

Exploring Large Business Tax Strategy Behaviour

TNS BMRB Final Report
HMRC Research Report 363

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1. Key Findings

Understanding how large businesses develop and adjust their tax strategies is key to HMRC's effectiveness in improving compliance and reducing the tax gap. The overall aim of this research was to understand what leads businesses to change their tax strategies, and how these decisions get made. Qualitative interviews were conducted with Heads of Tax, Chief Financial Officers (CFO) and others with strategic decision making roles, in 35 large businesses.

Recent change in 'tax climate'

Businesses talked about recent change in the climate and reduced appetite for tax schemes, driven by public, press and government scrutiny.

Importance of high-level decision makers, and organisational culture

These were *the key factors* influencing tax strategy. As tax becomes an increasingly important priority for businesses, influence is shifting away from a business's tax function and Head of Tax, towards the CEO and board. Businesses described how culture and appetite for risk is set by the board in line with shareholder/ owner priorities. Culture was seen to be hugely influential for tax strategy. Strategy was built from and reflective of corporate values and culture, and values of senior management.

Spectrum of business cultures in relation to tax risk

Businesses with greater risk-appetite tended to view tax as a straightforward cost or risk, which could be monitored and shaped accordingly. On the other end of the spectrum, those with lower risk-appetite saw tax as part of their identity – tax was linked to corporate social responsibility policy, and seen as critical to a business's reputation.

Different levers influenced the tax strategies of businesses with different risk-appetites

Businesses that were calculated risk-takers were most reactive to regulation and penalties. Those that were more risk-averse tended to be more responsive to public pressure, regulation and the view of HMRC.

Drivers of change in tax strategy

Culture and principles were key drivers of tax strategy stasis – whereas changes in leadership, regulation and public scrutiny were seen to have the potential to transform and alter a business's tax strategy.

Importance of codification of tax strategy

The degree of codification and content of a tax strategy were clear indicators for aggressiveness. Businesses with a greater tendency to take risks tended not to have written or published strategies, while those with lower risk-appetite tended to have more formalised strategies.

Understanding of HMRC risk classification

Benefits of a low-risk classification were recognised among those who have achieved it, but could be more clearly communicated to increase engagement and desirability amongst other businesses.

2. Introduction & Background

2.1 Background

Large businesses are a distinctive, complex and diverse group of HMRC customers, with particular needs and drivers in relation to tax administration. Understanding how large businesses develop and adjust their tax strategies is key to HMRC's effectiveness in improving compliance and reducing the tax gap. In particular, an in-depth understanding was required of how decisions are taken, by whom, and which internal and external factors are most influential for tax strategies in large businesses.

2.2 Aims and objectives

The overall aim of the research was to understand what leads businesses to change their tax strategies, and how these decisions get made. Specifically, to:

- Identify the **key factors that influence a large business's** tax strategy, both internal and external
- Explore **how decisions get taken**, and what the **levers for change** are:
 - which factors are most influential in prompting change, and why
 - what the priorities and levers are within the business, and how this operates
 - whether certain influences are more important for certain types of business
- **Compare UK-based and foreign multinational companies**, in influences and approach to tax
- Determine the **role of HMRC and other government departments**: how they influence a business's approach to tax, and the value and importance of relationships between businesses and government

3. Sampling & Methodology

3.1 Methodology, recruitment and sample

This project began with a scoping phase, consisting of a briefing meeting with HMRC research team, and a rapid literature review, covering:

- Business Tax Strategies: Business Reputations and Other Key Influences – Summary of Evidence (Business Customer & Insight Team, BC&S, 2014)
- RER - Influencing Large Business Tax Behaviour
- Large Business Panel Qualitative Research Summary 2012-2014
- Public Pressure and Corporate Tax Behaviour (Scott Dyring, Duke University; Jeffrey L. Hoopes, The Ohio State University; Jaron H. Wilde, University of Iowa; July 2014)
- Tax Compliance Risk Management Manual (HMRC)
- Senior Accounting Officer Guidance (HMRC)

The literature review fed into the development of the topic guide, and to help inform the research team about the area.

After this scoping phase, businesses were selected from sample provided by HMRC of their large business customers, focussing on Heads of Tax, Tax Directors, CFOs and others in senior positions, with a strategic decision-making role in relation to tax. The sample was drawn in December 2014 from businesses that are part of the Large Business Directorate population.

TNS BMRB sent a letter to all of the businesses on the sample which gave businesses the opportunity to withdraw from the study. Following this opt-out period, TNS BMRB's field team gained agreement to interview 35 individuals from the sample, and interviews were conducted in December 2014 – February 2015. A sampling approach was adopted that ensured a diversity of coverage across different variables of interest. The aim of this approach was not to create a statistically representative sample but to ensure representation of a range of potential respondents. A breakdown of the final achieved interviews is shown below.

The sample drawn included a range of companies with different HMRC risk classifications, though these were not shared with TNS BMRB at the point of recruitment. Respondents were however often fairly open about both their risk appetite and the risk rating they had received from HMRC in interviews – this has been approximated following analysis of transcripts to give an idea of the spread in the achieved interviews (12 higher risk, 7 medium risk, 16 lower risk). Whilst these approximations have not been systematically compared to HMRC's risk classifications, they can be seen as a rough proxy. As such, references in the report of higher or lower risk businesses are based on the respondent's disclosure of their risk rating, or in a few cases the assumed risk rating based on discussion.

Sector breakdown		UK/Foreign Owned	
17	Business, IT and Financial Services	13	UK owned
10	Utilities, Transport, and Agriculture	22	Foreign owned
8	Other: Construction, Manufacturing, Automotive, Pharmaceuticals, Retail, Tobacco		

This report is based on qualitative research, and thus does not seek to quantify or to be generalised from, but rather to represent the range of attitudes and behaviours displayed by the businesses interviewed with regards to their tax strategy.

All interviews and group discussions were digitally recorded. Analysis entailed a series of researcher debriefs using notes and stimulus materials, followed by 'matrix mapping', an approach entailing entry of all summarised data into an analytical framework to allow systematic coding, sorting and thematic analysis. This robust analysis method allows researchers to draw out the diversity of opinions expressed by participants, as well as identify common themes across interviews.

Structure of the report

The remainder of the report is structured as follows:

- *Section 4.1: Outlines the context of recent changes in the business tax environment that were seen to have influenced tax strategies;*
- *Section 4.2: Explores how businesses differed in their attitudes towards tax;*
- *Section 4.3: Explores the influences on business culture;*
- *Section 4.4: The attitudes of key decision makers*
- *Section 4.5: The range of external influences and how they influence tax strategy;*
- *Section 4.6: The main drivers of change for tax strategy;*
- *Section 4.7: The form and content of tax strategies themselves;*
- *Section 4.8: The differences between UK-owned and foreign-owned businesses in their approach to tax and relationship with HMRC;*
- *Section 4.9: Explores differing attitudes towards HMRC's risk classification; and*
- *Section 5: Conclusions*

4. Main Findings

4.1 Recent changes in 'tax climate'

Key findings:

- Businesses talked about recent change in the climate and reduced appetite for tax schemes, driven by public, press and government scrutiny.
- Tax had become increasingly important for senior management, and was a greater focus for the board and shareholders.

In order to understand how and why businesses modify their tax strategies, it is important to understand the context of recent changes that large businesses have experienced. Across both UK and foreign-owned businesses, it was observed that public and media scrutiny, alongside heightened concern about regulators, penalties and prosecution, had led to a significant reduction in appetite for tax aggressive schemes. This was particularly pronounced in the financial sector, attributed to increasingly stringent regulatory pressure post 2008.¹

"A lot of what we do obviously is regulated by the Financial Conduct Authority ... in terms of the nature of our products and how we distribute our products and the advice people get before they are allowed to buy any of our products. Regulation [has been] increasing for a good few years really. It's continually going up." (UK Owned, Business, IT and Financial Services)

Businesses stated that tax had therefore increased in prominence as a topic of discussion – and was of particular concern for senior management who may be held personally, financially or legally responsible for infractions. Where some businesses had previously viewed tax as a functional part of their operations or a 'tick-box' exercise, it had begun to draw increased attention and interest from boards and shareholders.

