

## **Budget Submission**

**Dated:** 9 March 2006

### **IoD Calls for Cut in Corporation Tax**

IoD's 2006 Budget Submission

As part of its 2006 Budget submission, the Institute of Directors (IoD) today called on the Government to cut Corporation Tax by two per cent, this, it claims, will stimulate economic activity and boost the competitiveness of the UK economy.

Miles Templeman, Director General of the IoD, said: "The time is right to make a two per cent cut in Corporation Tax, we have made the calculations and there is clear scope to make this reduction. The corporate tax advantages once enjoyed in the UK have slipped over the last few years and major economies such as Germany, France and Italy have all reduced their rates whilst ours has remained the same. The UK corporate tax rate is now above the OECD average. If we are to remain competitive we must act now."

The IoD proposes that the standard rate of Corporation Tax should be reduced from 30% to 28% in the Chancellor's Budget later this month. Calculations made by the IoD estimate that the two per cent reduction would cost £3 billion in 2007-08 and the IoD proposes to finance this in the following way:

- Tax simplification, with at least £2.7 billion found by ending ten reliefs and tax expenditures (see Notes to Editors)
- £300 million is provided from the stimulus to economic activity from tax cuts. Countries which have reduced their corporate tax rate have seen strong growth in subsequent revenues.

Other proposals contained in the IoD's 2006 Budget submission include:

- the introduction of Regional Comprehensive Spending Reviews aimed at root and branch reform of public spending in the regions;
- an annual statement to Parliament on the costs of unfunded public sector pension obligations; and
- the establishment of a US-styled Dynamic Scoring Unit in HM Treasury to model the behavioural consequences of tax changes, together with the publication of dynamic revenue estimates in the Budget and Pre-Budget Reports.

With regard to public spending, Miles Templeman said: "Public spending needs to be brought under control because unless we tackle the problem now, it will only get worse. Public spending has exploded in recent years and what makes this build-up even more remarkable is that it has occurred in peace-time and in the absence of a recession. Public spending and taxation are going up in the UK as a percentage of GDP and the competitive edge we once had is rapidly disappearing or already has.

"The 21st century will not be kind for those countries with large public sectors facing intense global competition from small-government economies. We face an uphill battle to bring public spending under control but it is a fight which must be engaged."

## **Regional Comprehensive Spending Reviews**

The IoD claims that in an increasingly competitive global economy, where tax competition is so important, the UK is having to finance very high levels of public spending in far too many regions. The IoD urges the Government to produce Regional Comprehensive Spending Reviews, incorporating a root and branch re-appraisal of spending across all regions. Much of Southern England is world class; much of Northern England, Wales, Scotland and Northern Ireland are storing-up a huge competitive drag on future economic growth.

### **Public Service Pensions**

HM Treasury projects that the cost of public service pensions will increase by two per cent of GDP over the next 50 years. This figure could be revised upwards. Given the large increase in public sector employment over the past decade, together with the demise of defined benefit pension schemes in the private sector, the cost of public sector pensions needs to be closely monitored. The IoD feels that taxpayers should not be expected to fund generous public service pensions they can't afford for themselves.

## **Dynamic Scoring Unit**

Dynamic scoring (sometimes referred to as reality-based scoring) attempts to quantify the behavioural effects of tax changes, people work more or less, companies invest more etc. Static models (such as those run by HM Treasury and the institute of Fiscal Studies) overstate the revenue that will be generated by tax increases and the revenue that will be lost from tax rate cuts. Dynamic models attempt to quantify the behavioural response.

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9.3.06 No.410

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## Notes to editors

- The ten reliefs and tax expenditures are: exemptions for gains on substantial shareholdings (£260m); enhanced capital allowances for energy saving technology (£170m); accelerated capital allowances for enterprise zones (£90m); VCT (£315m); EIS (£180m); Professional subscriptions (£80m); Rent-room (£90m); Small and large film tax relief (£560m); reduced rate for life companies (£1,100m) (Total: £2.845billion). This is over funding the £2.7 billion.
- The IoD's 2006 Annual Convention will take place on Wednesday 26 April at the Royal Albert Hall in London. Guest speakers include Steve Ballmer – CEO of Microsoft Corporation, Todd Stitzer – CEO of Cadbury Schweppes and Douglas McCallum – MD of eBay.co.uk. For more details contact the IoD Press Office, tel. 020 7451 3264; [press@iod.com](mailto:press@iod.com)
- The IoD (Institute of Directors) was founded in 1903 and obtained a Royal Charter in 1906. The IoD is a non-party political organisation with upwards of 52,000 members in the United Kingdom and overseas. Membership includes directors from right across the business spectrum – from media to manufacturing, e-business to the public and voluntary sectors. Members include CEOs of large corporations as well as entrepreneurial directors of start-up companies.
- The IoD offers a wide range of business services which include business centre facilities (including six UK regional centres and one European centre in Paris), conferences, networking events, issues-led guides and literature, as well as free access to business information and advisory services and a comprehensive Information Centre. The IoD places great emphasis on director development and has established a certified qualification for directors - Chartered Director - as well as running specific board-level and director-level training and individual career mentoring programmes.
- In addition, the IoD provides an effective voice to represent the interests of its members to government and key opinion-formers at the highest levels. These include ministers, constituency MPs, Select Committee members and senior civil servants. IoD policies and views are actively promoted to the national, regional and trade media.
- For further information, visit our website: [www.iod.com](http://www.iod.com)