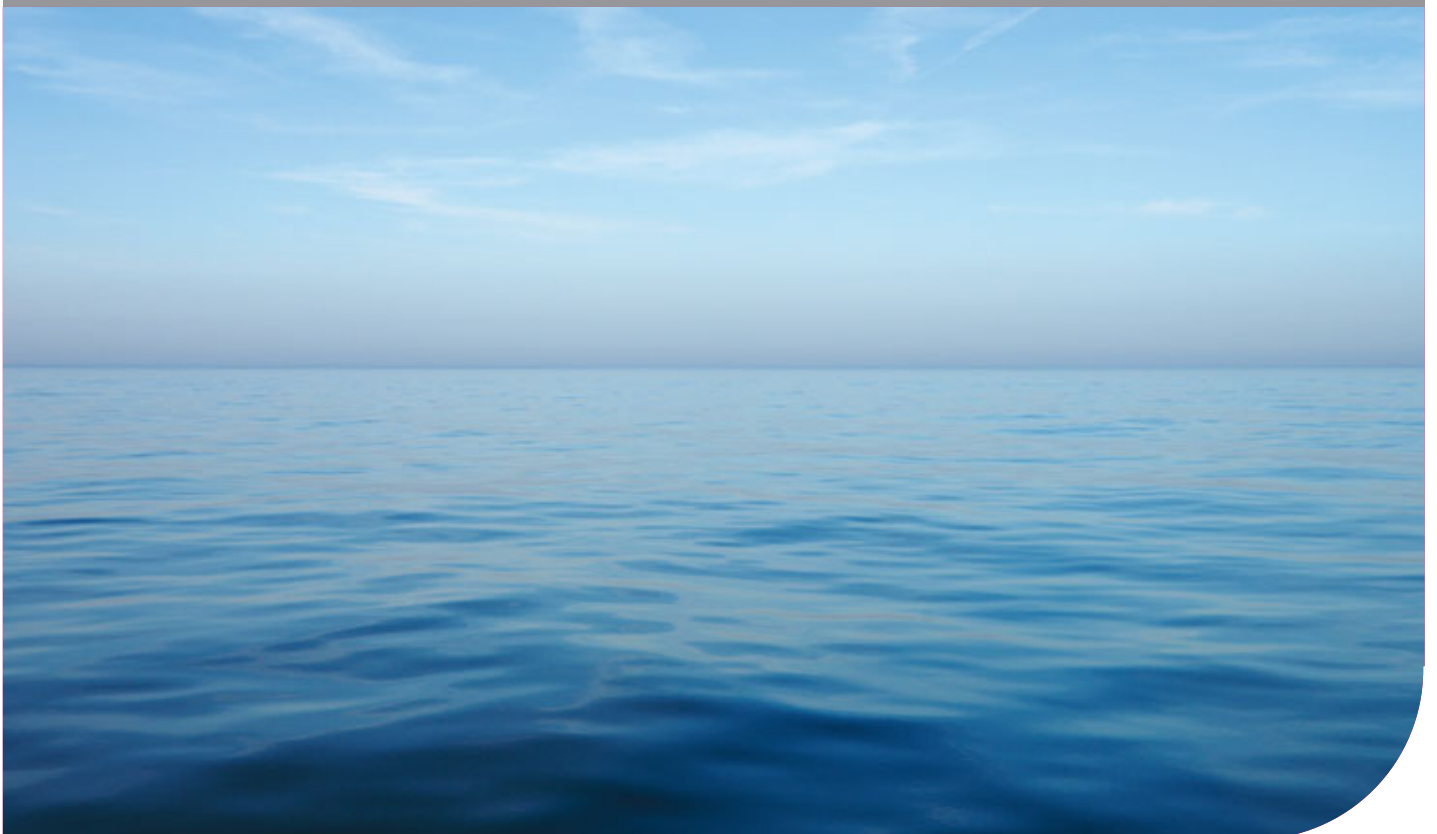




TAX
FACULTY

An initiative from the ICAEW Tax Faculty

TOWARDS A BETTER TAX SYSTEM



The need to improve tax systems is as great as ever, and there is growing international debate about what works best for taxpayers as a whole. Our *Towards a Better Tax System* programme of work addresses the practical challenges faced when designing and implementing changes to tax systems.



TOWARDS A BETTER TAX SYSTEM

The ICAEW Tax Faculty will pursue its Thought Leadership work under three main heads: Business, People and Delivery. Set out in this document are key challenges which policy makers are currently facing and the important issues which the ICAEW Tax Faculty will now be addressing.

We will examine these key tax policy issues building on our track record of thought leadership work and this will be supported by our extensive representational work.

