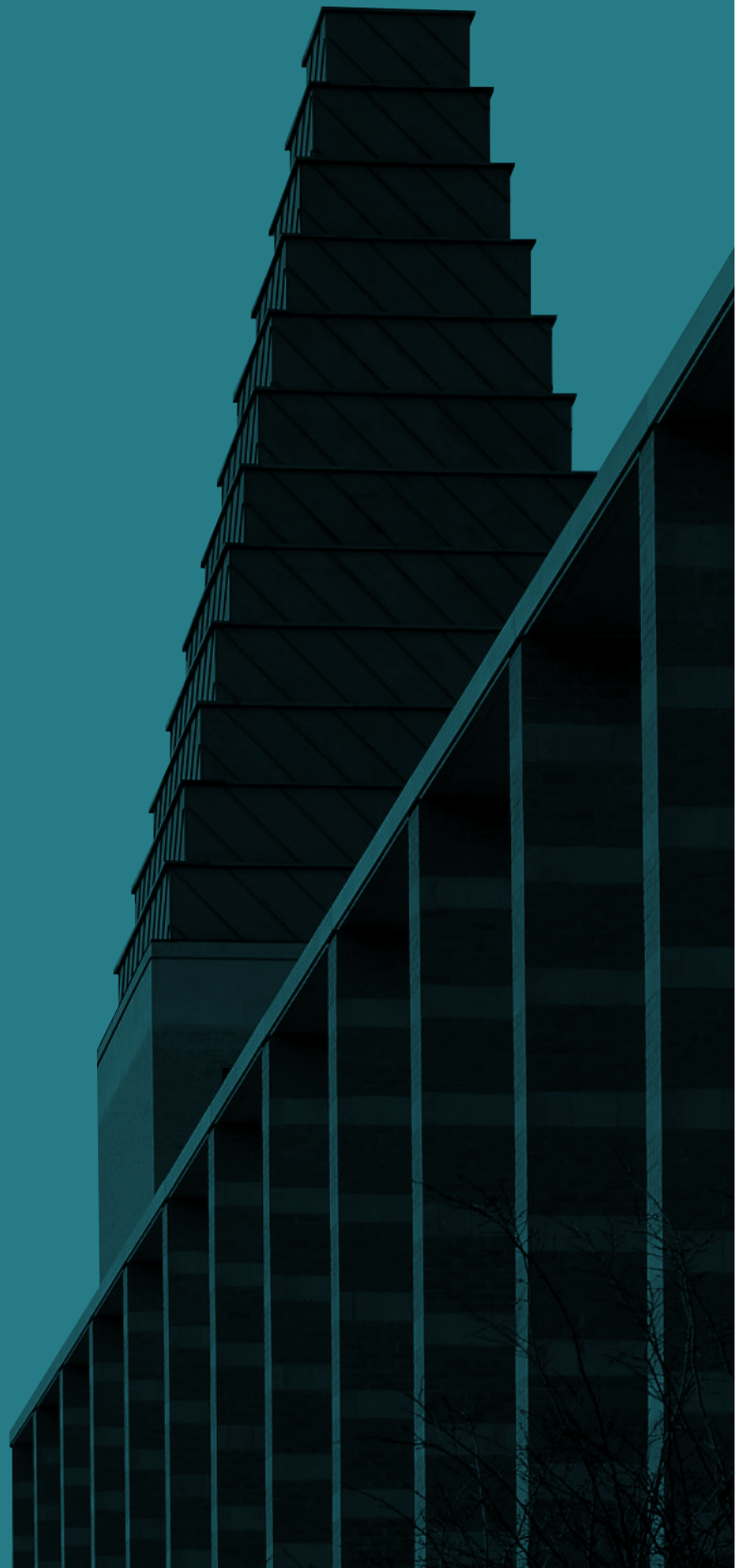




oxford
SAID BUSINESS SCHOOL

OXFORD UNIVERSITY CENTRE FOR BUSINESS TAXATION

ANNUAL REPORT 2005/06
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The Oxford University Centre for Business Taxation was established in November 2005. In its first nine months it has held two conferences. Professor Michael Devereux has been appointed as the Centre's first director and recruitment of researchers is in progress. Members of the Hundred Group have donated nearly £5 million to the Centre's research and Professor Devereux has secured a further £200,000 in funding from the ESRC.

