AFM Response to HMRC proposals for large businesses transparency strategy

1. I am writing in response to this consultation paper, on behalf of the Association of Financial Mutuals. The objectives we seek from our response are to:
   - Highlight inconsistencies in the proposals; and
   - Suggest how HMRC might take a more proportionate approach.

2. The Association of Financial Mutuals (AFM) represents insurance and healthcare providers that are owned by their customers, or to serve a defined community (on a not for profit basis). Between them, mutual insurers manage the savings, pensions, protection and healthcare needs of over 30 million people in the UK and Ireland, collect annual premium income of £16.4 billion, and employ nearly 30,000 staff.

3. The nature of their ownership and the consequently lower prices, higher returns or better service that typically results, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion. In particular, FCA and PRA are required to analyse whether new rules impose any significantly different consequences for mutual businesses.

4. AFM recognises the motives behind the proposals published on 9 December, and fully supports HMRC’s aims to create greater transparency in the tax strategy of the UK’s largest businesses.

5. We are concerned though that there is a contradiction in the proposals. The stated aim is to capture the UK’s 2,000 largest organisations within the

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requirement to publish a tax strategy. But to execute this the paper suggests that all organisations dealt with by the Large Business Directorate are included in the requirement. The latter group includes many small organisations, such as small friendly societies who are dealt with by the Large Business Directorate but who do not meet the definition based on turnover or on balance sheet total.

6. To illustrate, of the 38 members of AFM as at 1 January, one has assets over £2 billion, and none have gross premium income above £200 million. Broader analysis of the mutual insurance sector by our international sister trade body ICMIF, covering 80 mutual insurers based in the UK, indicates there are 13 with premium income in excess of £200 million, of whom 7 also have assets of more than £2 billion.

7. It is clear that the policy approach was not intended to affect most mutual insurers in the UK. However, triggered by the policy paper, recently a number of our very smallest members received notification from the Large Business Directorate for the first time that they were in locus of the Directorate, and that they would be required to produce a tax strategy statement. Until last month neither the Directorate nor the firm appeared to be aware of this, so it appears that an unintended consequence of the policy paper is to create confusion within HMRC. Many of the organisations that would be captured by the approach proposed in the paper pay little or no corporation tax, and the cost of producing a new tax strategy paper will therefore do nothing to support HMRC’s aims, and will fall disproportionately onto the policyholders of those organisations.

8. In our view the intention of the policy is that only the largest companies are caught by the new requirements, and that the contradiction has occurred by assuming that firms in scope of LBD is a suitable proxy. We ask HMRC to revise its policy implementation to better target the intended audience of large businesses, using the definitions in the policy and not an inappropriate proxy.

9. We would be happy to explain our comments further.

Yours sincerely,

Chief Executive
Association of Financial Mutuals

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3 http://www.financialmutuals.org/members/full-members
4 see figures 7 and 9 in their report: