey was completed, we have seen a flurry of activity with the publication of discussion documents on the subject from the OECD, the EU and the UK Government.

The majority of companies we spoke to (57%) support the OECD's activity in this area – although only a fifth of these companies said that these measures would impact them.

**Over the years of this study, companies have said consistently that simplicity and predictability improve the competitiveness of a tax regime.**

However, because many companies are increasingly likely to have a digital component, we expect that tax policy changes focusing on the digital economy may impact more strongly in the future across a broader base of businesses.

## The cost of uncertainty and complexity

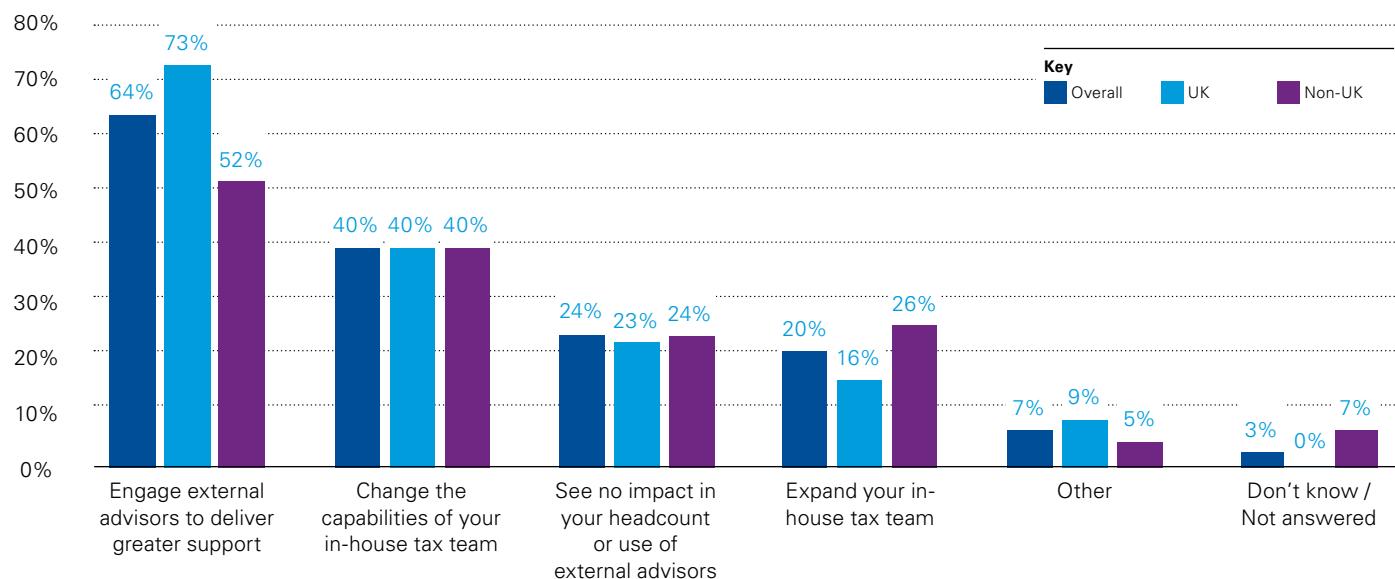
Over the years of this study, companies have said consistently that simplicity and predictability improve the competitiveness of a tax regime.

This year we have seen a notable increase in the concerns companies have about managing an increasingly complex and uncertain tax environment. As well as answering the direct question we asked, participants also raised the issue spontaneously during interviews (and this was especially the case with companies with extensive international operations).

Increasing tax complexity also sits in the context of greater scrutiny from tax authorities and a more dynamic regulatory environment, adding up to a substantially increased burden on tax departments. This could incur significant costs for businesses as they attempt to manage it, whether by engaging external advisors, improving the capabilities of their in-house team, or employing more tax professionals (Figure 16).

It is also clear that respondents continue to welcome and encourage the UK Government's efforts to simplify tax and minimise tax changes.

