Rt Hon Philip Hammond MP,
Chancellor of the Exchequer,
HM Treasury,
1 Horse Guards,
London.
SW1A 2HQ

28th September 2018

Dear Chancellor

The UK is a world leading digital economy. At a time when the world is waking up to the huge changes for both our economy and our society that new technologies are bringing, and will bring in the future, the UK already has an established track record as a place to start, invest and run a digital business.

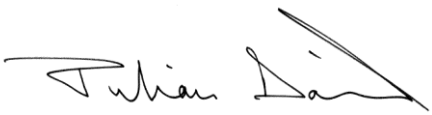
However, this success should not be taken for granted. Other countries are keen to establish themselves as strong viable alternatives. The decision to embrace digital in countries like France and Spain means the UK's position as the default place for investment in Europe is being challenged. This comes at the same time as Brexit as well as discussions of a raft of new burdens on the digital sector that mean that the UK already faces a more challenging investment environment than in the past.

These new dynamics mean that the UK cannot rest on its laurels. To maintain and grow our position as a global digital powerhouse we will need a laser like focus on presenting a competitive business environment, supporting R&D and enabling new infrastructure investment. It will also require the UK to take a pragmatic view on issues such as regulation and tax policy as well as ensuring we do not create further uncertainty for businesses looking towards their future investments.

The Government has already made a positive start on this agenda as part of the last Budget. techUK's 2018 Budget Submission seeks to build on that foundation by offering a range of measures designed to put the UK at the forefront on innovation, address structural challenges in our existing systems that might risk investment in the future, and guard against potential pitfalls that would damage our reputation as an open and welcoming digital economy.

We look forward to engaging with you and your team on this agenda and working together to ensure that the UK economy is able to thrive in the 21st Century.

Yours sincerely,



Julian David
CEO, techUK

techUK
Budget 2018 Submission
September 2018

Introduction

At his last budget the Chancellor set out a plan for the UK to lead the world in the technologies of the future. He set out a welcome plan for investment in key elements of the digital economy, including skills and opening up geospatial data. These announcements were a strong sign of the Government's commitment to the tech sector and a recognition of the increasingly large contribution to GDP of the digital economy. They were strongly welcomed by the UK tech sector who continues to champion the UK as the best place to start and grow, grow and run a tech business.

However, despite the positive interventions by the Chancellor, the UK tech sector faces a number of challenging headwinds that risk hampering growth and creating a less positive picture of the UK as a prime location for future investment. This can be seen in the gradual decline of pre-tax profits from Digital producing businesses over the last three years.[1] Brexit continues to impact business confidence across the economy and, for tech, comes at the same time as a series of new regulations, and discussions of potential further regulation, that could impact on the UK's competitiveness as a market for the digital sector.

Tech businesses have consistently called for clarity around Brexit. From the need for certainty over how the UK intends our services sector, which makes up 81 per cent of tech exports, will be treated, to the vital need to secure an implementation or transition period.

TABLE 1			
	2017	2016	2015
Profits (before tax) of UK Digital Producing Industries by region (£GBP)*	22,331,137	27,151,395	40,317,906
*Digital Producing defined as businesses where primacy SIC (2007) code is: 26, 582, 61, 62 or 63.			

But clarity on Brexit alone is not enough to make up for the impact of Brexit on confidence and investment. That is why techUK urges the Chancellor to use this budget to set out a radical programme of support both in the short and medium term to stimulate investment in the UK as a digital market, support businesses to get the skills they need and deliver a truly digitised UK economy able to compete for the jobs and investment of the future.