"There have been a lot of negative headlines and our business managers pose these questions, 'how do we stand in terms of our tax reporting and our tax contributions?' Around the middle of 2013 they've really started to ask me these broader questions." (Foreign Owned, Business, IT and Financial Services)

In some cases the impacts of this increased focus on tax were becoming clearly visible. Some businesses were investing in resource for improved reporting systems, or experiencing internal 'negotiations' between the business's internal tax team and other parts of the business. These internal negotiations could occasionally be antagonistic, especially where parts of the business that saw their key objective as maximising profit and competitiveness were challenged or restricted by the business's compliance arm.

¹ For example, the (voluntary) Code of Practice on taxation for banks introduced in 2009. Its purpose is to encourage banks to follow the letter as well as the spirit of the law in relation to tax planning.

"Some of the people, because there's a lot of money involved, want to push [new products] through. But then, with tax, we have to say, no, we can't push it through, because you leave us with problems. So, sometimes it's frosty. Other times they accept that we can't do it unfortunately, because they must get clearance from tax." (UK Head of Tax, Foreign Owned, Business, IT and Financial Services)

4.2 Differences in business's views on tax

Key findings:

- Businesses considered tax in two different ways, which impacted on their behaviour:
 - If viewed as a cost or risk, they were likely to focus on compliance whilst attempting to minimise their tax liability.
 - If viewed as a key part of their identity and reputation, it was factored into corporate responsibility and long term sustainable growth.

Businesses emphasised that their main priority was to maintain and grow shareholder value and operating profit. While the changes discussed above have raised the profile of tax in large businesses, it competes against these stronger drivers.

"I think the business priority is always going to be first. I think tax is alongside it to help, to enable." (Foreign Owned, Other)

However, tax was seen to form part of profit and value in two quite different ways, which are explained in more detail below. Either:

- tax was treated as a cost or risk that could be altered like any part of the business, or
- tax was viewed as key to the business's identity, reputation, and long-term value

Businesses who **treated tax as a straight-forward cost or risk**, generally did not view their tax obligation to have a moral component, viewing it instead as a legal necessity. Their focus was on compliance and not paying more than the minimum required by law – an approach they assumed to be the norm amongst all businesses. Such businesses were more likely to employ sophisticated risk management processes, for both tax-specific risks (i.e. around consequences of errors or infractions) and other risks involved in running a business (such as investment risk, increased competition, personnel and strikes), in order to maximise profit. They were also much more likely to have effective tax rate² (ETR) targets and for these to be shared internally. Their corporate goals often spoke of efficiency and commitment to delivering value, and they felt that it was normal and justified for businesses to attempt to minimise their tax burden.

These businesses tended to be much more structurally complex, often due to choice, and would more readily pursue opportunities, e.g. seek large acquisitions, or focus activity in countries with favourable tax rates and less aggressive tax authorities.

² The effective tax rate is the average rate at which a corporation's pre-tax profits are taxed, and represents their tax liability. It is calculated by dividing total tax expenses by the firm's earnings before taxes.

"When [the board] look at risk versus benefits, if the benefits are more than the risks, then they don't care. They've got the muscle to hire or employ some consultants to deal with HMRC." (Foreign Owned, Business, IT and Financial Services)

"Tax is a cost: like any other cost the amount of tax you pay reduces the amount of cash you have to invest in the business so obviously there is a driver to try and ensure that we don't waste tax." (Foreign Owned, Other)

On the other end of the spectrum, businesses **saw tax as part of identity**. Here, tax was linked to corporate social responsibility policy, and seen as critical to a business's reputation. Whilst this was occasionally strengthened by a moral or ethical imperative, it was primarily a long term strategy to safeguard sustainable shareholder value and defend the business's identity.

Such businesses tended to be simpler in structure, while those that were complex had little interest in exploiting any opportunities for tax efficiencies afforded by their structure. The ETR was not linked to any individual or business goals, and in some cases staff were not aware of it at all.

"If you're a company that's making money you owe it to the economy in which you're based to pay your fair share of tax. Because it's not just going into the government coffers to be squandered, it's supporting that economy, and from that you benefit, so it seems entirely right that you pay." (UK Owned, Business, IT and Financial Services)

"We can't do anything to undermine the [brand identity]; we cannot be seen to be involved in anything that is of a dubious nature at all with tax." (Foreign Owned, Other)

4.3 Influences on business culture

Key findings:

- The culture of a business was a key influence on tax strategy.
- Culture was set primarily by the priorities of the board and the CEO, though was also influenced by owners or shareholders, personal views of decision makers, and the nature of the business itself.

A business's culture was identified as one of the key drivers behind a business's tax strategy, and the way in which it responded to external influences. Four key factors could influence the position a business occupied on the spectrum of risk-appetite, which are explored in turn below:

- The priorities of the board and CEO
- The goals and principles of the owners or majority shareholder/s
- The personal views and employment history of key decision makers
- Business type and sector.

The main influence on business culture was **the priorities of the board and CEO** – culture was described as 'top-down' by respondents; directly informed by senior management.

"I think you're coloured by the business culture you work in; if you work in a very aggressive environment then...that permeates down right through the organisation and your appetite for risk changes...that's probably the biggest difference between the companies I work for – is the people at the top driving the culture." (UK Owned, Business, IT and Financial Services)

The board, in turn, could be informed in varying degrees by the **goals and principles of the owners or majority shareholders**. For example, in cases where a business was in part owned or funded by government, or where shareholders were mainly staff-members, this had a moderating influence on aggression. Conversely, where owners were looking to sell the company in the short term, this could encourage the board to pursue greater degrees of risk. As a company's ownership became less homogenous (for example, when it became a listed company), this influence was diluted.

"[Hypothetically] if the direction from our shareholders was you deliver value at all costs, then obviously our tax strategy would be, the headline would be reduce costs not control public perception." (Foreign Owned, Utilities, Transport, and Agriculture)

Businesses described how the **personal views and employment history of key decision makers** also impacted on a business's tax strategy. The individual standpoint of the CEO, CFO and to a lesser extent, the Head of Tax was important for how the business at large approached its tax dealings.

In businesses with higher risk appetite, decision makers had often previously worked at very aggressive firms or one of the larger accountancy firms, encouraging a tendency towards risk-taking behaviour.

In businesses with lower risk appetite, the key decision makers tended to be more engaged in tax matters, rather than viewing it as a cost centre to be managed in relation to internal goals. Some of these individuals had professional backgrounds in countries with restrictive tax regimes, meaning they were highly responsive to the possibility of penalties and advocated taking a more cautious approach as a result. Respondents described this lower-risk type of culture as concerned with good corporate citizenship, a desire to be seen to adhere to the spirit of the law, and an organisational approach to risk that considered compliance to be a long term strategy.

"He was working [abroad] before, and ... they are very strict, the penalties are very punitive. So with that background he knew that, coming to the UK, you must comply with tax issues. Tax law must be complied with because it can be very costly to your business. So that's why he's keen to ensure that we are complying with all the tax laws that are put in front of him. And that's why he's trying to resource the team, bring more people." (Foreign Owned, Business, IT and Financial Services)

A business's cultural identity was also linked to the **nature of the business**: in terms of the type of products or services that they offered. Businesses with an appetite for higher risk tended to be operating in more competitive markets with more volatile profit margins – commercial pressures were used to justify a more aggressive tax strategy.

"If you're producing less volume, the price falls because you're subject to generic competition and unfortunately that can make these kinds of sites unviable. ... [So] we did some strategic tax playing around the site at [deleted] and how best to structure that for manufacturing and we put in special types of arrangements there to get that to be as tax efficient as possible for the group." (Foreign Owned, Other)

Conversely, businesses with lower risk appetite tended to be public or government facing, or worked in sectors³ that tended to be more conservative or risk averse. They emphasised the importance of 'being seen to pay a fair share' and in maintaining a positive reputation.

"We almost have a reverse incentive to most companies who might be looking to save tax - we don't mind paying it at all, because we see it as one of our selling points." (Foreign Owned, Other)

"Realistically it means that we are not aggressive in our tax planning in any way. We just can't be because the reputation is just far too important to the business." (UK Owned, Other)

4.4 Decision makers

Key findings:

- The board and senior decision makers were viewed as the ultimate influence on setting strategy and determining risk appetite for the business.
- Certain businesses felt that this had shifted decision-making power away from Heads of Tax, as the board relied less on them for strategic advice. On the other hand, Heads of Tax in some lower risk businesses had been given greater advisory responsibility.

While business culture had a clear influence on tax strategy, it was the board and senior management who were seen to set the strategy and ultimately decide appetite for risk. Their views were well-known and were seen to 'colour' the business. A business's tax function was largely responsible for implementing (rather than setting) tax strategy.

"They're the main leadership, they're the people who drive the direction of the tax team. The main board determine the strategic direction for everything that the Group does." (Foreign Owned, Other)

Although there was frequently found to be an alignment between the personal views of those in senior executive positions and those leading the tax and finance teams, the power balance was tipped in favour of the board, in line with the increased prominence of tax as an issue 'for the boardroom' (as discussed in Section 4.1).

"I wouldn't want to work with somebody [a CEO/board member] that was really aggressive ... You tend to attract and retain people who have that same mind-set." (UK Owned, Business, IT and Financial Services)

³ It is worth noting that the broad spread of sectors interviewed as part of this research means it would not be appropriate to designate particular sectors as being higher or lower risk – and in fact there was a high level of variation observed within individual sectors.

As a result of this increased board-level scrutiny, within the finance sector (specifically, insurance and banking) it was felt that the personal views of tax directors held less sway than they had in the past.

"Different tax directors [used to] have different inherent values that could influence the Board to adopt a strategy. I think now Boards are much more aware themselves, because I think tax used to be in the black box." (UK Owned, Business, IT and Financial Services)

In general, the **process** of setting the strategy involved the Head of Tax executing and reflecting the board's goals and values. Strategies were then reviewed by senior management – but required minimal amendment as the Head of Tax had effectively interpreted the board's overall goals directly into the tax strategy.

"What I do periodically... is I go to the audit committee of the main board and talk to them about tax strategy. ... If it was rubbish or contrary to what they thought the company should be doing, they would say so, without any question." (Foreign Owned, Business, IT and Financial Services)

Greater variation in decision making was seen in regards to the **implementation** of the tax strategy. In riskier businesses, the Head of Tax was less likely to sit on the board, and often had less authority to advise on strategic or higher level decisions, leaving these to the CEO or board.

"So they'll make the decisions and we will just point out the implications." (Foreign Owned, Utilities, Transport, and Agriculture)

In lower risk businesses the Head of Tax appeared to possess greater clout amongst senior management, and was called upon to advise more directly on individual strategic decisions.

4.5 Overview of external influences

A business's board and culture were also subject to a range of external influences. These are summarised in the diagram below:



The impact and prominence of these influences varied between businesses depending on where they fell on the spectrum of business culture and attitude towards risk. These are explored below in relation to businesses with lower and higher risk appetite, in turn. Four case studies are then presented as illustrative examples.

4.5.1 External influences within low risk-appetite businesses

Key findings:

- Businesses that were more risk-averse tended to be more responsive to public pressure, regulation and the view of HMRC.
- The experience of personal penalties and liability for tax infractions amongst senior management had resulted in lower risk behaviour being widely adopted.

Businesses with a lower appetite for risk were much more sensitive to public opinion, and being seen to be 'doing the right thing'. As discussed, a business culture that emphasised the importance of good customer relations and of corporate social responsibility encouraged a more conservative approach to tax risk.

"[Having a low risk rating] suits big consumer businesses. If your customers are seeing you not paying your fair share of tax, they may say 'I don't want to be associated with that'. And we see ourselves as a big consumer brand." (UK Owned, Business, IT and Financial Services)

"I think the conversation for the CEO and for me, is about convincing the world that we make a fair share...our profit is sensible in relation to the investment and in respect of that return that we're paying." (Foreign Owned, Utilities, Transport, and Agriculture)

Another prominent external influence for businesses with a low appetite for risk was the advice and actions of HMRC. These businesses placed a high value on their reputation with HMRC and sought to maintain trusted status. These businesses indicated that HMRC risk reviews and inspections could have an influence on guiding their tax strategy – both through direct recommendations made during these reviews, and because businesses seeking to avoid tax risk would design their strategy to be compliant with HMRC.

"[We ask HMRC] are we on the right tracks or do you have a completely different opinion. ... By the time we actually filed that year's tax return there were no surprises for them, they knew exactly what to expect. ... We've asked them a couple of questions about benefits in kind that we offer to our staff, and just generally tried to be quite open with them." (UK Owned, Business, IT and Financial Services)

Penalties for these businesses were taken into account not only as a financial cost to the business but also in terms of the reputational damage that would accompany them. There were some examples of foreign-owned businesses where senior management had recently been personally fined and were held legally responsible for the business's tax affairs in their headquarters country. Personal fines, and in some cases prosecution, had resulted in a transformation of tax strategy across global operations, emphasising compliance and the 'spirit of the law'. The possibility of penalties was therefore an influential external factor shaping the attitudes of key decision makers, and respondents were clear that senior management being personally liable for fines or held personally accountable for infractions would have direct and dramatic influence on the direction of tax strategy.

"Because of what happened in [that country], we have a board [there] feeling personally responsible and ... they are personally criminally responsible if something goes wrong as well. So they have a personal responsibility to make sure that we're compliant ... but also to make sure that they're not seen to have been involved or signed off or implicitly known about anything that's gone on because they face personally a big risk." (Foreign Owned, Business, IT and Financial Services)

"What's got to be done today, what's really urgent, what's got to go in because it avoids a penalty, what do we need to prioritise?" (UK Owned, Business, IT and Financial Services)

For lower risk businesses, the use of advisors and agents was primarily for compliance, the handling of returns, and for the value of an external, independent and objective opinion to reassure businesses they had 'got things right'. Where advisors came to these businesses with ideas for more aggressive tax schemes, the lack of appetite for these at board level meant that they were turned down.

"We don't seek to go out and look for tax avoidance strategies that are on the borderline. We have had one or two put to us and we don't even look at them, we just avoid them." (Foreign Owned, Other)

Such businesses tended to have a conservative client base, with minimal risk appetite – for example, government departments, pensioners, or the consumer public.

"We manage several projects here on behalf of the [government department] and I'm sitting here with quite a lot of the [government department] cash sitting near my books managing projects for them so the last thing I want to do is give anyone any sort of cause for concern for how well we're treating things." (UK Owned, Utilities, Transport, and Agriculture)

For some case study examples of businesses with lower risk appetite, please see appendix 6.2.

4.5.2 External influences within higher risk-appetite businesses

Key findings:

- Businesses that were higher risk were most reactive to regulation and penalties, and relied more on the strategic advice of external agents. They were far less sensitive to public opinion and reputation.

On the other side of the spectrum businesses with higher risk appetite tended to be less public facing, and were less responsive to public opinion as an external influence. In part this was due to having a lower profile; but also due to a lack of emphasis on the public as customers and stakeholders.

"I don't think [tax] is sort of seen as a moral obligation, if that makes sense, beyond the fact that we need to abide by the rules." (Foreign Owned, Business, IT and Financial Services)

As discussed, penalties were treated as part of the risk assessment when deciding on a course of action, and these businesses often had sophisticated risk audit committees designed to take these into account.

"If we think there are tax risks they would be looked at by a risk committee that's a subsection of the audit committee. We have pointed out certain risks from the tax point of view. So they're on the schedule of risks, they've got the risk register." (Foreign Owned, Utilities, Transport, and Agriculture)

These businesses were responsive to regulation – though not in a straightforward way. They still aimed for compliance in order to minimise risk of penalties, but were also likely to be more actively engaged in the comparison of UK tax regulations against those of other regions, in order to determine which tax regimes would be most competitive for their operations.