**Figure 16: Strategies to manage tax matters in next 12 months - %**



**Figure 16: Looking to the next 12 months, what impact will Brexit, BEPS and EU tax workstreams have on how your team manages tax matters? Do you expect to ... ? Base: 135**

# 05 Recommended steps for the UK Government

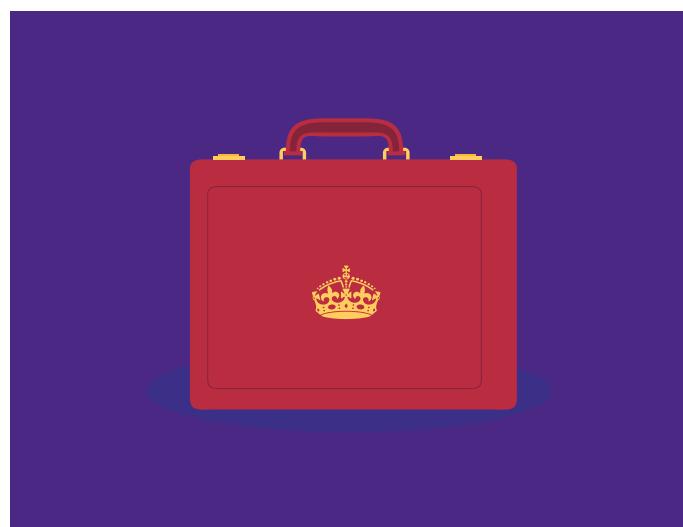
While headwinds remain to the UK's growth prospects in the near future, there are a range of measures that the UK Government could consider to encourage that growth.

## Broader economic policy measures



- 1 Carefully review the importance of seamless trade and regulatory equivalence during Brexit negotiations
- 2 Invest in workplace skills
- 3 Explore the effectiveness of enterprise zones to attract FDI
- 4 Incentivise infrastructure development

## Tax policy measures



- 5 Continue existing corporation tax policies focused on maintaining the low headline rate whilst increasing certainty and predictability
- 6 Continue to limit additional tax decentralisation
- 7 Be more transparent on tax policy
- 8 Improve the relationship between companies and HMRC

