

Tax Research and Practicalities

Readers of *The Tax Journal* may not think academic tax research has very much to do with them. Hard-pressed practitioners might consider they have enough pressure on them in keeping up with the twists and turns of everyday tax changes and with the many consultative documents and draft clauses which drop upon their desks, without having to think in more abstract terms about what might or should be. There is also, unfortunately, a view sometimes expressed that academic proposals are, inevitably, impractical. Speaking about the report of the President's Advisory Panel on Tax Reform published this month in the US,¹ Treasury Secretary John Snow was reported as saying that the nation's taxes need 'not only theoretical reform, not only academic reform, but actual practical reform'.² Though this quote may perhaps have been taken out of context (and hopefully this is the explanation for it), this does seem to give an impression that academic and theoretical proposals are not likely to be practical. Given that the Panel's report is an extensive and detailed piece of work on the US tax system, the result of nine months of work by an eminent group of scholars, many with practical business and law reform experience, this is unfortunate. According to the Associated Press report, the panel members themselves have predicted that their proposals may be unpopular because they threaten vested interests and attack existing tax breaks. That does not mean, however, that they are not workable or desirable, only that they may be hard to implement.

In the UK over recent years there does seem to have been an understanding by the tax community that academic research has a part to play in policy discussions and planning. There has been considerable and very welcome encouragement and support of academic tax research given by HMRC and HM Treasury. With the advent of a new Centre for Business Taxation at Oxford University, generously funded by members of The Hundred Group, we have proof that academic research into tax policy in a business context is considered

Judith Freedman, KPMG Professor of Taxation Law at the University of Oxford, discusses the role of academic tax research and the creation of a new tax research centre at Oxford

by many finance and tax directors to be of great and direct significance to them also. The reaction to the creation of the Centre from the tax community more generally suggests a wide interest amongst practitioners, advisers and government, and recognition that fundamental debate on business taxation in a non-partisan environment, based on data and analysis rather than speculation, impressionistic opinions and anecdotes, is vital for the health of our business tax system and thus the economy.

Whether they like it or not, practitioners are forced to think about fundamental change all the time. Major and radical tax change is all around us. Too often this

there had been a better mechanism for this to be considered in a tax context, these trends might have been planned for more effectively than has been the case, not only in the UK but across the world. Such planning requires adequate long-term resources but also the ability to stand back from day-to-day financial and political pressures and pose questions and make suggestions that might not initially be considered practical or politically acceptable, but which may become so. Consideration of long-term trends also needs to be multi-faceted and multi-disciplinary, so that developments in one area which might have a knock-on effect in another are not missed.

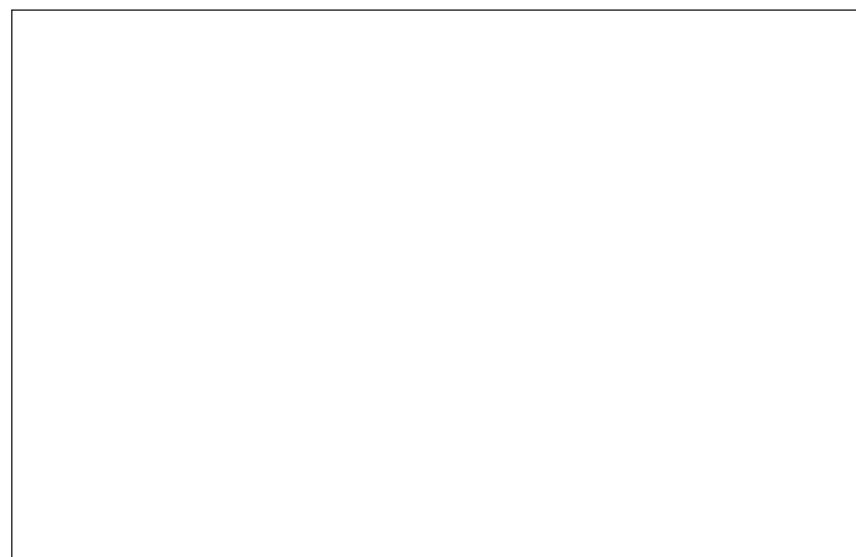
The funding of the Oxford University Centre for Business Taxation provides proof that academic research into tax policy in a business context is considered by many finance and tax directors to be of great and direct significance

results from fire-fighting rather than following a plan of action. Broad economic and technological changes that have freed up the mobility of capital and economic activity have had a marked impact on the operation of international tax. Other developments have arisen from non-tax initiatives such as the rapid development of ECJ case law on the four freedoms and the introduction of International Financial Reporting Standards. These developments have not emerged out of the blue, however. The precise results of cases and the detailed contents of the new IFRS might not have been predictable but the trends were detected in the specialist literature and if

This is where academics can and should come in. They may not be able to help with an answer to the pressing client question on your desk but academics can provide a structure for the discussion of these changes and hopefully assist in providing a sensible framework for reform. If they are working together in a multi-disciplinary organisation they can produce unique insights which may not be detected by the practitioner specialists. At the very least, academic researchers can help to initiate and promote debate that might otherwise not take place and, if their contribution is heeded, they may be able to help predict trends and ensure that fire-fighting is not needed quite so often.

The Oxford University Centre for Business Taxation emerged from an initiative by The Hundred Group, ably guided by Chris Wales, formerly adviser on tax policy to Gordon Brown MP and now of Goldman Sachs, and was launched at Oxford University on 4 November 2005. It has been created as an entirely independent Centre of the University, based at the Saïd Business School and involving existing academics from across the University with expertise in economics, finance, law, politics and, in due course, other areas. New and dedicated staff, including a full-time Director, will be employed to run the Centre and its research projects, and academics from other institutions in the UK and abroad will also be invited to join projects. Where appropriate the Centre will co-operate with other tax research institutions with specialist expertise, with the UK Government and with bodies such as the OECD and European Commission. The focus of the Centre will be on business taxation research in its widest sense: its objects refer to research into all forms, methods and types of taxation, whatever they are called, that have an impact on business, whether directly or indirectly. The work of the Centre will evaluate the effects of such taxes on the business sector, the public finances, international competitiveness and the wider economy and consider the international dimension to business activity, the interaction between different tax systems and the global influences on policy formulation.

It would be a fallacy to think that because the aim is to enhance knowledge and understanding of the tax system as it impacts on business, other aspects of the tax system will be irrelevant. Since businesses exist in the real world and have employees, customers, creditors and debtors, pension funds and other stakeholders, including governments, and a number of these stakeholders in practice share the burden of the tax on businesses, there is clearly very great scope for wide-ranging research and the research that is conducted will need to be set in its broadest social, economic and political context to be valid. It would also be wrong to suppose that the fact that the objective is to learn more about taxation of business will dictate the answers that might be reached. These answers remain to be discovered and the Director and Steering Committee of the Centre, made up entirely of academics, will decide what research has produced worthwhile results and how it should be published. The Centre will have an eminent Advisory Board, comprising



Left to right: Jon Symons, The Hundred Group, Dave Hartnett, HMRC, Judith Freedman, Chris Wales and Colin Mayer. Photograph by Greg Smolonski.

representatives of different sectors, including government and The One Hundred Group, and this will be an important source of advice and act as a link between the Centre and the wider academic, government and business community, but research and publication policy will rest firmly in the hands of the Steering Committee.

There is already excellent academic work on taxation being carried out in our universities and most notably at the Institute for Fiscal Studies (IFS). The rigour and independence of the IFS's work sets a gold standard for anyone else venturing into tax research. The Oxford Centre's special contribution will come from its focus on business, whilst the IFS has a much wider range of interests, and from the Centre's location within a Business School, itself part of a University, which can draw on experts in a wide range of topics such as corporate finance, corporate governance, entrepreneurship, innovation and technology transfer, European law, administrative and constitutional law and statutory interpretation to name but a few.

Academic tax research is not going to come up with definitive conclusions. It will not tell us whether a flat tax is 'right' or 'wrong' or what the tax rate should be. In the end, decisions about tax policy involve value judgements and these need to be made through the political process. Tax research can, however, provide data and check that data for bias; it can question inadequately rigorous reasoning and justifications which are based on fallacious logic or misinterpretation of the figures, and it can detect trends and patterns of development

which may not be seen by those immersed in day-to-day practice or who are subject to political and revenue pressures.

The Oxford University Centre for Business Taxation gives academics working with others in the tax community a real opportunity to inform and improve the tax debate in the UK and more widely. The enthusiasm of all sectors of the tax community at the birth of this Centre has been encouraging and the structure of the Centre ensures both independence and rigour, while enabling academics to communicate with others in the tax community to learn from their experience and concerns. Academics must not be over-ambitious in their claims and we cannot hope to solve all the problems confronting business tax design in the 21st century, but the signs are that the academic contribution to the debate is positively sought and valued and this bodes well. There is no necessary contradiction between rigorous theoretical academic work, and ideas that are useful and practical.

Notes

¹ *Simple, Fair, & Pro-Growth: Proposals to Fix America's Tax System*, The President's Advisory Panel on Federal Tax Reform November 2005.

² Associated Press Nov 1 2005, 'Bush panel proposes broad tax-law changes'.

During the set-up phase of the Oxford University Centre for Business Taxation, Judith Freedman is acting co-director together with Professor Colin Mayer, Peter Moores Professor of Management Studies at the Saïd Business School.