"Our HQ [country] has a [favourable tax regime]. It makes absolutely heaps of sense to keep capital at the top if you possibly can. ... We have to manage [our spare capital] very tightly. We hold it in the centre, and we deploy as little as possible." (Foreign Owned, Business, IT and Financial Services)

External advisors may be brought in to consult on particular business decisions, and for businesses with higher risk appetite there is a greater likelihood that their advice around seeking tax efficiencies will be followed.

"We have looked at some ideas around pension schemes in the past. ... We have discussed strategies around how to access the tax deductibility for that. We do sometimes seek [agents'] advice on restructuring ... in relation to tax." (Foreign Owned, Other)

Businesses were also influenced by their clients' appetite for risk. Some respondents explained that their clients were interested in achieving certain tax efficiencies and would come to them with specific, occasionally aggressive propositions. This was also a driver of higher risk appetite as businesses felt they were inclined to accept in order to remain competitive.

"Tax planning is often more led by the client than it is by advisors and whether the client can advise that. Sometimes they are, sometimes they're not. But they come to us and say we would like to do business with you or we'd like to do it in this particular way. ... We're in a competitive business situation, so if we don't do it then we aren't likely to get the work." (UK Owned, Business, IT and Financial Services)

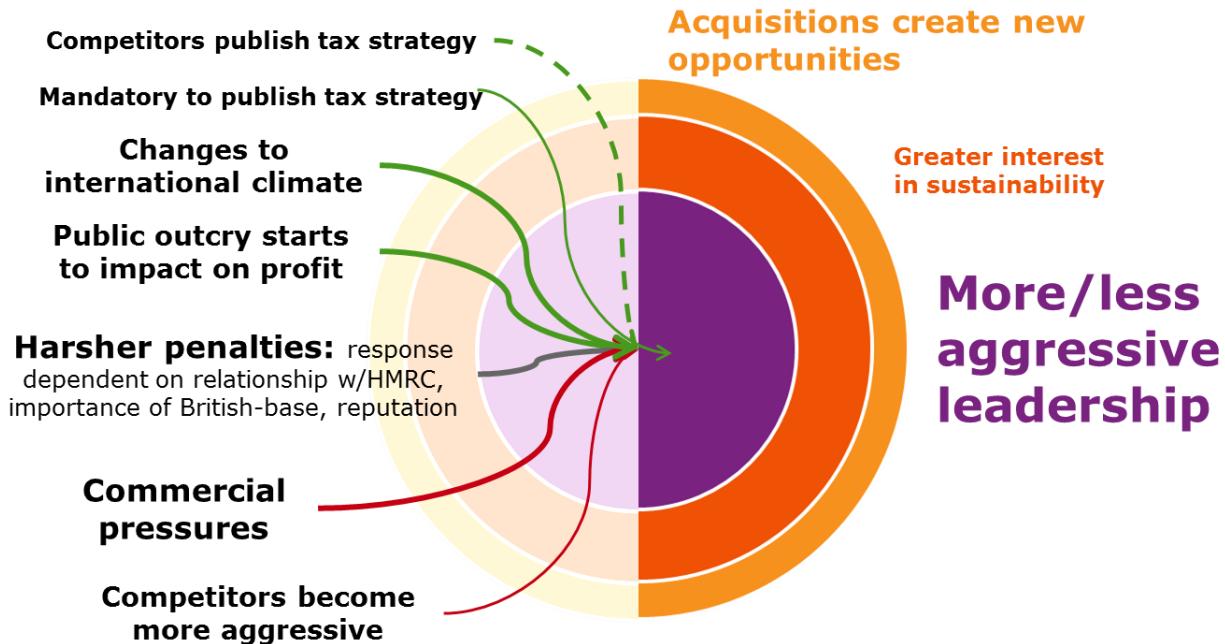
For some case study examples of businesses with higher risk appetite, please see appendix 6.3.

4.6 Drivers of change to tax strategy

Key findings:

- Changes in leadership or ownership, regulation and penalties, and public scrutiny were seen to have the most potential to transform and alter a business's tax strategy.
- On the other hand, culture and the principles and views of senior decision makers were key drivers of tax strategy stasis.

An overview of the drivers of change to tax strategy, are summarised in the image below:



As businesses' tax strategies were so strongly influenced by business culture and the principles of the CEO, it was a **change in leadership or ownership** that was viewed as the most potentially transformational lever for change. New leadership had the ability to instigate culture change and alter the direction of travel for a business.

"You could have a change to a member of the Board who was on a different Board that was high risk and said look, we are not getting enough value out of tax. It is really people changes I think." (UK Owned, Business, IT and Financial Services)

"I think if the board said actually we think our tax rate is way too high, which it isn't, but if somebody said oh the tax rate's gone up, it's way too high, you need to do things to bring it down, we might then sort of look at doing things that are a bit more aggressive and maybe necessitate the change in our strategy." (Foreign Owned, Utilities, Transport, and Agriculture)

Beyond a change in leadership, four other factors were raised that could potentially influence decision makers and result in a change to a business's tax strategy.

Introduction of harsher penalties: this was acknowledged by businesses as a lever that could induce businesses to alter their tax strategy. In particular, businesses felt that severe penalties targeted directly at senior individuals (for example criminal sentencing or individuals

fines) would have a much stronger impact on enforcing compliance. The degree to which a business would respond to the strengthening of more general penalties, not aimed at individuals, was seen to depend on a businesses' structure. Where a business could choose to relocate from the UK, or shift their operations in order to remain compliant with tax legislation, this was not seen to be as effective a prompt for change.

"Would we [change our strategy] if we started to get punitive fines? Absolutely. The cost of the fine or avoiding the fine would be probably worth employing four or five people to trawl through tax compliance." (UK Owned, Business Services)

"There is a perception that when EU regulations come in, the UK looks to implement them first, best - and other jurisdictions take their time and are less pure in how they are implemented. So there is a risk that the UK could become uncompetitive, and that is what I am hearing more and more recently." (UK Owned, Insurance)

Another potential influence that could cause decision makers to instigate a change in tax strategy was a **change in market conditions**. Increased competition, falling margins or a decline in profits led to an increased focus on 'the bottom line' – encouraging a focus on savings and efficiencies wherever possible, including through seeking legal tax reductions.

"We moved our warehouse [abroad] to benefit from VAT rules. With so many more direct competitors selling exactly the same product, it's all about price. ... You've got to be able to compete on price and quite often tax or VAT will be the only factor that you can play with." (UK Owned, Other)

An **increase in public scrutiny**, especially where this could be expected to impact on profit, was also seen as a possible instigator of change in tax strategy. This was primarily the case for those businesses that were public facing and relied on consumer support, but also for those in which key decision makers were particularly concerned with public perceptions of their business.

"Even if there's a commercial driver for it I would say that the level of paranoia [about potential negative opinion] means that you probably wouldn't do anything smart around the tax." (Head of Tax, Foreign Owned, Business, IT and Financial Services)

Finally, a large scale merger or acquisition could create **new structural opportunities** for tax efficiency. This could also potentially result in change where a new acquisition or parent company introduced the business to a new dynamic and its own culture.

"If they want to make an acquisition then they will make sure that they get tax involved and how the financing of that can work. (Foreign Owned, Other)

"Since 2013, [UK branch company] is completely owned by [European parent company]. ... The tax strategy changed, because our tax strategy for [UK company] was different from [European parent company]. ... There was some clash of thinking between the [parent company] tax director ... and the UK tax authorities. His view of tax issues was different, because he was looking at [tax] from [a] point of view which was different from the UK." (Foreign Owned, Business, IT and Financial Services)

Overall, it was internal changes – in leadership and structure – that were viewed as having the greatest potential for directly influencing a business's tax strategy. External influences could effect change, but they did so by influencing and constraining a business's key decision makers

and its culture. These influences therefore tended to produce more gradual, incremental changes.

4.7 Codification and content of tax strategies

Key findings:

- The degree of codification of a tax strategy was a clear indicator for aggressiveness. Businesses with higher risk appetite tended to leave their strategies unwritten and tacit. A more formalised and detailed written strategy, on the other hand, tended to be found in businesses with lower appetite for risk.