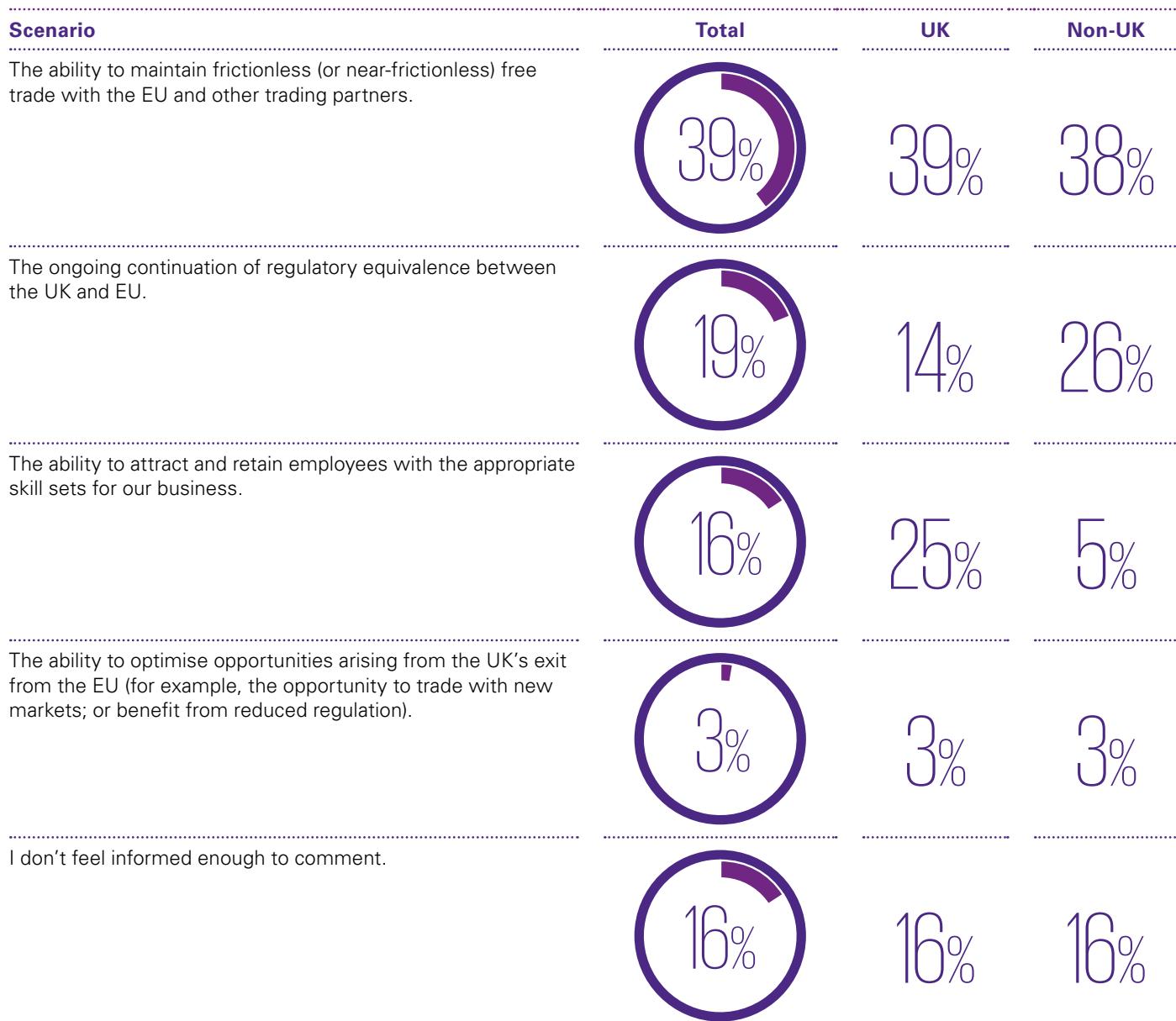
## Broader economic policy measures

### Recommendation 1:

Carefully review the importance of seamless trade and regulatory equivalence during Brexit negotiations

Companies have a clear 'wish list' for Brexit negotiations – frictionless or near-frictionless free trade and regulatory equivalence. For companies based in the UK, the supply of appropriately skilled workers is also vital (Figure 18).

**Figure 18: Brexit implication most important for your organisation – %**



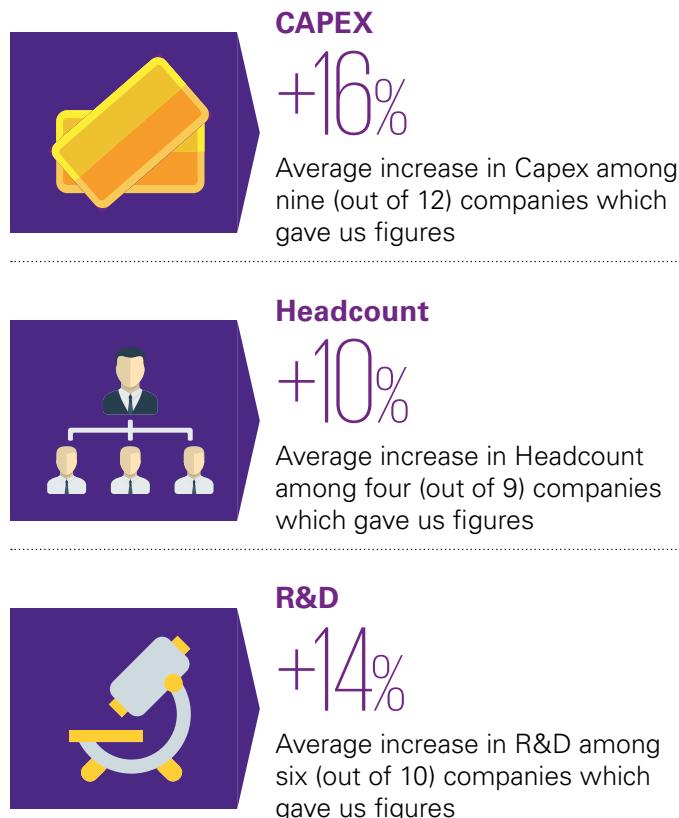
**Figure 18: Which of the following four Brexit implications is the most important for your organisation? Base: 135**

## Recommendation 2:

### Invest in workplace skills

Brexit as well as a host of other factors including technology and societal changes have pushed labour and skills availability up the corporate agenda. As noted earlier almost one in five companies see investment in workplace skills as the single most significant action the UK Government can take to increase investment and activities (Figure 19).

**Figure 19: Impact of infrastructure investments on companies' investment and activities – %**



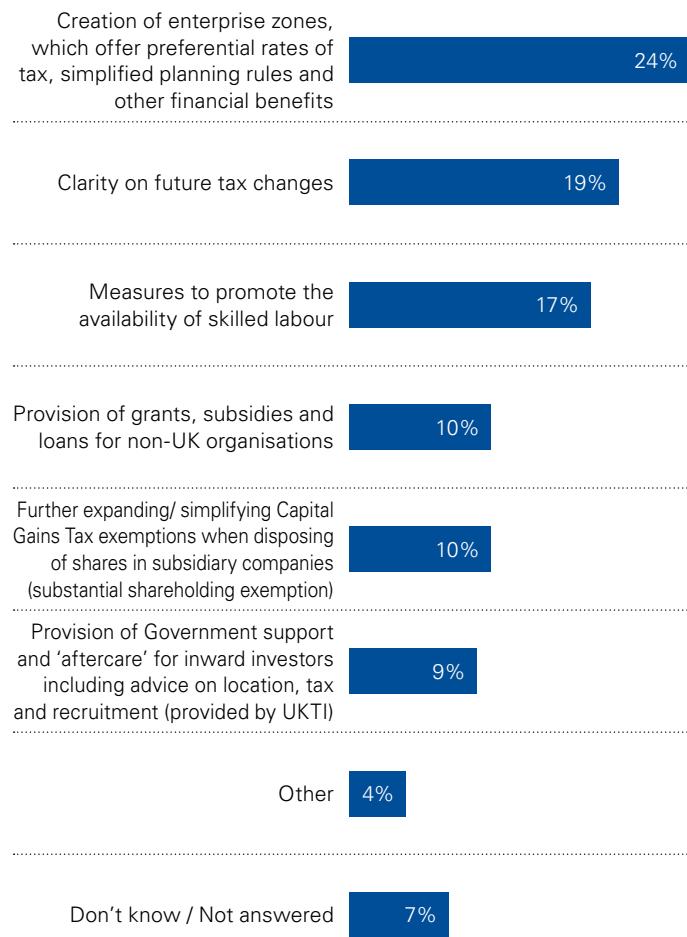
**Figure 19: Which one of the following factors could have the greatest impact (positive or negative) on your investment and activities in the UK in the next 12 months? And what impact would this change have on your following activities in the UK? Base: 135**

## Recommendation 3:

### Explore the effectiveness of enterprise zones to attract FDI

Enterprise zones offering preferential rates of tax are an essential factor (along with clarity on future tax changes) in attracting FDI into the UK, with both UK and non-UK companies showing strong levels of support (Figure 20).

**Figure 20: Desired Government priority actions to increase FDI over the next 12 months – %**



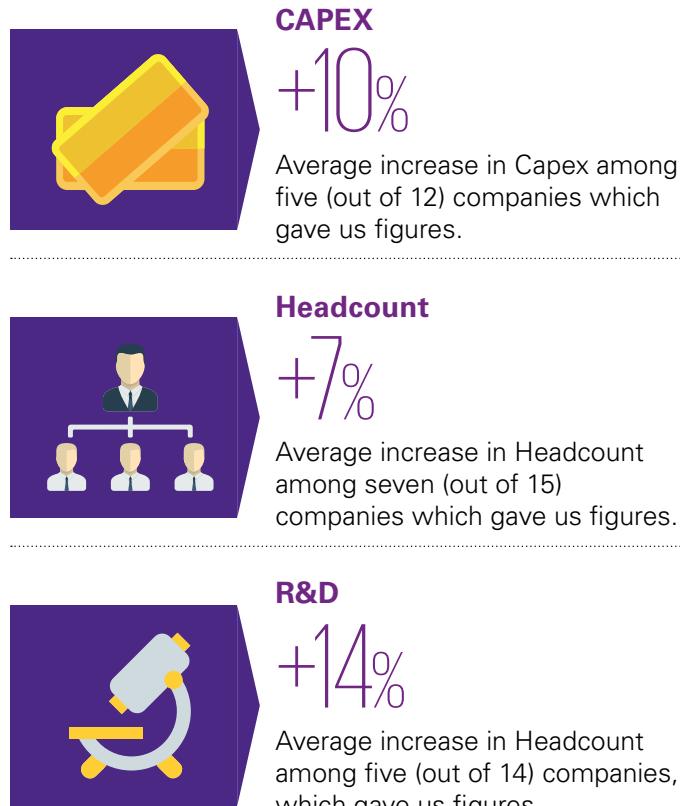
**Figure 20: In light of Brexit, what single measure should the UK Government prioritise to increase Foreign Direct Investment into the UK over the next 12 months? Base: 135**

## Recommendation 4:

### Incentivise infrastructure development

Companies see incentives for infrastructure development as one of the most important measures the UK can take to boost growth and tax competitiveness. Companies said infrastructure incentives could result in a 10% increase in spending on average (Figure 21).