OXFORD UNIVERSITY CENTRE FOR BUSINESS TAXATION

The Oxford University Centre for Business Taxation came into existence in November 2005. This document reports on its activities for the nine months up to the end of July 2006.

The Centre was initially funded by a generous donation to the University by the Hundred Group, representing Finance Directors of major UK companies. The significant task of getting the Centre up and running was undertaken primarily by two Acting Directors, Professors Colin Mayer and Judith Freedman, and it is their achievements which are recorded here. Two major conferences took place during the first nine months, details of which are included in this report.

I was appointed to take up the post of Director on 1 September. I am very grateful to the Hundred Group and to

the University of Oxford for giving me such a promising opportunity to develop research in business taxation.

To get this far, the Centre has depended on many contributions. But four people should be singled out for their crucial role, their enthusiasm and farsightedness: Judith Freedman, Colin Mayer, Jon Symonds and Chris Wales. They have created a Centre which I hope and believe will be a leading research centre for business taxation, and I thank them for their efforts. I am delighted that all four continue to serve on the Centre's Advisory Board.

Michael P. Devereux
Director, Oxford University Centre
for Business Taxation



PROFESSOR MICHAEL
DEVEREUX

ESTABLISHMENT OF THE CENTRE

In the spring of 2005, the Hundred Group of Finance Directors proposed the possibility of a Centre for Business Taxation. The initiative to set up the Centre was led by Dr Christopher Wales, Managing Director, Goldman Sachs International, formerly a Member of the Council of Economic Advisers at HM Treasury and principal adviser on taxation policy to Gordon Brown MP, Chancellor of the Exchequer. Oxford University was chosen in competition with other leading UK research universities. Formal approval for the Centre was given by the University in September and notifications of financial support from donating companies were received at this time.

The Oxford University Centre for Business Taxation was established in November 2005 as an interdisciplinary research centre of Oxford University. The Centre was approved as a designated research centre by the Social Sciences Board in January 2006. A copy of the bid to the Social Sciences Board is attached (Appendix A).

Professor Colin Mayer (Peter Moores Professor of Management Studies, Saïd Business School) and Professor Judith Freedman (KPMG Professor of Taxation Law, Law Faculty) were appointed as the Centre's Acting Directors from its inception until the appointment of its first Director on 1 September 2006.

The Centre is governed by regulations established in December 2005, which lay down the formation and objectives of the Centre, the roles and responsibilities of the Centre's director and other staff, and the terms of reference of the Centre's Steering Committee and Advisory Board.

STAFF AND STUDENTSHIPS

DIRECTOR

Professor Michael Devereux has been appointed as the Centre's first director from 1 September 2006. The appointment was announced publicly in a news article in the Financial Times on 10 July 2006. Forthcoming articles on Professor Devereux's appointment are scheduled to be published in Tax Business (September/October 2006). A copy of the press release relating to Professor Devereux's appointment is given in Appendix B.

ADMINISTRATOR

Dr Deborah Graham-Vernon was appointed as the Centre's Administrator on 1 February 2006.

RESEARCH FELLOWSHIPS

Research fellowships were advertised in July 2006. At least one appointment will be made at grade 6 or 7 in September 2006.

STUDENTSHIPS

One studentship has been awarded this year. **Geoffrey Loomer** will commence study towards a doctorate in law under the supervision of Professor Freedman in October 2006. He has also been awarded a university Clarendon Award (fees only) and will be a member of Merton College.