The degree to which a business had codified its tax strategy⁴ was in some cases an indicator of the business's approach to tax. Those businesses which had no written strategy were often those that had a higher appetite for risk. Where tax strategy was kept implicit, this allowed maximum flexibility and the pursuit of whatever schemes might be most tax efficient.

"[There's] an implicit understanding... to pay the minimum but under a regime of 'compliance within the law'" (Foreign Owned, Other)

Conversely, highly codified and formalised strategies included granular detail about how the business will behave in relation to particular taxes, outlined who is responsible and who is accountable, and set out reporting structures to demonstrate compliance. These businesses tended to be more compliance-focussed and keen to create reporting and audit trails to protect themselves legally. In some cases the extent of detail was indicative of a need to exert control over other regions or subsidiaries to ensure there is less room for interpretation – particularly where global reputation was important.

"We have a tax strategy that's been in place for a number of years; we review it annually and it will be circulated [throughout the business]. ... I also send a copy of it to HMRC. It's about thirty pages long and it details principles and policies." (UK Owned, Business, IT and Financial Services)

An exception to this was seen among businesses who saw themselves as having an extremely low appetites for risk. These businesses felt they had no reason to formalise this strategy because it was accepted that the business would pay over and above their tax obligations.

"We make absolutely no plans or business decisions to save tax. Because that's the culture of our group... that tax is a by-product of business activity. It's not something that needs to be managed." (Foreign Owned, Other)

When a business had a written tax strategy, the kind of language used could be a good indicator of risk appetite. Businesses with greater appetite for risk talked about 'compliance' and 'transparency' insofar as these were demonstrative of legality, but also made clear their intention of seeking to 'minimise' tax paid, within legal limits.

⁴ Amongst the businesses in our sample, approximately half did not have a written, formalised strategy, with the other half having different forms of written strategies (i.e. different lengths, level of detail, content, etc.).

"What's on our internet page and what's always fed down by the Global Head of Tax is basically we are here to be fully compliant in all countries - that's our goal. But secondary to that he's very clear that we won't pay double tax so being an international group his main focus is we're not going to pay tax on the same profits in two locations so we'll do everything we can to not do that." (Foreign Owned, Business, IT and Financial Services)

"We will pay whatever we are required to pay and no more than that". (Foreign Owned, Utilities, Transport, and Agriculture)

On the other hand, businesses that were keener to demonstrate responsibility took a different tone. Their strategies described seeking to 'pay a fair share', to explicitly state that the business will 'not be aggressive', and that their overall goal is not just to be 'compliant' and 'legal', but to be acting within the 'spirit of the law'. These businesses also often expressly aimed to maintain a 'positive relationship' with HMRC and other tax authorities.

"[Our business is] quite keen to be seen to be very much operating within the spirit of the law, and working proactively with tax authorities to make sure that we do the right things and have an open and honest relationship with them as taxpayers." (UK Owned, Business, IT and Financial Services)

4.8 How UK businesses compare to foreign-owned businesses

Key findings:

- A key difference between UK-owned and foreign-owned businesses was in their approach to taxes other than Corporation Tax. UK businesses tended to place greater emphasis on all the different taxes paid, and expected HMRC to take these into account in relation to their tax liability.
- Having a UK or British identity, for either UK or non UK owned businesses, had a fairly strong conservatising influence on businesses' tax strategies.

There was a great deal of variation between the culture and approach taken amongst UK businesses – there was not a consistent identity or pattern of influences – as other factors tended to be more influential than whether a business was UK or foreign owned. However, some key differences did emerge between businesses that were UK-owned and those that were owned abroad, relating to their attitudes towards UK government and HMRC.

UK businesses tended to take a more holistic view of the full range of taxes that they paid to HMRC which fed into what these businesses viewed their 'fair share' of tax payments should be. These business, however, felt HMRC paid too great attention to the tax paid against each tax in isolation. In general, this created a downward pressure overall on what businesses perceived as being the appropriate level of a 'fair' contribution.

"I'd say the tax pressure that I feel the most is around VAT actually. Because, we have a high amount of irrecoverable VAT and we want to make sure we can understand and exactly what that is when you make the right decisions in relation to that." (UK Owned, Business, IT and Financial Services)

Also distinctive to UK owned businesses was the way in which a sense of British identity or pride in being headquartered in the UK factored in to decision-making. In some cases, this sense of identity was used in boardroom negotiations about tax – the desire to retain a British identity and presence had a direct influence on tax strategy. This was also true for some

foreign owned businesses where the UK branch had developed a distinctive British aspect of the brand – in these cases the British arm of the businesses was afforded a greater degree of autonomy from the foreign parent in relation to strategic decision making, including around tax.

"When a lot of companies were moving out of the UK...advisors would often come and say 'your competitors are looking at moving headquarters', and our Board was always very consistent about saying 'no, we are proud to be a UK headquartered company.'" (UK Owned, Business, IT and Financial Services)

"So the British identity for us is absolutely key. [Our product is entirely produced] in the UK. ... We need the best products for the [product] that we are producing, so the majority of our products are sourced from the UK. ... If we lost our British identity then that would totally undermine the product." (Foreign Owned, Other)

A key difference for foreign-owned businesses, where the parent company exercised more control over the UK branch, was that tax strategy was often ascribed by respondents to cultural differences in the country of origin. For example, such businesses sometimes described a way of doing things as a result of being a French company, or a German company. This came about through the influence of the parent's board and (in some cases) ability to make decisions on behalf of the UK branch. The parent company's attitude towards the tax authorities impacted on the way the branch in the UK was instructed to handle their own tax affairs.

"We're a US headquartered business. ... I don't think [the US] think there's a need to have a formal written down thing that people can see. ... I was surprised because I'm used to working for business that do have a strategy written down. But I think that's more something UK businesses do than US businesses." (Foreign Owned, Other)

Another distinguishing feature of foreign-owned businesses was that HMRC was viewed as a relatively reasonable tax authority to deal with when compared with other countries. That is not to say UK businesses did not think this, but rather that they showed far more sensitivity to HMRC and government decisions – their expectations were different and in some ways more demanding. A common view was that UK businesses and government should work together to make the UK an attractive place to do business, with some businesses wanting government to view them as a stakeholder and partner.

"[Strategy] also comes from Germany as well. They like us to be low risk... It means they don't have any fiscal audits to deal with. You've got to understand that in Germany tax authorities do transfer pricing audits and all sorts. They can't get low risk status over there and it's far more tiresome dealing with the German fiscal authorities." (Foreign Owned, Other)

4.9 Attitude towards HMRC risk classification

Key findings:

- Attitudes towards the HMRC risk rating were varied. Whereas the benefits of being low risk were recognised amongst those who had achieved the rating, other businesses felt it could entail a loss of contact and support from HMRC.
- Some non-low risk businesses lacked interest in the rating, as to become low risk did not represent a significant enough cost saving.

There were mixed views about the risk classification system used by HMRC. Perceptions of the risk classification system were affected by the Head of Tax's understanding of the implications of being low risk, and their consequent discussions with senior management – specifically, whether they bought into the benefits of being low risk, and whether they were able to convince others of them.

For businesses with a greater appetite for risk, there was a view that a low risk rating could in fact be detrimental to their business, as it could be read by some (more aggressive individuals) as indicating that their business was not doing enough to minimise tax. This was put forward by respondents as an extreme view, but one they had encountered in their current or previous place of work.

"I do know, for example, a number of businesses actually think it's a bad thing to have a low risk rating because it shows they're not managing their tax affairs as efficiently as they should be." (Foreign Owned, Utilities, Transport, and Agriculture)

Within some of these more risk taking businesses there was a relatively low level of engagement with the rating. In some instances the Head of Tax was somewhat interested in the rating, but was unable to convince senior management of its relevance, due to the perception that a low risk rating did not represent enough of a financial saving, and the fact that a non-low rating did not result in financial loss or punitive fines. In other cases, a perception that there was little that could be done to reduce a risk rating drove disengagement – that is if a business was informed that their structure or set-up meant they could never achieve low risk classification.