At the same time, Government should treat new market interventions with a high level of care. At a time of shaken confidence, new measures which create a further perception of the UK as an uncertain or more difficult place to make tech investment, risk significantly damaging the eco-system on which much of the success of the UK as a home of tech has been based. This is particularly important when the competition for investment from other countries is stronger than has

[1] techUK analysis using BVD's Fame Database, see table 1.

previously been the case - with places like France and Spain becoming more open and welcoming to digital investment than ever before.

techUK's budget submission therefore urges the Chancellor to consider action in the following areas:

1. **Support digitisation across the whole economy to drive productivity.** Building on the Department for Business, Innovation and Skills Long Tail Productivity Review, Government should introduce a range of measures to support non-digital businesses to embrace new technology, including supporting directors and purchasing managers to purchase products with confidence. The Chancellor should also begin a full scale review of the capital and operational relief expenditure to ensure that the current tax system incentives modern technologies.

2. **Build a comprehensive package to support UK R&D in digital industries.** Helping show the UK is serious about meeting its 2.4 per cent of GDP being spent on R&D by 2027 by ensuring that businesses can get equivalent relief through R&D tax credits for building R&D facilities as for R&D operations. Government should also look to support the growing AI economy by ensuring that the use of development platforms with the processing power needed to deliver new algorithms is clearly included within the scope of claimable elements of tax credits.

3. **Support the skills needed for the modern economy.** Ensuring that businesses have the flexibility they need to train people for the job roles that exist throughout their businesses and their supply chains is critical to meeting the skills gap the UK tech sector faces. In addition, work needs to be done to enable the next generation to develop their digital skills, including through greater incentives to support pupils to take computing at A-Level and above.

4. **Ensure that the Government's approach to taxation continues to treat companies equally and does not undermine the digital economy.** techUK continues to support international tax reform in line with the Base Erosion and Profit Shifting (BEPS) conclusions. Government should avoid any attempt to single out the digital sector for new taxation measures. Such an approach risks not only serious damaging the reputation of the UK as an open and welcoming digital economy, but would create a further fragmented business environment at a time when the wider economy is digitising and using data. The UK should act as a leader in driving inclusive reform at an international level to improve transparency for all businesses, rather than seeking short term measures that will create new barriers to investment in the UK at a time of already high degrees of uncertainty.

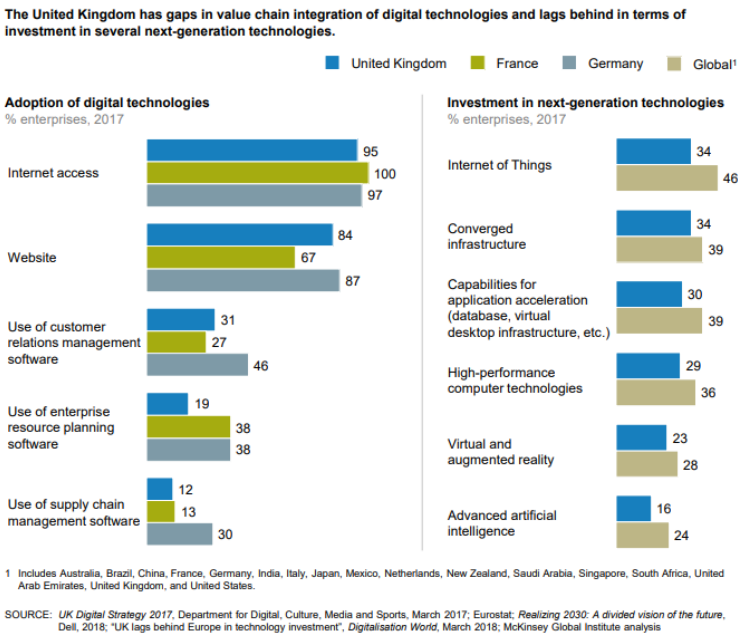
5. **Support the UK's place as the home of the world leading Data Centres.** The Government should reconsider the decision to close the Climate Change Agreement to new applicants on 31 October. This closure will prevent data centres accessing vital support to help manage their energy costs and risks putting them at a disadvantage against their international competitors. Retains a strong data centre offering is key to the UK as a global hub for data.