**Figure 21: Impact of infrastructure investments on companies' investment and activities – %**



**Figure 21: 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: 135

## Tax policy measures

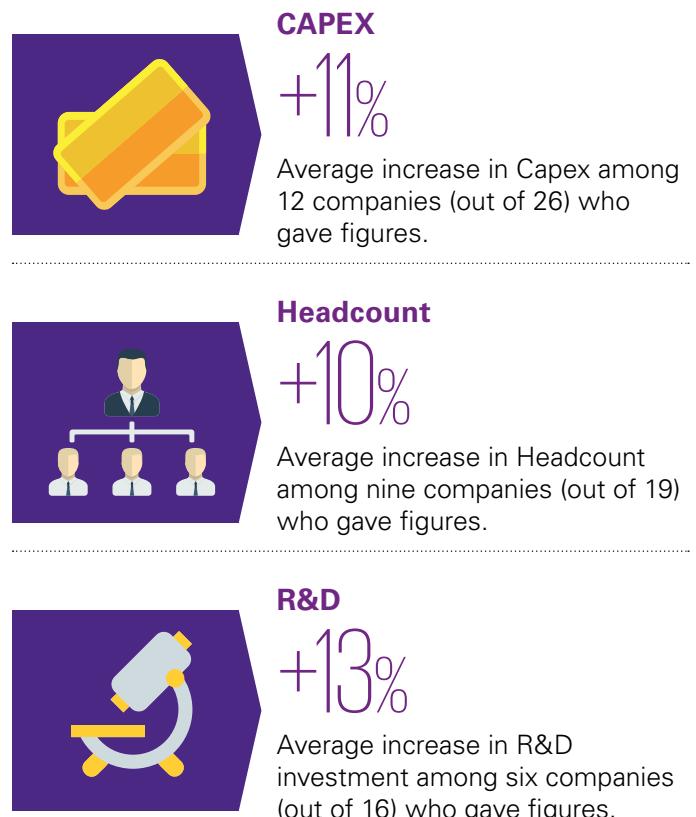
### Recommendation 5:

Continue existing corporation tax policies focused on maintaining the low headline rate whilst increasing certainty and predictability

The competitiveness of the headline corporation tax rate has been a clear factor in improving the attractiveness of the UK tax regime over the last few years. Given the recent US Tax Reform, the UK's headline rate of tax will continue to come under pressure in the coming years. 19% of respondents said the Government should prioritise corporation tax reduction in the light of Brexit in order to maintain the UK's competitiveness.

Respondents also told us that the further planned reduction in the corporate tax rate to 17% in 2020 will have a positive impact on their capital expenditure, headcount and R&D spend (Figure 22).

**Figure 22: Impact of planned reduction in corporate tax rate on companies' investment and activities – %**



**Figure 22: The rate of Corporation Tax in the UK has been reduced to 20%. Further reductions to 19% in 2017 and 17% in 2020 are planned. How are these reductions likely to affect your business? Are you expecting to increase or decrease...? Base: 66**

**Recommendation 6:****Continue to limit additional tax decentralisation**

Change and complexity emerge clearly from the survey as the biggest challenges for tax leaders. Continuing to reduce complexity and improving tax certainty are key areas on which the UK Government can focus to support growth and tax competitiveness. But this should not include tax decentralisation – only 16% of companies would support this, according to our study, and the vast majority are opposed.

**Recommendation 7:****Be transparent on tax policy**

Companies are looking for tax simplification, but also greater transparency on future tax policy changes. 79% say this is an important factor when assessing the competitiveness of a country's tax regime.