"I don't know how much the business generally cares about it [risk rating] because I guess they are on a day to day basis not going to see the impact of being high risk or low risk. Ultimately it would be the tax functions that see the impact of that." (Foreign Owned, Business, IT and Financial Services)

"I understand the reasons why we are not low risk and it is very difficult for us to do anything about that. ... I think it's something that we accept we have to deal with." (Foreign Owned, Other)

Among businesses who had received a non-low risk rating from HMRC, but who nevertheless had a culture of lower risk appetite, there were some who did not wish to see their risk rating reduced. This was due to the perceived benefits of a non-low risk rating – that it entailed higher levels of contact with HMRC and more frequent meetings with their Customer Relationship Manager (CRM). Businesses were concerned that they would lose the support and close relationship with HMRC which they currently valued, should their risk rating be reduced. Some businesses felt this was particularly salient given the size, complexity and specificity of their businesses, which they felt necessitated a close relationship with HMRC to allow them to adequately understand their issues.

"I am not so worried about whether we categorise as low risk or not low risk and more about what our ongoing day to day relationship with HMRC actually is. ... I think in some ways I find it useful to have the ongoing discussion, which I think I can still have anyway and we don't find that the intervention from HMRC is onerous anyway in our current situation." (UK Owned, Business, IT and Financial Services)

Lastly, there were businesses that were low risk who were convinced of the benefits of being so – they saw it as a means of saving on internal resources and a reduction in ‘hassle’. Some of these businesses used their low risk rating as a selling point for clients and customers – a signifier that they were trusted by their tax authorities and thus trustworthy. In both instances, these kinds of business were keen to retain their low risk rating.

"I've explained to them that we have to keep the low risk rating in order to minimise the amount of attention we get from HMRC. The reason we see them so infrequently is because we are low risk. They'd have a lot more HMRC audits and compliance work and questionnaires if we weren't low risk. ... I sell it as a work saving strategy effectively." (Foreign Owned, Other)

"If we're looking at contracts we mention [our low risk rating] because it's really important because it shows that actually we're not aggressive, we're doing things right." (UK Owned, Business, IT and Financial Services)

5. Conclusions

This research demonstrated the power of organisational culture, and the influence of senior decision makers in setting the culture and determining a business's tax strategy and appetite for risk. Changes to management and leadership, for example a different CEO or majority shareholder, were thus seen as the most potentially transformational – both for a business' strategy overall, and for tax strategy specifically. However, levers or influences that targeted these decision makers more directly were also perceived as holding greater sway – for example personal penalties or liability. Other potential levers for change to tax strategy are summarised below:

Change in 'commercial climate'

- Public scrutiny and international regulatory change have effected significant shifts in appetite for risk, behaviour, and culture across industries. Businesses who are not consumer facing have had less reason to act on this – but indicated they would be responsive should they be targeted by regulation or a public controversy arose.
- Conversely, the withdrawal of such attention could arguably cause businesses to revert to previous behaviour.

Importance of codification of tax strategy

- The language and formalisation of tax strategy were revealing of practice, meaning it is potentially an additional tool for risk classification; or a potential lever for change as requesting written strategies may improve transparency, accountability and if published, public visibility.

Influence of competitors and 'norms'

- Competitor practices were influential, either through the Big Four accountancy firms sharing information on what business's competitors were doing, or in relation to public scrutiny driving up standards within sectors.

Response to penalties and regulatory change

- Businesses will always be responsive to penalties and regulatory change – either by considering restructuring, engagement with HMRC/lobbying government, or becoming more risk-averse. How they will respond depends in part on how important British location and/or branding is, the nature and strength of their relationship with government and sensitivity to their decisions, and their organisational culture.

6. Appendices

6.1: Topic Guide

Research aims and objectives

The overall aim of the research is to understand what influences businesses' tax strategy, and how these decisions get made. Specifically, it will:

- Identify the key factors that influence a large business's tax strategy, both internal and external
- Explore how decisions get taken, and -:
 - which factors are most influential in prompting change, and why
 - what the priorities are within the business, and how this operates
- Compare UK-owned and foreign multinational companies, in influences and approach to tax
- Determine the role of HMRC and other government departments: how they influence a business's approach to tax, and the value and importance of these relationships

1. Introduction – 3 mins

- Introduce TNS BMRB independent research agency
- Purpose of the research – This research is for HMRC to gain a closer understanding of the decision making processes within large businesses. In particular, the internal and external factors they take into account when planning their tax strategies.
- Reassurance that we won't discuss any specific aspects of their tax affairs, but the broad range of factors that may influence decision making
- MRS guidelines
- Recording, anonymised transcripts
- Interview length – 60 minutes

2. Background – 12 mins

*Researcher note: This section scopes out background of the respondent, business and key players who may be involved in decision making. The aim is to explore how the **characteristics of the business**, as well as the **individuals** within it, may have an impact on tax strategy (e.g. individual personality, occupational background, etc.). It also looks specifically at the role of agents, the position they hold in relation to decision making, what influences the extent of their use, and the perceived benefits of using them.*

Respondent role and history:

- Job title; time in role
- Brief job history (focussing on types of company worked for in the past)
- Which taxes they deal with
- What they perceive their remit and focus to be, in terms of balance between:
 - Advisory, strategic, including risk-based decision-making
 - Operational activities, compliance focus

Nature of the business and operations:

- Size and nature of business
- Describe the commercial environment the business is operating in. Spontaneous, then:

- Competition
- UK/overseas market performance
- Growth
- Other recent pressures

Researcher: list these pressures on paper, to be referred back to later in interview.

Who the business is owned by

- Whether business has a foreign parent
 - *If so, please explore both UK and parent structures, staffing and relationship*

Geographic spread of operations and structure

Researcher to create organogram of individuals/groups who may be involved in influencing tax strategy:

- How tax teams/departments are structured
 - Division of responsibility
 - Main people involved
 - Any particular reasons for this
- Brief introduction to CEO or equivalent. Spontaneous, and probe what they know about:
 - Length of time in business
 - Background/previous roles
 - Attention to business tax
- Degree of involvement of different stakeholders:
shareholders, senior board, CEO, agents, anyone else
 - For each:
 - What types of issues respondent would be in contact over
 - How many times in a year/a month
 - Reasons for this
- Ask respondent to describe the lines of authority, influence and accountability between the individuals/groups
 - Who/which groups hold the most influence on tax strategy overall
 - Reasons for this
 - Are there certain groups or individuals who sometimes disagree/ amongst whom negotiations are more difficult

Briefly: Use of agents

- What key business events will cause them to seek the advice of an agent
 - At what stage do they seek advice
- What information/background/motivations will be discussed with agents
 - Reasons for this
- Benefits of using agents
 - Spontaneous, then in terms of providing the business with certainty/risk

3. Tax strategy, planning and decision-making – 22 mins

This section aims to map out the full range of potential influences on tax strategy setting, including both internal and external factors, and to understand how various factors may compete or interact.

Respondents will be asked to describe the tax strategy, the process of setting it, who is involved and in what capacity – and will go on to explore all other factors that they see as playing a role in planning or decision making. The influence of the business's relationship with HMRC (i.e. whether positive or negative, seen as supportive and understanding or adversarial) as well as the particular responses to legislation or policy changes, are also explored.

