



HM TREASURY

The Knowledge Economy and the balance of taxation of innovative activity

Business-Government
Forum on Tax and
Globalisation
June 2009

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Budget text: key points

Working with representatives across the business community, the Government will examine the balance of taxation of innovative activity, including intellectual property.

The Government will **assess the evidence on the potential impacts of any reforms on economic activity**, such as the development and exploitation of patents and other intellectual property, location of manufacturing, R&D, investment and employment (as well as on where intellectual property assets are held), and on tax receipts.

The Government will **set out its assessment and proposed approach before the Pre-Budget Report.**





Key questions

1. What activities are we trying to encourage?
2. What role does tax play in competitiveness?
3. How does the UK support innovation?





1. What activities are we trying to encourage?

- Activities that contribute to UK productivity and employment
- Innovative activities that contribute to a “knowledge economy”
- High value-added activities that support productivity growth
- Multinational groups locating these activities in the UK
- Activities in which the UK has a comparative advantage
- ‘Intangible’ investment in the UK is estimated to be greater than investment in tangible assets





1. What activities are we trying to encourage? (Cont.)

Questions for discussion:

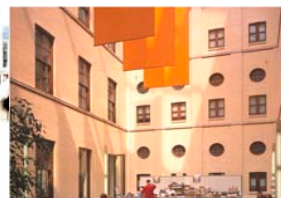
1. Are some sectors more innovation-intensive than others?
2. How do multinational businesses arrange global value chains – what is the role of innovative activity?
3. Are some sorts of innovative activity more productive than others?
4. Are some stages of the global value chain more value-adding than others?





2. What role does tax play in competitiveness?

- Evidence suggests a range of factors at play when investment location decisions are taken, tax is not the most important.
- For innovative activity, the availability of a skilled workforce, a broader science base and the ability to protect innovations are key
- Tax is a cost factor. Impacts on post-tax investment returns.
- The administration of tax is important, where perceptions of stability, certainty and transparency play a role





2. What role does tax play in competitiveness? (Cont.)

- What factors affect investment location decisions? Are these factors different for innovative activities?
- What factors determine whether the value chain – R & D, manufacturing or other activity – takes place in a single or multiple locations?
- When does tax enter group decision processes?
- How does tax impact on investment location decisions?
- What types of activities does tax play a more significant role in?





3. How does the UK support innovation?

- UK Government deploys a range of instruments to encourage investment in innovation, at national and regional level
- Some of these are delivered through the tax system - international comparisons suggest the UK is relatively generous compared to G7
- Key mechanism in tax system is R & D tax credit, considered successful at stimulating R & D, particularly among SMEs
- Corporate tax system also gives relief for intangible investment





3. How does the UK support innovation? (Cont.)

Questions for discussion:

1. How does the balance of taxation in the UK compare with competitor countries?
2. What are the UK's key non-tax strengths / weaknesses?
3. How effective is the tax system at targeting support at innovative activities?
4. If there are lessons to be learned from elsewhere, how could the taxation of innovative activity be rebalanced?





4. Future process and stakeholder engagement

- Important to understand how potential reforms would impact across all sectors, and the trade-offs inherent in these decisions
- Govt committed to involve interested parties from a wide range of businesses to build our evidence base
- Work closely with businesses to gather evidence on the role of tax in encouraging innovative activity. This will involve:
 - bilateral discussions with a range of businesses
 - wider engagement through workshops / seminars on tax and innovation
- Commitment to set out Govt's approach before PBR. Subject to timing, report back to Multinational Forum at next meeting