STEERING COMMITTEE AND ADVISORY BOARD

MEMBERS OF THE STEERING COMMITTEE 2005/06:

Mr. Richard Briant

Saïd Business School

Professor Steve Bond

Economics Department

Mr. Andrew Dilnot

Principal, St Hugh's College

Professor Judith Freedman

Law Faculty

Professor Colin Mayer

Chair; Saïd Business School

Professor Iain McLean

Politics Department

Dr Edwin Simpson

Law Faculty

Dr Dimitrios Tsomocos

Saïd Business School

MEMBERS OF THE ADVISORY BOARD 2005/06:

Mr. Philip Bradley

CFO, Prudential, and
Chair of the Hundred Group

Professor Judith Freedman

Law Faculty

Professor Colin Mayer

Saïd Business School

Sir Derek Morris

Chair; Provost, Oriel College

Mr. Jonathon Nicholls

CFO, Hanson

Mr. Jon Symonds

CFO, AstraZeneca

Professor David Ulph

HMRC

Dr Chris Wales

The Steering Committee and Advisory Board have met three times in the period 1 November 2005 to 31 July 2006.



MR. JON SYMONDS AND SIR DEREK MORRIS
AT THE LAUNCH OF THE CENTRE

EVENTS AND ACTIVITIES

LAUNCH OF THE CENTRE 4 NOVEMBER 2005 SAID BUSINESS SCHOOL

The Centre was launched at a reception at the Business School on 4 November 2005. The evening was introduced by Professor Mayer and speeches were made by Dr John Hood, The Vice-Chancellor; Mr Jon Symonds, Chairman of the Hundred Group; Sir Derek Morris, Chairman of the Centre's Advisory Board and Provost of Oriel College; and Mr. Dave Hartnett, Director General HM Revenue & Customs. Professor Freedman chaired a question and answer session. Guests included representatives from the university and the Centre's associated faculties (Law, Business, and Economics), the Hundred Group, professional services firms, government and international agencies.

WINTER WORKSHOP 16 DECEMBER 2005, BRITANNIC HOUSE, FINSBURY CIRCUS, LONDON

A scoping meeting was held in London with an invited group (43) from academia, government, the Hundred Group, and external organisations. Three areas of interest were discussed: global flows, external influences on UK tax policy, and the balance of taxation. A summary of the workshop is given in Appendix C.



EC COMMISSIONER FOR
TAXATION AND CUSTOMS
UNION, MR LÁSZLÓ KOVÁCS

The conference speakers were:

Mr. Ian Brimicombe	AstraZeneca
Prof. Michael Devereux	University of Warwick
Mr. Roger Emerson	GlaxoSmithKline
Mr. John Fox	BT Group
Prof. Malcolm Gammie QC	1 Essex Court
Mr. Phillip Gillett	ICI plc
Mr. Michael Keen	International Monetary Fund
Mr. Will Morris	General Electric
Mr. Paul Morton	Reed Elsevier Group plc
Mr. Dhiren Shah	GlaxoSmithKline
Prof. Joel Slemrod	University of Michigan
Mr. Jon Symonds	AstraZeneca

INAUGURAL CONFERENCE 23–24 MARCH 2006, SAID BUSINESS SCHOOL

The Centre's inaugural conference took place on 24 March 2006. It was attended by 100 invited guests from academia, government, business, professional services firms, and international agencies. Full details of the conference, including papers are posted on the Centre's website.

A dinner held on the evening of the 23rd at the Business School was hosted by Sir Derek Morris and attended by 80 delegates. The pre-dinner speech was given by EC Commissioner for Taxation and Customs Union, Mr. László Kovács, on the subject of The European Commission's taxation agenda. In it he commented that much of the fall-out from recent European Court rulings could have been avoided if member states had been more

pro-active. He advocated the establishment of a common consolidated corporate tax base (CCCTB) (not a common rate) across Europe. He also referred to the Home State Taxation project for SMEs which is based on the concept of mutual recognition coupled with apportionment using a formula. He considered that there was a need for serious scientific study of which tax rules on R&D work best, since member states have very different approaches to this.

The conference was chaired by Professor Mayer and addressed the question of The Impact of Business Tax in an International Context. Break out sessions focused on 1. Taxing multinationals; 2. Taxes, trade and capital flows; and 3. Developments in European corporate tax. Conclusions from the conference are set out in Appendix D.