6. **Make the NHS and Social Care system a 21st Century service that embraces digital tools.** The Chancellor should support the agenda of the new Secretary of State for Health and Social Care and ensure that NHS and social care funding allows for true digital transformation. In particular Government should look at enabling personal budgets to be extended to a wider range of people to enable them to use approved digital and non-digital treatments, and ensure a long term future for the NHS Digital Academy which equips health and care leaders with the digital skills to facilitate digital transformation.

PART 1: Support digitisation across the whole economy to drive productivity.

The Government has rightly identified productivity as a central challenge facing the UK economy. The first quarter of 2018 showed that productivity grew at just 0.9 per cent. With inflation remaining above target, it is difficult to see how wages can rise without a significant increase in productivity.

There are many factors behind the UK's low productivity growth. There also remain significant issues surrounding the measurement of productivity. Valuable assets to the economy such as free internet services, are not recognised within existing productivity measures. A *soon to be published report by Public First suggests that including these services within productivity measurements would boost the measured size of productivity by 0.75 per cent a year – about a third of recent productivity stagnation.*[2]



Chat A: Taken from McKinsey Global Institute *Solving the United Kingdom's productivity puzzle in a digital age,* September 2018

In addition to measurement challenges, the slowing rate of digital adoption among many older, smaller, and low productivity companies has consistently been identified as a key part of the puzzle.

The Chief Economist of the Bank of England, Andy Haldane said in June 2018,

"In the fullness of time, innovation should be expected to diffuse through the economy, lifting all boats. That has been the lesson of every industrial revolution. Yet

[2] Public First, *Google's Impact in the UK at home, at school, at work*, to be published October 2018

in the UK this technological trickle-down, from frontier to tail, appears to have dried up."[3]

He points out that as of 2015 only 13 per cent of UK companies had adopted all five basic technologies (using computers, the internet, websites, e-purchasing and e-sales). For more advanced technologies (mobile access to email, documents and software, websites with online ordering, fast broadband access and electronic data interchange sales) fewer than 10 per cent of companies had adopted more than four by 2015, and over a quarter had not adopted any.

This is echoed in the recent report Mckinsey's *Solving the United Kingdom's Productivity Puzzle in a Digital Age* report, which states that despite ranking well in terms of digitisation overall compared to competing countries, we are significantly behind our competitors in the take up of tools such as supply chain management software, use in manufacturing of Internet of Things technologies, and CRM systems.[4]

Similar evidence has been born out in the recent study by Deloitte found that the productivity impact of Google Cloud services in the UK, including revenue expansion and cost savings was around £500 million in 2017.[5] Given the importance of cloud technologies to delivering on much of the Government's agenda for the digital economy, including AI and cyber security, techUK believes that cloud should be fully recognised within the Industrial Strategy and form a part of the consideration of all sector deals and grand challenges.

Making the issue of digital adoption a central theme of the budget is not just important for helping improve productivity; it would also act as an important signal of the Government ongoing support for the digital sector. Given that non-UK owned companies make up 43 per cent of the GVA delivering from digital producing businesses, (despite only making up 1.6 per cent of the companies in the sector), ensuring that the UK remains a valuable market for investment is critical to the overall health of the sector.

Brexit uncertainty has meant that many international investors are currently sceptical about the UK's place as a home for significant sums of investment as an EMEA hub for business activity. However, techUK is consistently told that there remains an appetite for UK investment based on the potential of its domestic market. As new Business to Business (B2B) technologies such as AI and supply chain management tools become available, increase the ability of UK domestic companies to adopt these tools can assist not just these businesses, but the flow of FDI into UK companies delivering these products.