The aim of this thought leadership programme is to consider the challenges faced by tax systems and help shape solutions suitable for the 21st century. We intend to involve stakeholders including taxpayers and intermediaries, policy makers, tax administrations and academics.

Chartered accountants have a unique perspective on tax. They work both in, and with, business and are able to offer practical and informed views based on daily experience.

Since its formation in 1991 the ICAEW Tax Faculty has been engaged in thought leadership work. It hosts the annual Hardman Lecture in which a leading figure from the tax world, or from Government, addresses a critical tax policy issue. The ICAEW Tax Faculty also hosts the annual Wyman Debate or Symposium. These two events are amongst the most prestigious on the UK tax calendar.

The role of tax in society

Tax is one of the foundations upon which society is built and tax systems should reflect society's ambitions while respecting the important role that enterprise and business play in creating prosperity.

Tax systems are under pressure due to increased complexity and uncertainty. The constant amendment of existing rules means that the volume of tax legislation continues to grow, caused partly by governments' perceived need to launch new initiatives and to counter tax avoidance with highly complicated anti-avoidance rules.

And tax systems are also under pressure because, throughout the world, governments face a challenge to deliver public policy objectives while supporting enterprise. Governments are often required to raise greater tax revenues while facing downward pressures on headline tax rates.

The trust gap

Relations between tax administrations, taxpayers and their agents appear to have reached a low point. A 'trust gap' has opened up, reflecting the often adversarial nature of tax systems that appear to encourage conflict and dispute rather than resolution and reconciliation.

Tax systems can only function effectively if there is underlying trust, based on transparency, honesty, integrity and mutual respect.

The challenges ahead

All economies need to find smarter ways to deal with the tax challenges they face. We have set out below the three themes under which we will carry forward our *Towards a Better Tax System* work.

Business

Governments have a choice as to how much businesses should contribute to tax yields. Vibrant economies depend upon successful businesses and business tax systems need to be designed to encourage enterprise and growth. However, changing the tax system may result in businesses behaving in the opposite way to that intended.

A starting point is to understand the basis for determining tax charges on businesses and the role that accounts play in this. Developments in financial reporting raise questions about whether new models are needed for taxing businesses.

People

Every administrative system relies on people and in order to be economically efficient they must have a shared understanding of how it works and be able to perform their roles with reasonable certainty and without unnecessary interference. Where there is little trust, or where a tax system is too complicated for taxpayers to 'get it right' on their own, the system will need to be heavily regulated and transaction costs will be hugely inflated. However, all tax systems require checks and balances and there must be safeguards and proper protection for all those involved in the system.

Delivery

Central to the delivery of improved tax systems is technology. The use of technology should be based on greater productivity and driving down business costs rather than just cutting government spending.

There is a need to examine the role of technology in tax from users' standpoints to see whether more can be done to improve systems and increase take-up.



Chartered accountants are vital to a smooth running tax system

Chartered accountants are key stakeholders in an efficient tax system – whether they are in business or in public practice. Our members act for, and work in, businesses of all shapes and sizes, from micro-businesses to multi-national companies. They also work across the economy, in the public sector and within the tax administration. We have a unique, business-based, perspective on tax systems. Through challenging the current system, based on our members' practical knowledge, we can help ensure that policy-makers develop tax systems in a practical and effective way.

The Tax Faculty's Ten Tenets

Our future work will build on the work associated with our *Ten Tenets*. First published in 1999, these comprise ten fundamental principles against which tax systems and policy should be measured. Taxation should be:

1. Statutory
2. Certain
3. Simple
4. Easy to collect and to calculate
5. Properly targeted
6. Constant
7. Subject to proper consultation
8. Regularly reviewed
9. Fair and reasonable
10. Competitive

Role of the ICAEW

As an independent professional body acting in the public interest, we believe that the ICAEW is uniquely placed to address difficult issues and propose solutions.

In doing this we will draw on the knowledge of the ICAEW Tax Faculty, reflecting both our representational role working with government and our advisory role providing services to our members.

Towards a Better Tax System will make use of the wider expertise of the ICAEW, for example in business law, IT, financial reporting, audit and assurance. It will also support existing ICAEW thought leadership initiatives, such as the *Information for Better Markets* campaign, building on common themes related to the need for an efficient tax system to support growth and underpin the aspirations of society.

To move the debate on and to promote a wide-ranging discussion, the initiative will engage with a wide range of parties.

Our approach

Central to our approach is our independence; our willingness to ask, and answer, difficult questions; and our ability to seek the views and the involvement of others.

As chartered accountants we are not only key business advisers but also highly practical people. Accordingly, the aim of our thought leadership campaign will be to focus on the practical issues that our members meet on a daily basis.