COMMUNICATION AND EXTERNAL AFFAIRS

WEBSITE

The Centre established a website in November 2005 which continues to develop. It provides information about the Centre and its staff, student and career opportunities, and details of conferences and events.

PRESS COVERAGE

Publication	Publication date with page number ()
Accountancy	3 Jan 2006 (44); 22 May 2006 (39)
Accountancy Age	10 Nov 2005 (16); 8 Dec 2005 (15); 5 Jan 2006 (8, 11); 13 July 2006 (2)
Financial Times	6 Oct 2005 (5,19); 10 Oct 2005 (18); 10 July 2006 (4)
International Tax Review	1 Oct 2005 (4); 1 May 2006 (cover);
The Tax Journal	1 May 2006 (11)

HUNDRED GROUP

Professor Devereux addressed the Hundred Group Oxford Sponsorship Group on 12 July 2006.

APPENDIX A

BID TO SOCIAL SCIENCES DIVISIONAL BOARD

THE OXFORD UNIVERSITY CENTRE FOR BUSINESS TAXATION

Benefactions totalling almost £5m from the Hundred Group have recently been secured to establish the Oxford University Centre for Business Taxation (CBT) for a period of five years. The CBT will be based in the Saïd Business School but will be an interdisciplinary research centre that combines the interests of the Economics Department, Law Faculty and Business School along with colleagues in other departments of the University.

The Centre will be led by a Director and supported by a senior and two more junior research officers and an administrator. There is funding for three doctoral research studentships (two EU and one non-EU) in the field of business taxation and for an annual Centre conference. The Centre will initiate its own research and commission research from academics in the Business School and from across the University and funding is available for this purpose. A payment will be made to the Law Faculty in recognition of the contribution of the Professor of Taxation Law to the governance of the Centre

The Centre will be part of the Business School, which in turn is part of the Social Science Division of the University and as such it will be accountable to the Business School and the Division. It will conform to the governance arrangements for centres in the Business School and Social Science Division and the Centre will produce an annual report on its activities. This will be used as part of the Centre's marketing function and will be distributed widely outside of the University.

The Centre and the School have agreed that the Centre's financial activities will be controlled by the Centre Director and Administrator in accordance with School and University policies, and will be monitored by the Steering Committee. Routine support for processing transactions will be provided by the School's finance department. The Centre's benefactions are adequate to fund all of its anticipated activities for a five year period.

The School has agreed to provide space for the Centre, and will contract for this if adequate space is not available in its building. Additionally, the School will provide all the usual benefits and support to the Centre that it provides to its other constituent units. A detailed plan and agreement for space will be drawn up shortly.

APPENDIX B

APPOINTMENT OF CENTRE'S DIRECTOR – PRESS RELEASE

Today, the Oxford University Centre for Business Taxation announced the appointment of Professor Michael Devereux as its first Director, commencing 1 September 2006.

He will hold the title of Professor of Business Taxation.

Professor Devereux is currently Professor of Economics at Warwick University. At Warwick, he is a member of Senate, and until recently was Chair of the Economics Department. He holds Research Fellowships at the Centre for Economic Policy Research and the Institute for Fiscal Studies. He is Editor-in-Chief of *International Tax and Public Finance* and Associate Editor of the *Economics Bulletin*. He is the founding Research Director of the European Tax Policy Forum and is a member of the Board of Management of the International Institute of Public Finance. Professor Devereux has also served as an adviser and consultant on corporation tax to the European Commission, OECD, UK government, and the IMF, and has acted as a consultant to projects in the private sector.

Sir Derek Morris, Chairman of the Advisory Board of the Centre commented: 'The appointment of Professor Devereux is a major step in the development of the Oxford University Centre for Business Taxation as the world's leading academic centre for business taxation research. The Centre has substantial funding and strong support from the University; and

both government and business will be looking to the Centre for authoritative independent research and policy advice. Professor Devereux is one of the world's foremost experts in business taxation and has the ideal track record to provide the leadership for this new, and long overdue, venture'.