Government was right to seek to examine the issue of digitisation as part of the BEIS Long Tail Productivity Review, and techUK is keen to see progress from this review as part of the budget. In particular, techUK proposes that the Treasury consider the following two items:

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[3] Bank of England, *The UK productivity puzzle – hub not spokes,* June 2018, recovered from: https://www.bankofengland.co.uk/-/media/boe/files/speech/2018/the-uks-productivity-problem-hub-no-spokes-speech-by-andy-haldane.pdf

[4] McKinsey Global Institute, *Solving the United Kingdom's Productivity Puzzle in a Digital Age,* September 2018

[5] Deloitte, *Economic and social impacts of Google Cloud,* September 2018

Review of tax reliefs

An area outside the scope of the Long Tail Productivity Review is taxation and associated reliefs. However, techUK is concerned that the current complex metric of tax reliefs has not kept pace with the kinds of products which should be incentivised if the Government wishes to generate greater digital adoption and the associated productivity benefits.

Specifically, the current relief system remains too focused on Capital Expenditure (Capx) as opposed to measures to support Operational spending (Opex). The Capital Allowance system is an important mechanism to support the purchase of equipment and machinery for many businesses. However, the next generation of tech products are more often association with licenses or subscription software than physical equipment. Software such as CRM systems, Cloud platforms and most business management software has moved away from one off purchases and towards a subscription model. This has significant benefits for business users as future updates and plug-ins are made available over time without the need for significant additional outlay. For example, many CRM systems are now building AI into their systems, preventing businesses from having to purchase separate off-the-shelf software.

While some relief may be claimed on these expenditures via general deductions from profits, there is currently no clear mechanism to support businesses in the initial adoption and selection of productivity enhancing digital services and associated staff training. There is a significant risk, therefore, that the tax system continues to incentivise older products (such as server boxes) rather than keeping pace with current technological trends.

techUK therefore believes the Treasury should conduct a full review of the CapX and OpeX systems to ensure that the reliefs available to UK businesses meet the needs of the modern economy and reflect the move from on-premise CApX into OpeX. This review should specifically focus on whether Capital Allowances needed to be expanded to enable initial purchasing of subscriptions and licences, with relief delivered over a long period than a single financial year, or whether a separate Operational Allowance could be developed to sit alongside existing reliefs for first time adopters.

Supporting small businesses IT skills needs

As recognised in the CBI's Innovation Survey, 45 per cent of businesses recognises that access to leadership and management skills helps businesses to innovative. This can be particularly true when it comes to the adoption of new technologies.[6]

Tech can be complicated. Those without a strong understanding of how digital tools may work together, how to roll them out through their business to get the best results, and how each tool might open up new means of working in the future, can often find it easier to not purchase new tech products. For many companies the solution to this challenge has been to employ an IT manger. The US Bureau of Labor Statistics has recognised this fact in estimating the growth in IT manager jobs in the USA

[6] CBI, *From Ostrich to Magpie,* November 2017

between 2015 and 2026 to be 12 per cent (compared to an average for all jobs of 7 per cent).[7]

Yet many smaller companies in the UK are unlikely to be able to afford a full time IT Manager. This fact, coupled with an overall shortage in digital skills in the UK, means that companies do not have the in house expertise to understand their tech needs.

In order to address this challenge, one option is to create a network of independent IT specialists at a local level who can support, advice and guide small businesses through the path of digital innovation. Such a network, run at Local Authority level in coordination with the associated Local Enterprise Partnership, could provide a valuable service in supporting small businesses in the early stages of digital adoption.

techUK proposes a pilot project to test the effectiveness of such a network. We would envision a the placement of three well qualified IT managers with experience in IT development being placed in the three most productive Local Authorities areas and the three least productive. Their mission would be to engage local non-digital businesses and support them to deliver digital transformation plans over a 12 month period. The programme would be scored on a range of metrics, including productivity, transformation of the business, network effects (including adoption by related business) and value for money.