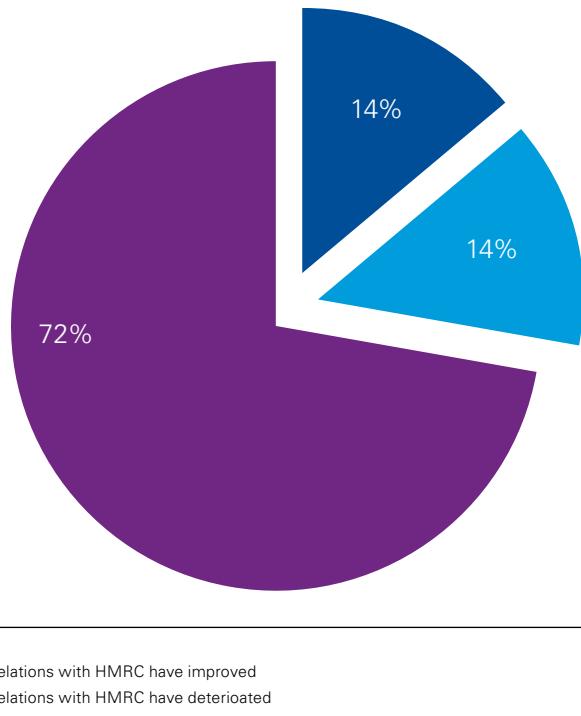
A lack of predictability is an added difficulty for tax professionals already having to manage an ever-increasing and dynamic range of tax and regulatory policies across different jurisdictions. A lack of transparency also causes companies to be more cautious about making long-term decisions to invest.

**Recommendation 8:****Improve the relationship between companies and HMRC**

The slow deterioration in the relationship between companies and HMRC seen in previous studies is showing signs of improvement, with 14% saying relations have improved (figure 23). Those that feel relationships are continuing to worsen blame increased assertiveness from HMRC and a lack of resources in some areas.

The UK Government, should aim to drive further improvements to resourcing to ensure that scrutiny and enforcement activities are as efficient and transparent as possible. This will help to reduce the concerns companies have about uncertainty and complexity and ensure that businesses which operate in the UK know where they stand with the authorities.

**Figure 23: Change in relations with HMRC (UK companies incl. foreign-owned subsidiaries) – %**

**Key**

- Relations with HMRC have improved
- Relations with HMRC have deteriorated
- Relations with HMRC have not changed

**Figure 23: Over the last 12 months, has the way HMRC interacted with businesses in the UK changed? Base: All UK companies and UK-based subsidiaries of a foreign company (76)**

# 06 Conclusion

## Conclusion

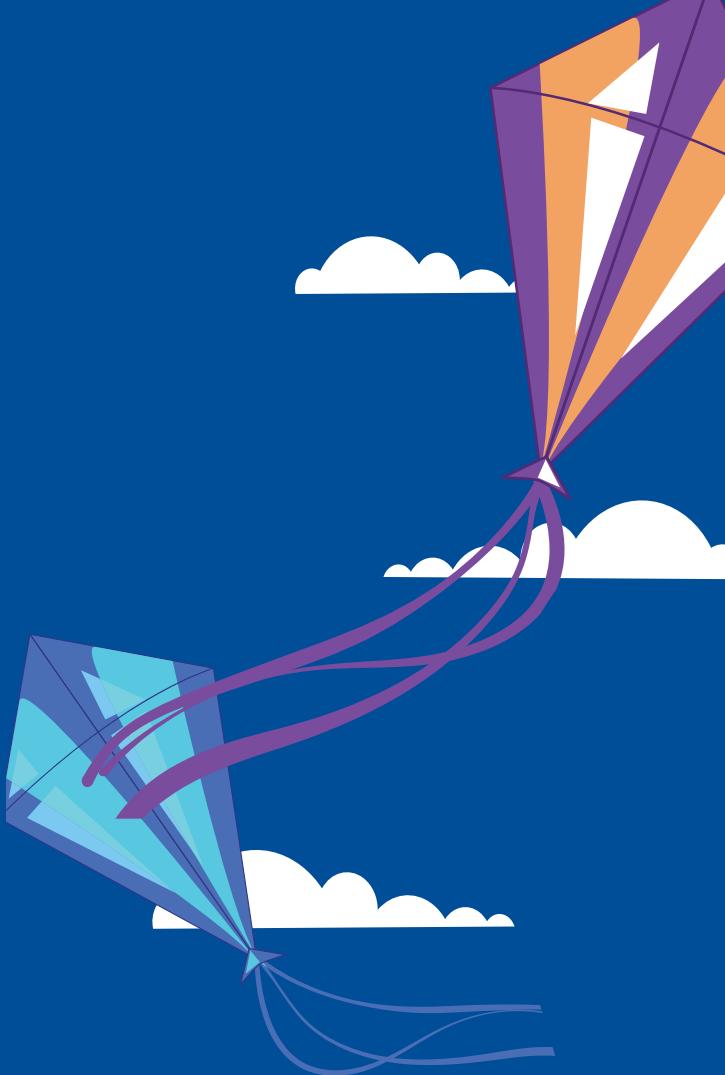
It is clear from this year's study that businesses are continuing to face turbulent times. Multiple geo-political changes, as well as technology, the ongoing Brexit negotiations and rising regulatory complexity are all increasing the pressure on tax professionals seeking to support their business's strategies.