Professor Devereux said: 'I am very excited at the prospect of leading this unique and important research centre. Taxation can have a significant impact on the activities of business, and hence on the economic welfare of all citizens. But there is too little research which policy makers can draw on in designing appropriate forms of taxation. The Centre will take a lead in developing new research on the ways in which taxation affects business, and the consequences for economic welfare.'

'Nowadays, the taxation of business is also inherently international, and many of the important policy debates concern international issues. Matching that, my intention is that the new Centre will provide international leadership in its research field.'

'A key feature of the Centre will be its interdisciplinary nature: it will house researchers from a variety of backgrounds, including economics, law and accounting. It will draw on expertise not only in Oxford, but will develop a research network around the world.'

Established in October 2005, the Centre will provide an independent research focus on taxation policies and policy options affecting business in the UK. The University of Oxford and the Hundred Group, representing the largest listed companies in the UK, have co-operated to set up the Centre with the Hundred Group contributing £5 million over an initial five-year period to support its work.

Representing the Hundred Group, Jon Symonds said: 'If the Centre is to achieve its ambition of making a significant contribution to the future direction of tax policy in this country and to improve the competitiveness of the UK, it has to be able to recruit the very best brains in this field. I'm therefore delighted that we have now cemented the first and most important step on this journey with Professor Devereux, who so clearly fits the future needs of the Centre.'

Commenting on the establishment of the Centre, **Dr John Hood, Vice-Chancellor of the University of Oxford** said: 'We are delighted with this opportunity to be at the forefront of research into these critical issues for the economy. This Centre is a powerful illustration of the potential that exists in the University of Oxford to draw on the expertise of academics across a wide range of disciplines and for the academic community, business and government to come together to carry out research of great policy relevance. Building on the University's existing strengths, we expect the Centre to establish Oxford as a leading centre of excellence for business tax research, maintaining Oxford's long tradition of making a major contribution to public policy debate.'

In welcoming the establishment of the Centre, **Sir Gus O'Donnell, Cabinet Secretary and formerly Permanent Secretary to the Treasury**, said: 'This is an important new initiative that will fill a significant gap in the area of research into the taxation of business activities. I anticipate that the Centre will have a very positive relationship with policy-makers in government and look forward to seeing the results of its work.'

APPENDIX C

WINTER WORKSHOP

WINTER WORKSHOP 16 DECEMBER 2005, BRITANNIC HOUSE, LONDON

Judith Freedman (Law Faculty, Oxford) opened the Workshop by saying that the purpose of the day was to pose questions and bridge expectations as to what can and cannot realistically be done. She stressed that the Director will ultimately make the final decision about its activities. The Centre is a partnership and consultation about the policy relevance of its activities is key.

Ian Brimicombe from AstraZeneca gave the business perspective and explained the basis behind the Hundred Group support for the Centre. He noted that there was a need for a bigger picture setting out policy options to meet the objectives of different parties. He noted the general paucity of data and the lack of rigorous analysis in the area to date. There were major questions about the impact of taxation on globalisation, on employees, the impact on the EU, the choice of debt and equity and the optimum rate of taxation. He noted the importance of the Centre remaining independent in providing data, measurement and ways of answering these questions.

Colin Mayer (Saïd Business School, Oxford) described the academic challenges. He explained the reasons behind Oxford's interest in the Centre deriving from the wide level of expertise across the University in the subject. He described the broad methodologies

that will be employed encompassing qualitative and quantitative techniques and illustrated these in relation to some of the main issues. He described the different approaches that will be taken to determining the appropriate balance of taxation, how tax affects corporate behaviour, the appropriate base of corporation tax and questions about harmonisation or competition between jurisdictions.