Local Enterprise Partnership	%
Oxfordshire	5.3
Swindon and Wiltshire	5.2
Greater Birmingham and Solihull	4.7
Thames Valley Berkshire	4.2
Cornwall and Isles of Scilly	4.1
The Marches	1.1
Greater Lincolnshire	1.0
Coventry and Warwickshire	0.4
Stoke-on-Trent and Staffordshire	0.3
Northamptonshire	0.0

Source: Office for National Statistics

Chart B: Taken from ONS *Regional and sub=regional productivity in the UK.* February 2018

techUK believes that running such a programme should be based on well qualified professionals who can actively support small businesses. It is therefore proposed that the salaries for those involved in the project are set at £60,000, which is a competitive rate for IT development staff.

In addition to these staff, a pilot manager for each area would be required to enable the proper assessment of the pilot programme over the 12 month period. The salary for this individual has been set at Pay Band D on the civil service banding.

[7] Bureau of Labor Statistics, Occupational Outlook Handbook, recovered from: https://www.bls.gov/ooh/management/computer-and-information-systems-managers.htm

Table 2	
Item	**Cost**
IT Manager (1)	£ 60,000
Additional costs (2)	£ 16,918
Project managers (3)	£ 26,000
Additional costs (2)	£ 4,504
Per local authority area	**£ 415,092**
For 10 Local Authority Areas	**£ 2,490,551**

(1) Based on going rate for IT Development Manager (nationally)
(2) National Insurance/ Pensions and other running costs
(3) Based on Civil Service Pay bands at Range E

Alongside this pilot project, techUK believes it is important for individual local authority to upskill their internal knowledge of the benefits of digital to the local economy. This should include ensuring that all Local Authorities have well established Digital Boards, responsible for driving through the design, adoption and implementation of digital services to improve service deliver at a local level.[8]

Incentivising investment to transition from good to great connectivity

techUK strongly supports the Government's ambition to have 15 million premises that have access to gigabit full fibre connectivity by 2025 and nationwide connectivity by 2033. Given that current coverage is at just over 1.2 million premises this will require a build programme of strategic importance. Telecoms infrastructure in the UK hasn't traditionally been given the support of similar strategic projects such as HS2, despite the majority of capital investment being delivered from the private sector.

Return on investment is regularly cited as a major concern for EU and UK operators. These concerns tend to focus demand uncertainty for full fibre and 5G products, however, Government has important levers around lowering the cost of deployment which can significantly improve the business case for investment. This includes sensible amendments to the business rate regime to provide certainty and incentives keep maintain and even accelerate the pace of investment in digital infrastructure.

Government has already taken action in this area with communications providers exempt from business rates on new fibre for 5 years. This is beneficial but is a relatively short time frame in an industry driven by 10-20 year return horizons. techUK believes that work should begin to ensure that the holiday is extended and does not kill investment in digital infrastructure as we approach the 2022 deadline. Further, we believe that more must be done to deliver greater predictability to the rates regime for telecoms and fibre in particular and create a fairer mechanism of valuing providers' assets.

[8] techUK, *What makes a 'good' Digital Board?* September 2018

PART 2: Build a comprehensive package to support UK R&D in digital industries

techUK strongly welcomed the Government's commitment to spending 2.4 per cent of GDP on R&D by 2027. The UK has long been seen as the obvious place outside of the USA for tech businesses to invest in research and development thanks to our world leading Universities, our flexible access to talent, particularly from the EU, and the generally positive business environment.

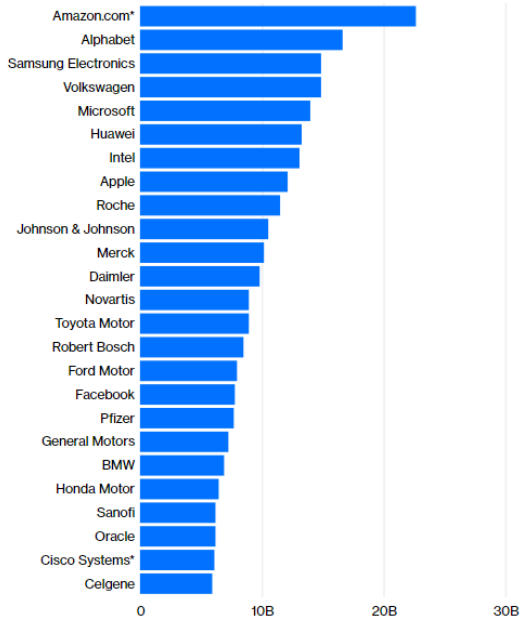

Chart B: Taken from ONS *Regional and sub-regional productivity in the UK.* February 2018