- Briefly describe the business's corporate goals and values

- How they see the business's role in terms of creating economic value (*their view on the ways in which a large business contributes to the national/global economy*)
 - Whether they see tax as factoring into that. Spontaneous, and probe:
 - How
 - Why or why not
- *If so, explore:*
- To what extent tax factors in to the business's identity. Spontaneous, and probe:
 - Whether it forms part of corporate values or social responsibility
 - How relevant they feel tax is to their businesses' brand/identity/core values
- Whether they recognise a difference in the approach taken by current business, and businesses previously worked for
 - In what ways; to what extent; how typical that is
- *How they describe their personal attitude to business tax;* i.e. their view on the tax obligations on large businesses

Defining the tax strategy

- How well-defined/formalised is the business's tax strategy
 - i.e. is it written down; how it is cascaded or shared
 - Would they be able to easily describe it
 - Which taxes form part of the strategy

Researcher to refer back to commercial environment/pressures faced and considerations of the business already discussed

- In terms of competing business priorities mentioned, where does tax strategy sit on the hierarchy (*researcher to prompt if necessary with the commercial pressures discussed earlier – and note down the ranking*)
 - What sits above it; what is more important
 - Reasons for this
 - Any others not previously mentioned
 - Would anyone in the business disagree with that hierarchy/ordering – who, and for what reasons
- Ask respondent to describe the *process* by which the tax strategy gets set. Spontaneous, then probe to ensure the following prompts are covered:
- Who is involved in setting and reviewing strategy
 - Who leads, who adds etc. to set and to review this
 - How far do *individuals* in the business have influence – who and how
 - How does it get negotiated; what form do these negotiations take
 - Reasons for this
 - Role of risk approaches taken by the business
 - Role of corporate governance
 - **Any changes to this in recent years (e.g. degree of board-level scrutiny)**
 - Reasons for this
 - Results of this on tax strategy formulation

Influencing the strategy

- What are the key business decisions that have an implication for tax strategy. For each, explore *in what ways they link/influence strategy and how they make their tax strategy fit with these business decisions*. Spontaneous, and probe:
 - Financial objectives, circumstances and forecasting
 - Timeframes and how business decisions are structured
 - International pressures e.g. G7, OECD
 - Shareholder view/view of the board
 - Senior management views
 - Whether any internal targets and/or incentives relate specifically to tax
 - Reputational drivers – and where these come from. Spontaneous, and probe:
 - trade/ media/ commentators/ activities of peers/ competitors
 - if they hear a media story about a competitor being seen as not paying enough tax – how would they respond
- Explore what factors (relating to the structure of the business) influence tax planning and strategy. Spontaneous, then probe:
 - In terms of how companies and subsidiaries are structured: e.g. acquisitions, overseas start-ups, incorporations, relocating HQ
 - In terms of day-to-day transactions and operations
 - Explore the nature of financial transactions they are involved in and what that means for tax needs
 - Relationship with HMRC
 - How they would characterise it at the moment
 - Nature and frequency of contact
 - Reasons for this
 - Mode of working with Customer Relationship Managers (CRMS)and experience of this
 - In what ways HMRC influences decisions; how does this vary
 - To what extent they seek long-term advice
 - To what extent the degree of influence is linked to history or past disputes; i.e. whether influence is affected by positive or negative experiences with HMRC in the past; how long these experiences may have impact
 - Changes in policy or legislation; forecasting
 - E.g. if they hear of a change in legislation, how the business responds; how it affects them
 - How they keep abreast of future changes in legislation; how they plan for this
 - If they heard HMRC was shifting to a more stringent policy, what would be the response/process
- For each: probe to explore
 - Why these factors are relevant
 - In what ways they influence strategy
- **Which are the most important/influential priorities for business tax strategy overall;** and which are of secondary importance. Ask respondent to order the key priorities, and explain their choice.
 - **Why** – what makes these important
 - Whether this changes; how/when

4. Risk appetite – 10 mins

This section aims to understand how businesses think about and act on risk, and the factors influencing appetite for risk and aggressiveness of tax policy. The aim is to understand who is involved in determining how aggressive a tax policy might be, how widely shared that goal is within the business, and whether/how HMRC's risk classification is taken into account. It then goes on to examine the respondent and business's views on what would make the 'low-risk' classification more attractive to businesses.

- How would they personally define tax risk
- Whether the approach to tax risk mirrors business's general approach to risk; for example in terms of investments
- How does the approach to tax risk work in practice – spontaneous, then:
 - Whether there are any formalised processes or policies, whether anyone is responsible for actively managing or reviewing this
 - Who might play a role in determining approach to risk (including agents; shareholders; senior management) –
 - How influential would they be; i.e. who would have the final say
 - Reasons for this
 - Who might be included in these kinds of conversations; i.e. whether amongst a smaller group or cascaded more widely
 - What are the impacts on tax planning and strategy in terms of what has already been discussed
 - E.g. direct/indirect relationship; impact the same on approach to all tax or only certain taxes
- Briefly explore whether the HMRC risk rating is discussed within the business
- Clarify if they mean HMRC has rated them as low/non-low risk in their risk review (and if low risk check that means they are only reviewed by HMRC every couple of years)
 - If so how/If not, why not
 - Personal attitude towards it. Spontaneous, and probe:
 - Importance they attribute to it
 - How actively they try to manage it
 - Impact it has on them and their responsibilities
 - Whether board, CEO, senior management have a position/view on it
 - Reasons for this (for each party)
 - Whether it is publicised, reviewed
 - E.g. the extent to which they think shareholder/the public pay attention to it / are interested

Briefly, if time:

- Explore what they think lower risk rated businesses gain by being low risk
 - Reasons for this
 - What do they think lower businesses might lose; i.e. any drawbacks
 - Whether they think it represents a worthwhile benefit to certain types businesses; what kinds/why
- What they think would encourage businesses to try to lower their risk rating
 - Why might they not do so currently, e.g. what would be required; time/burden/costs involved
 - How could the low-risk classification be made more attractive to businesses; i.e. what would make the benefits outweigh the costs

5. Altering and reviewing the strategy – 12 mins

This section aims to explore the extent to which the tax strategy can be adjusted in response to internal and external pressures, and the extent to which it can be manipulated. By focussing on moments when it has changed in the past, it focusses on the processes by which strategy may be set when they are not necessarily made explicit, or are not clearly formalised within a business.

If not already covered:

- Would they describe their tax strategy as being static or movable
 - Reasons for this
- What types of situation might prompt a review of some aspect of the tax strategy/ approach
 - How often these occur
- Whether they are aware of any changes made in recent years; (or if not, any changes in their previous roles)
 - What prompted these
 - What happened as a result

Reflecting on discussion -

- Overall, what most prevents/constrains changes to tax strategy
 - i.e. of all factors discussed, what drives stasis
- What are the main drivers of change to more/less risky behaviour (as above)
 - Any expected changes in future

6. Wrap up – 2 mins

ONLY IF TIME: This section is to check whether the business has any existing relationships with other government departments that HMRC could learn from; and for respondents to reflect on the discussion in order to describe their ideal relationship with HMRC.

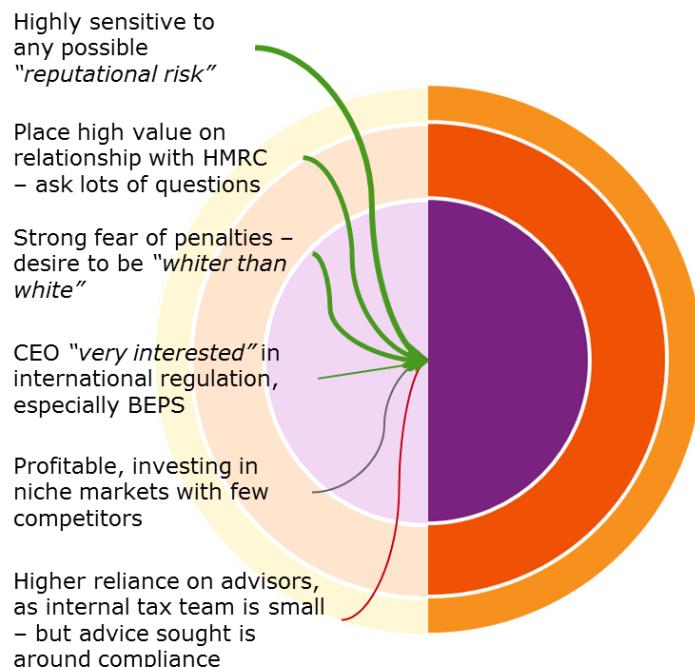
- Researcher explain that HMRC wants to be more joined up with government in order to support businesses to achieve their aims.
- IF THEY KNOW: Who they see as their key contacts in any other government departments
 - Who; in what capacity e.g. do they get any reliefs through other departments
 - What support from government do they think adds value in terms of their business priorities
- Any other comments or things we should take into consideration for this research

Thank and close

6.2: Case studies of businesses with lower risk appetite

Case Study 1: UK-owned, lower risk appetite

Reputation was of paramount importance to this business, reflecting clients' interest and as a result of the increased regulatory pressure on the financial sector. This interest was driven primarily by the interests of the CEO:



"He [CEO] is just very conscious that actually you might be able to save yourself a bit of money in the short term, but the reputational risk associated with being exposed to something, which is seen by the public as tax evasion or tax avoidance, is just not worth the risk. Having built that kind of brand name from scratch, and having such a lot of really loyal clients, I think that we would be very silly to jeopardise that by doing something that gave us some short term benefit." (UK Owned)

There was also an ethical dimension to this approach, partly driven by the fact that the business operated in many developing countries – so it was important for them to be seen to pay

their fair share of tax in all regions. The result was that the business's tax strategy was extremely cautious – they had no appetite for structural 'messiness' or tax schemes, and aimed to stay 'within the spirit as well as the letter of the law'. HMRC's view – or what they expected HMRC's view to be, was also an important influence.

"To my mind laws are black and white, and clever tax people can always find loopholes, but you've always got to think does this pass the smell test. If I was an inspector and somebody offered this up to me and said 'well that's what the law says I can do and I'm doing it' - but is it kind of adhering to what you imagine the spirit of that law is? I'm always very conscious that when people say 'oh but the law says', I say, 'well yes, but if you push it to the very boundary what do HMRC think about that?'" (UK Owned)

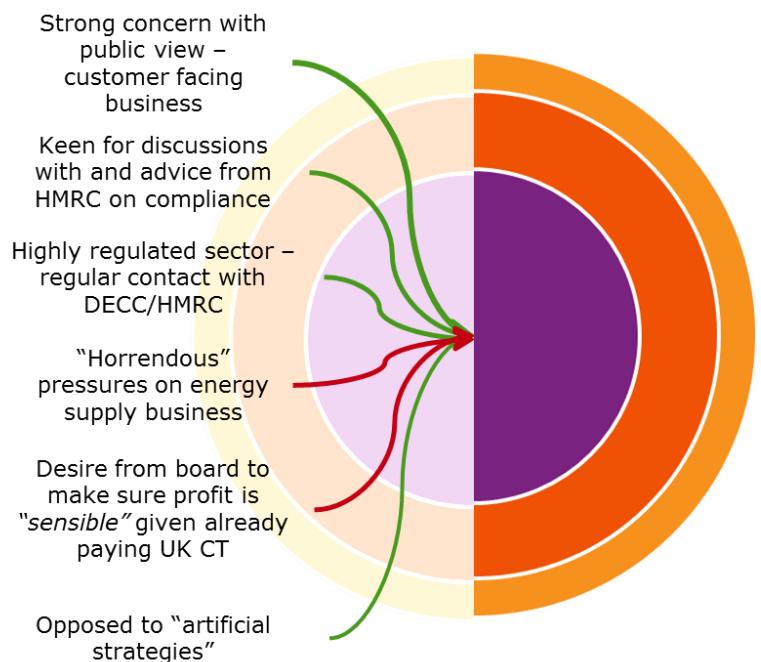
Case Study 2: Foreign owned, lower risk appetite

This company had a strong British presence and needed to maintain a good relationship with British government and British public, due to public pressure on energy prices and high regulation. Despite there also being extreme commercial pressures on the business, their reputation remained a key driving force for strategy.

"I think the conversation for the CEO and for me, is really about convincing the world that we pay our fair share – that our profit is sensible in relation to the return that we're paying." (Foreign Owned)

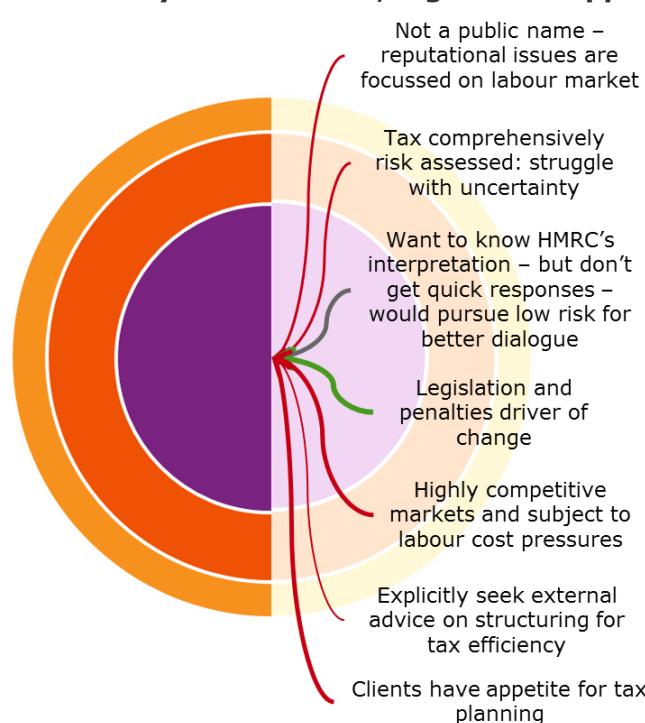
This prioritisation of reputation reinforces the importance of this influence for businesses subject to consumer choice – even when it is at odds with the need to lower costs. This low-risk appetite was also reflected by an emphasis in the tax strategy on the relationship with HMRC. The business emphasised its desire for co-operation and transparency with authorities – this strategy is formalised and shared in the business.

"HMRC perceive us as a very compliant and transparent tax payer and as long as they have that opinion and I keep them fully briefed, then it's going to be a light touch approach because they shouldn't be coming in here trying to find information, I should be telling them. You know, if they need to ask me questions then my team have failed because they should be telling HMRC what's going on." (Foreign Owned)



6.3: Case studies of businesses with higher risk appetite

Case Study 1: UK-owned, higher risk appetite



This business faced strong commercial pressures – they operated in a highly competitive market, with lots of cost pressures they need to monitor – namely labour costs, as the business employed a large number of people. The business was therefore preoccupied with changes to minimum wage – both in terms of costs for the business but also in terms of reputation management with their own internal staff.

"It's an extremely competitive market, as indeed most business is, and we are largely labour-based. I mean, we are a service organisation, so, you know, a large proportion of our costs are labour costs and so we're looking for ways to mediate those cost pressures and wage pressures." (UK Owned⁵)

⁵ The sector has been removed from the quote attribution in case studies, in order to protect the anonymity of participants

Tax was not seen as part of the business's identity, but just as a risk – and there needed to be careful management of this risk. In some ways the business was quite reactive, in that it would respond to what was made possible through acquisitions and what their customers wanted them to do in relation to tax. As they set terms on an individual contract basis they had more room for strategy manoeuvre – it has lots of opportunities to develop.

"If you have a business idea that works then, provided you go about it the right way and justify it and support it, then you'll get the mandate for change. So, I think it's fluid and it's as fluid as the people who are operating the function want it to be." (UK Owned)

In this business, tax strategy is subject to change to fit with commercial need. Overall it is informed by needing to carefully manage and maintain profitability and competitiveness.

Case Study 2: Foreign-owned, higher risk appetite

In this business, strategy was set at group level with little strategic autonomy for UK tax teams and Head of Tax. Tax targets were decided based on what the business needed to achieve, and the tax projects decided on that basis.

"We'll have internal targets of ...an effective tax rate...that you'd want to get to...from that we work out what kind of projects, what kind of tax savings we need to make within the group to cover ...This target....And then there's various projects that would lead to that". (Foreign Owned)

For example, the company was seeking to maximise tax credits for R+D.

"I'm responsible for making sure that we maximise the tax credits in the UK. That's decided at a group level first and then it's said right it's been decided we're going to do R&D credits across the group." (Foreign Owned)

The guiding view of the organisation was that they were entitled to minimise tax within the law with personal views reflecting that. This understanding remained implicit – the business's tax strategy was not written down or formalised in any way.

For this business, the imperative to make tax efficiencies drove how the business was set up, and how it continued to operate. The business saw no reason to change, and viewed itself as compliant and entitled to behave in this way.