David Ulph (HMRC) concluded the introductory talks by describing HMRC's interest in the work of the Centre. He described the role of his unit in supporting the Treasury and Revenue in policy formation and detailed implementation. He discussed the application of HMRC's General Equilibrium Model for performing tax analysis in evaluating interactions in the tax system and minimising distortions. He described the main challenges as concerning data, the complexity of the tax system and the importance of market structure in determining company responses. There is no single methodology that can be applied and he emphasised the importance of academic research for policy formulation. He expressed the hope that data may be made available to the Centre.

The workshop participants then divided into three groups for detailed discussion of the previously circulated papers. Each group had an academic seminar leader and a rapporteur from the Hundred Group.

**GROUP A: GLOBAL FLOWS
(LEADER JULIAN ALWORTH,
RAPPORTEUR HEATHER SELF)**

The group recognised the resource constraints on the Centre and suggested that it should not try to answer too ambitious questions initially. Trying to address broad questions of incidence may be difficult but marginal questions about changes in corporate tax may be more practical. The group emphasised the importance of addressing behavioural questions concerning the impact of tax changes on firms and the involvement of the Hundred Group could offer unique advantages in answering these. The Group believed that interesting questions concerned whether changes to DTR would be justified by the resulting costs and yield, the effect of repatriations on the behaviour of firms (do they affect real capital allocations), the sensitivity of companies to changes from worldwide to territorial bases of taxation, the impact of tax on corporate location in particular the decision by companies as to where they should start up and the impact of taxation on innovation and intangible assets.

**GROUP B: EXTERNAL
INFLUENCES ON UK TAX POLICY
(LEADER STEVE BOND,
RAPPORTEUR PHILIP OWEN)**

This group also emphasised the importance of the impact of taxation on behaviour. What is the effect of tax changes on dividends and how are the changing forms of corporate ownership away from pension funds to foreign investors altering this relationship? Is it possible to use a simple accounting base of taxation? What would be the effect of a lowering of the corporate tax rate? On external influences the group questioned whether the headline rate or the effective rate of taxation was important? Is tax competition adverse in creating tax havens and what has been the impact of the code of conduct on such jurisdictions? The group thought that the consolidated corporate tax base offered some advantages but there were important issues concerning the base, its scope (the waters' edge problem) and allocation rules, especially the interaction with the OECD rules. The US provides important information on tax changes but the impact of the EU environment needs to be considered were similar changes to be adopted here. The group noted that the OECD is an important forum for debate and a valuable source of data.

**GROUP C: THE BALANCE OF
TAXATION (LEADER MARK ROBSON,
RAPPORTEUR PAUL MORTON)**

The group considered the availability of data from HMRC and companies. CFOs may be cautious about providing data, being concerned about issues of privacy. The Centre will need to demonstrate that data will be handled well and confidentially to establish confidence amongst data providers. The PWC data was a potential source that the Centre may wish to use. Given the nature of ownership of firms it would appear that reductions in taxation primarily benefit the rest of the world. Is there a more equitable way of taxing small companies? Are there better tax bases – profits, turnover or dividends? Does taxation encourage the efficient use of capital? The group felt that taxation was not a significant factor in this. Have we benefited from lower taxes? Can revenues be raised in other ways and are there lessons from policy proposals in the US?

There followed a general discussion led by Chris Wales (Goldman Sachs) about the burden and incidence of taxation. The relevance of looking at incidence in the US was discussed. The importance of ownership and the changing nature of ownership were considered. The relevance of the Meade Committee, the Royal Commission on Taxation, the IFS study, US tax reforms and consolidated corporate tax proposals were considered.

CONCLUDING COMMENTS

Edward Troup (HMT) emphasised the interest in government in the Centre's work. He mentioned the importance of econometric led and analytical, principles based research, understanding the effects of dividend flows on real allocation of capital, comparative analyses with other countries and determining the competitiveness of economies rather than tax systems.

Mathias Mors (European Commission) emphasised the importance of empirical work with a good theoretical background. Timing of the Centre's output in relation to policy questions was key. He emphasised the importance of comparative research and warned about the risks of addressing too big questions. He suggested that the Centre should avoid yes/ no questions and instead ask, for example, under what conditions a consolidated tax base would be desirable. The advantage of the Centre was in undertaking interdisciplinary research and through the involvement of business providing a reality check on its conclusions.