Tech is a huge contributor to global R&D spend. According to Bloomberg, 7 of the top 10 R&D spenders are tech companies.[9] Analysis by techUK suggests that in 2017 the top 25 digital businesses alone spent £970 million on R&D.[10] Yet anecdotal evidence from techUK members suggests that internal competition to locate R&D expenditure in the UK is now under real pressure compared to France, other EU countries and emerging markets such as China and India.

In order to redress this balance, techUK believes that the Chancellor should seek to make an additional competitive offer to businesses who are considering new R&D investments. In addition, Government should ensure that the current guidance around R&D support the UK's thriving AI sector by ensuring that the all costs associated with R&D and the development of new Intellectual Property is properly covered. techUK therefore hopes the budget can address the two following issues.

R&D Facilities

The current R&D Tax Credit system is a valued part of the UK offer on R&D. However, the credit only covers projects and programme activity in pursuit of research innovations, including staffing costs. It does not cover expenditure involved in building or refurbishing physical premises where R&D takes place and falls significantly behind business development costs accounted for as R&D. While the

[9] Bloomberg, *Amazon, the biggest R&D spender, does not believe in R&D,* accessed from: https://www.bloomberg.com/view/articles/2018-04-12/amazon-doesn-t-believe-in-research-and-development-spending

[10] techUK search of BVD Fame Database for companies with primary or secondary SIC (2007) codes of Software Publishing (582); Computer Programme, consultancy and related (62), Information Services (63), Advertising and Market Research (73). Of top 250 companies listed in this search criteria, 25 recorded R&D figures for 2017.

Research and Development Allowance system does allow some of these costs to be offset, it only offers 100 per cent relief less the disposal value of the facility made. This is compared to the 130 per cent relief offered for SME R&D relief, and the tax 12 per cent relief on all R&D expenditure under the Research and Development Expenditure Credit.

This differs from the situation in many competitor countries, such as Ireland, where there is a 25 per cent relief credit on all forms of R&D expenditure, including facilities, and South Korea where Large Company relief is eligible for all forms of expenditure including facilities.

techUK therefore proposes that the UK aligns the relief systems to enable one form of tax relief covering both R&D programme expenditure and facilities.

R&D tax guidance

R&D is about developing new innovations. However, few if any innovations can be developed in isolation. Much of R&D is about using existing tools to help generate new IP or products and that often means deploying tools and equipment from third party sources. The development of AI is a prime, though by no means the only example, of this challenge. AI requires huge amounts of data and significant processing power to develop new algorithms than can be applied to products and services. For many businesses in this field, the idea of creating their own platform for the development is not either practical or cost effective, and so they often rely on third party platform providers.

However, many companies have reported difficulties in claiming for time spent on these development platforms as part of their R&D expenditure. This appears to be because it can be difficult to classify this work as being directly related to seeking to overcome an uncertainty, even though the time development time spent directly contributes to new innovations. techUK is concerned that current guidance around acceptance of R&D tax credits is not meeting the needs of businesses at the cutting edges of AI development. Indeed some companies report that as little as 5 per cent of their formal R&D expenditure is regarded as covered by the R&D tax credit.

While this issue is of significant concern to start-ups and scale-ups operating in the AI sector, it is also important to recognise that AI is not the only instance in which narrow guidance around R&D Tax Credits and cloud computing can stifle research led innovation.

techUK therefore believes that, as part of the Budget, the Chancellor should seek a full review of the guidance surrounding R&D tax credits to ensure that it is fit for modern technologies and that it does not penalise those companies seeking to build on existing platforms to create new innovations across all forms of research, including AI and particularly where there is clear additional GVA to the development.