In this landscape, stability, predictability and simplicity are more important attributes than ever for tax regimes when businesses are choosing where to locate and invest.

The good news for the UK is that despite the concerns about the impact of Brexit in last year's survey, this year's analysis shows that the UK is demonstrating considerable resilience and has retained its attractiveness from a tax perspective and for FDI.

As the details of Brexit are being agreed and the UK moves towards a period of transition, it's important for the UK to continue to maintain its attractiveness for businesses operating in the UK. Our analysis includes a suggested road map of what the UK can focus on to do this, including: the continued promotion of a stable and competitive tax regime, incentives for infrastructure and enterprise zones and a continued focus on workplace skills.

Maintaining a focus on these areas should help ensure that the UK is in a strong position to retain and attract investment and develop an environment that allows businesses to flourish.



# 07 Project participants and approach

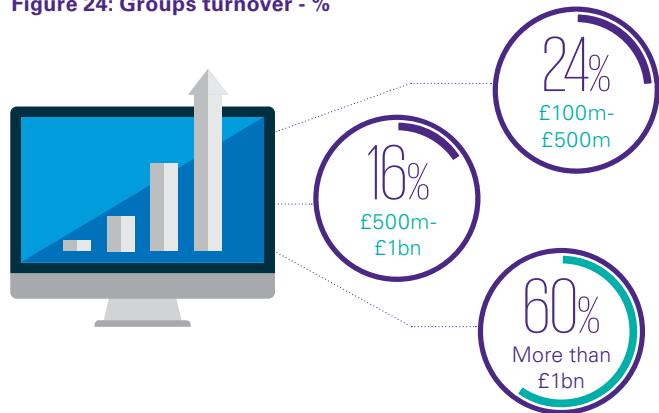
## Project participants and approach

The findings of the report are drawn from 135 conversations with senior tax decision-makers, representing a diverse range of large companies from the UK and the rest of the world. These were completed between October and December 2017 by Gulland Padfield, the specialist consultancy.

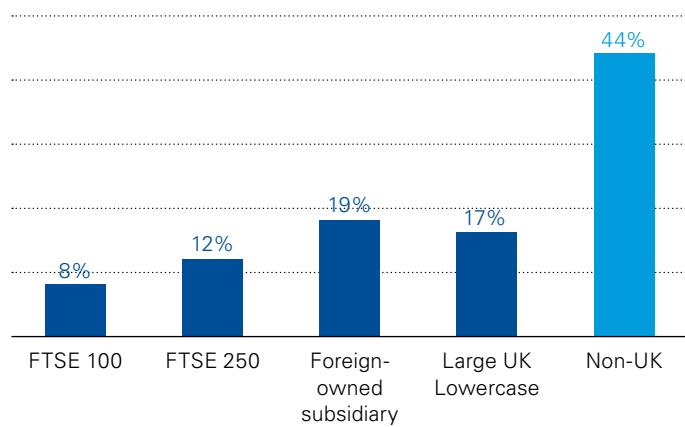
The industry makeup is comparable to last year's study, with the manufacturing industry particularly well represented (accounting for a quarter of the overall sample).

Some 77 interviews are with UK companies or foreign subsidiaries based in the UK. The remaining 58 include roughly equal numbers from the US, Canada, France, Germany, Italy and Japan. These respondents are labelled as 'Non-UK' companies throughout this report.

**Figure 24: Groups turnover - %**



**Figure 25: Company status - %**



**Figure 26: Job title - %**



# Contact us



**Melissa Geiger**  
Head of International Tax  
KPMG in the UK

+44 (0)20 3078 4027  
melissa.geiger@kpmg.co.uk



**Tim Sarson**  
Partner  
KPMG in the UK

+44 (0)20 7694 4831  
tim.sarson@kpmg.co.uk



**Amanda Pearson**  
Partner  
KPMG in the UK

+44 (0)20 7694 3336  
amanda.j.pearson@kpmg.co.uk

[www.kpmg.com/uk/tax](http://www.kpmg.com/uk/tax)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name, logo are registered trademarks or trademarks of KPMG International.  
CREATE. | CRT095259A | May 2018