

LONDON FIRST BREAKFAST

KPMG, 30 April 2009

Thanks to Jo and to KPMG. I'm very pleased to be here. I want to say a little at the outset about the contribution of tax policy in a wider consideration of UK competitiveness.

Context

The backdrop, of course, to our discussion is the worst crisis in the world economy since the 1930s. The global economy is forecast to shrink this year for the first time since the 2nd world war.

There is a lot of support being provided to the economy:

- The big international stimulus co-ordinated through the G20 – amounting to \$5 trillion by the end of next year, according to IMF;**
- The stimulus measures in the UK, including the VAT cut, with good evidence now that is having the impact we hoped;**

- **The lowest interest rates ever – again with good co-operation through the G20 on interest rates – now further supported by quantitative easing.**

Last week's Budget was designed to build on the support for households and businesses we announced before Christmas, and to start to look beyond the crisis to make sure we are in a position to make the most of the new opportunities which will emerge when the upturn comes.

Supporting businesses

So the Chancellor set out measures to support cashflow and keep businesses trading:

- **extending the enhanced tax loss relief announced at the Pre-Budget Report for an additional year;**
- **enabling businesses to spread payment of this year's inflation up-rating to business rates over three years**
- **and a top-up trade credit insurance scheme to help businesses maintain their finances.**

In the Pre-Budget Report, we introduced HMRC's time to pay service, which has helped 13,000 London businesses to defer £300 million in tax since November, and has I know

been very highly valued by companies which have benefited. One SME chairman I spoke to last week described it as “*brilliant*”. We extended it in the Budget so that companies making losses at the moment can offset those losses against tax due on profits made last year.

Preparing for the upturn

Looking ahead to renewed growth, the Budget announced:

- an increase in capital allowances for new investment to 40% for one year, supporting £50 billion in investment;
- A new £750 million Strategic Investment Fund for advanced industrial projects;
- Investment in green technology and broadband infrastructure, to make sure we are well-placed to take advantage of the upturn when it comes;
- And the implementation of a package of reforms to the taxation of foreign profits.

Tax competitiveness

But as the recession deepens, company profitability falls. Tax receipts fall as welfare demands rise – with a huge

impact on public finances. It raises very big questions about tax policy.

The Multinational Business-Government Forum on Tax and Globalisation – which I chair – was set up last year to look at how the tax system can provide long-term certainty for multinational companies in the face of increased competitiveness challenges, and strengthen the attractiveness of the UK as a headquarters location for them.

The UK corporation tax rate is the lowest in the G7. Our aim is that our corporation tax arrangements should be the most attractive in the G7. And the package of foreign profits tax reform in the Budget is a big step in that direction. A lot of companies have helped us with that over recent months. There will be more work to do on our Controlled Foreign Company rules – and we are going to need more help as we work on that in the coming year.

Alongside tax, regulation, skills and human capital, and our approach to global markets will be important for longer-term success. We have been reminded of that by government-industry group on the Professional Services industry, co-chaired by Sir Michael Snyder and my

Treasury colleague Lord Myners, one of a series of pieces of work commissioned by the Chancellor's *High Level Group on City Competitiveness* to examine longer-term challenges and opportunities facing the financial and professional services industries in the UK. That report is right, in my view, to argue that London's success is the UK's success.

Consolidation

It has been vital to offer real help to people and businesses through current difficulties. But we also have to live within our means. And fiscal consolidation requires some tough choices to be made.

So the introduction of the 50% rate for higher earnings is not a philosophical change in our position – but a response to a change in the economic climate. Over the past 12 months we have taken unprecedented steps to save the banking sector and support families and business. And, now, we needed to raise revenue at this Budget as a result.

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But we wanted to do so in as fair a way possible. The top 1 to 2 percent of earners have seen the biggest rise in incomes since 1997, and it is right, in a world downturn on this scale,

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to ask them to contribute more. Other countries are going to have to take similar steps.

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Conclusion

We need to continue to look to the long term as we work through current difficulties. I look forward to publication of Sir Win Bischoff's report on the future of the UK Financial Services industry. London and the UK will continue to play a leading role in global financial and professional services markets, and contributing to securing that leadership is an important responsibility for Government.

I welcome chances for discussion like this one.

Thank you.