Caroline Silberzstein (OECD) emphasised the importance of assessments of tax reforms. She noted that it was important to look at the interactions involved in tax reforms and not just their effects in isolation. She regarded an understanding of the impact of taxation on business behaviour as being particularly crucial.

In summing up, Judith Freedman and Colin Mayer returned to the main themes of the day – the incidence of tax changes; the impact of change on the behaviour of firms, location decisions, the tax base and the political aspects of tax reform. These themes might form the main projects of the Centre with more specific studies undertaken within these themes, for example, possibly focusing on double taxation relief, corporate ownership and the impact of that on dividend policy, and the consolidated corporate tax base. The potential access of the Centre to data, information and advice from business and government was particularly welcome and important for its future work. Its multidisciplinary and comparative international approach will be a distinctive feature of its activities. They thanked all participants for their valuable contributions and for making the day such a success.

APPENDIX D

CONCLUSIONS FROM THE INAUGURAL CONFERENCE

Professor Joel Slemrod opened the conference by arguing that taxes should be directed toward enhancing the prosperity of citizens not company profitability; that cross-country interaction and coordination are important, that company residency is of little significance, and that the behavioural response of companies critically affects the design of policy. In response, several views were put forward, including those of Paul Morton and Roger Emerson, as to what a desirable tax system should comprise. In particular, it was argued, it should be fair, efficient, simple, transparent and stable; that it should avoid distortions to behaviour.

Notwithstanding that non-distortion is a desirable characteristic of a tax system, Professor Michael Devereux described how corporate tax affects behaviour in practice, in particular from the average rate influencing location decisions of multinationals and the marginal rate affecting activities within locations. However, both Ian Brimicombe and John Fox argued that tax is not the primary driver of location, and other business and regulatory decisions may be more important.

Michael Keen described how corporate taxes affect the balance of payments by increasing exports in the short-run and imports in the long-run, while VAT is less distortionary. Phillip Gillet emphasised that there are considerable variations across companies in responses to such tax incentives.

Professor Malcolm Gammie noted that a CCCTB with common apportionment methods and common rates is consistent with a single market but common rates are not currently on the agenda. He argued that there are 25 level playing fields but they do not produce a single market outcome because they do not share the same features. Agreement is the only route to a single market and the ECJ will not in itself produce a single market outcome. This is not to say that agreement or a CCCTB would necessarily produce a more satisfactory outcome than the ECJ, especially when viewed in a global setting.

In the final paper, Will Morris drew contrasts between legislative process in the UK and US in terms of consultation, clarity of purpose and legislative history.

In summing up the conference, Professor Mayer concluded that there was some discontentment about the ECJ process, in particular, that it was felt to lack predictability and consistency and that there are problems of lack of unanimity and sovereignty over the way in which tax policy is formulated.

During the day, several suggestions were put forward for the Centre's research agenda. Joel Slemrod suggested that research should clarify language and objectives and use data and analysis to determine behavioural responses that should then be incorporated in consistent economic models. It was also suggested that developing countries, tax havens, environmental taxes and small businesses should be included on the Centre's agenda. More specifically, the following questions were considered to be important:

A. What multinationals do we want in the UK? How do we attract them?

B. What is the behavioural response of companies to taxation? Should one use the tax system to affect allocation of resources?

C. Is there a right way of collecting taxes?

D. Is residency irrelevant? Should one contrast the location of profits with the location of headquarters?

E. Should taxes be used to promote R&D?

F. The need to understand the ECJ process better and the role of the Commission in formulating tax policy was discussed.

Finally, a consensus emerged as to the importance of combining different research methodologies. It was suggested that quantitative analysis should be combined with surveys, with direct, structured discussions being regarded by the Hundred Group as more easily accommodated than lengthy surveys. The importance of the multidisciplinary nature of research in the Centre was clear from the interaction between the different groups present in the discussions and in the break out groups, and the varying perspectives that they brought to issues.



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