Research process

Important academic and policy related research is currently being undertaken into tax issues. Our work will encourage and complement this research.

There is so much detail in tax that it is not always easy to see the wood for the trees. We will, therefore, consider each area from a business perspective with the aims of:

- identifying the arguments
- challenging assumptions
- leading and shaping the debate.

We will examine tax policy issues from a practical viewpoint and do so in a way which is closely aligned with the needs of business and the individual taxpayer. We will consider the 'big ticket' issues from the perspective of our members who deal with tax and represent the best interests of business and the taxpayer generally.

We will provide a fresh and informed perspective on key strategic tax issues. As the ICAEW Tax Faculty takes *Towards a Better Tax System* forward, we will promote a dialogue between interested parties and shape our thinking by hosting discussions and debates. We then plan to publish papers on the topics we have identified. All these papers and any related material will be available from the Tax Faculty's website www.icaew.com/taxfac

Invitation to participate

The Tax Faculty thought leadership programme has been developed and refined by members of the Tax Faculty staff and key volunteers.

We believe our work will be relevant to tax systems throughout the world and we welcome comments and involvement from all interested parties. If you or anyone in your organisation is interested in contributing to our *Towards a Better Tax System* work please contact taxfac@icaew.com.

Towards a better tax system – forthcoming reports



Business

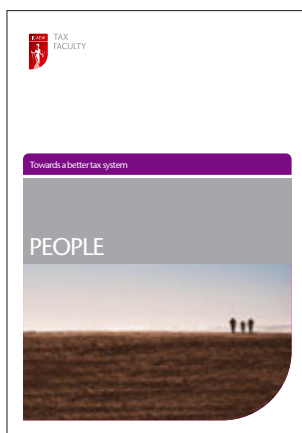
Tax and accounting: where to next?

The starting point for most tax systems is the accounting profits. If accounts move towards fair value and mark-to-market models, the requirements of tax and accounting systems may begin to diverge. There is a wide spectrum of business needs when preparing accounts and this could result in conflicts if there is a 'one size fits all' rule for both accounts and tax. There is also an inherent tension between the quest for certainty and the desire to nurture and protect professional judgement.

We propose to examine the fundamental issues underpinning accounting systems and how these relate to the important taxation issues. We will consider whether current accounting models provide an appropriate way forward for all businesses.

We will pay particular attention to the position faced by large corporates, as they provide the bulk of the revenue from company taxation.

We will also continue our existing work considering what should be the right tax system for smaller and medium-sized businesses.



People

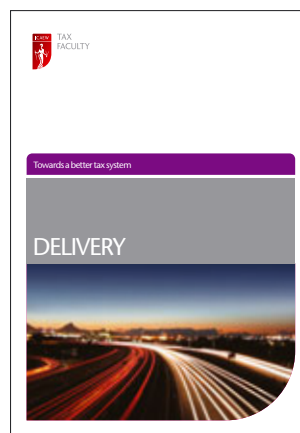
The balance between trust and regulation in tax

We are concerned that overly complicated tax systems make it difficult for individual taxpayers to feel that they are always being treated fairly. This is an issue that we will consider but we propose to start by examining the role of the tax profession as intermediaries.

There is increasing pressure from governments to regulate the tax profession. Is external regulation the right answer or does it reflect a breakdown in trust which regulation itself will not restore? Why is there a lack of trust, openness and transparency? Can self-regulation still provide a more efficient and reasonable approach than external regulation?

Even if external regulation is desirable, does it work and do the benefits outweigh the costs and increased complexity of such a system? What checks, balances and standards are needed to move away from an adversarial system rooted in conflict to one based on openness and mutual respect? Should regulation apply to all stakeholders, including tax administrations, and be independent of those administrations?

As part of this work, we will consider the key role played by chartered accountants in the tax system, their professional obligations and how their work should fit in with the needs of tax administrators.



Delivery

Can technology improve the tax system?

How do existing tax systems need to adapt to be relevant in the 21st century?

For example in the UK, Lord Carter's ambitious timetable for moving tax compliance away from paper and Sir David Varney's report on transforming public service delivery place 'e' issues high on the tax agenda.

There are tensions between governments' visions of tax systems based on technology and the electronic highway, and the need to adopt electronic technology for sound business reasons.

Technology has the capacity to do far more than simply provide electronic versions of paper processes; real-time and transaction-based reporting have the potential to revolutionise the way tax-related information is used.

How is e-compliance evolving in tax jurisdictions, and what is emerging best practice? What are the opportunities and threats? We need to think ahead to identify these and to ensure that we influence the evolution of tax systems so that they are right for citizens and business, not just for government.

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