PART 3: Support the skills needed for the modern economy

As made clear in techUK's submission to the 2017 Budget, skills is a primary focus for the tech sector. The Tech Nation 2018 report found that between 2014 and 2017 the

number of jobs in the digital sector increased by 13.2 per cent, far above the current pace of job creation. In addition, as more businesses begin to digitise, the demand for people with the right digital skills is increasing, even outside traditionally tech businesses. Securing these skills is critical for increasing productivity and growth in the UK. A study by Work Finder found that 82 per cent of scale-ups could grow their companies if they could find the appropriate skills.[11]

The Chancellor recognised the need to build the UK domestic digital skills pipeline with funding for new PhD places in AI, and the creation of a national retraining scheme. However, it is clear that further work is needed to deliver the additional 1.2 million new technical and digitally skilled people it is estimated the UK needs by 2022.[12]

techUK believes that there are three strands of work that Government needs to deliver to build the UK skills pipeline and support quality jobs. First, we need to ensure that businesses can support people's training in the right skills now, as they enter the jobs market. Second we must support the next to take A-Levels that will support then in their future careers. Third, there must be much more fiscal support for continues and short course retaining and updating of skills through lifelong learning.

techUK therefore urges the Chancellor to consider the following options in his Budget.

Reform the apprenticeship levy

techUK strongly supports measure to increase the number of people undertaking vocational training, in particular through high quality apprenticeship schemes. However, apprenticeship starts have not kept pace with the government's ambition since the introduction of the Apprenticeship Levy.

In his last Budget, the Chancellor stated:

"The government will continue to work with employers on how the apprenticeship levy can be spent so that the levy works effectively and flexibly for industry, and supports productivity across the country."

Since this point, techUK members have continued to raise significant concerns with the apprenticeship levy and their ability to utilise levy funds for training and support their wider ecosystem of partners. Research by the Open University has shown that between the schemes launch in April 2017 and the end of February 2018, only 8 per cent of levy funds had been used for training, with £1.28 billion paid in by businesses sitting unused.

techUK therefore strongly supports significant further reforms to the levy. In particular the Government should increase the amount of levy funds that can be transferred to other companies within a businesses' supply chain to at least 25 per cent.

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[11] Workfinder, *Experience works,* accessed from: https://d3syw3s8letioz.cloudfront.net/static/downloads/workfinder_experience_works_brochure_full.52ce9fa0e23f.pdf

[12] UK Commission for Employment and Skills has estimated we need an additional 1.2 million new technical and digitally skilled people by 2022.

While this would have some cost implications for Government, reducing the amount of levy funds returning to the Treasury, techUK believes that it will better focus the Levy policy is achieving its intended purpose.

Support computing at A-Level

The introduction of coding into schools has been a welcome step in enabling young people to learn the fundamentals of the new economy. However, further up the education system there is still work to be done to ensure that pupils are learning more advanced digital skills.

techUK strongly welcomes the Government's focus on STEM subjects. In particular, the announcement in the 2017 Budget that schools will receive £600 for every pupil taking Maths or Further Maths at A-Level, is a welcome step towards improving the availability of maths skills within the UK domestic skills pipeline.

techUK believes that these schemes should be widened to support advanced computing skills. Applying the £600 bonus to those taking Computer Science A-Levels would incentivise the recruitment of more high quality computer science teachers and help support a greater institutional focus on the subject. Based on the latest available figures for the number of pupils taking Computer Science, providing such an incentive would cost, £5.8 million a year. If the programme were to increase those taking the subject by 50 per cent this would equate to £8.7 million – or just over 10 per cent of the funding initially put forward for math subjects in the 2017 Budget.[13]

Develop a plan for future skills training and lifelong learning

As the jobs our economy needs evolve, it is critical for both Government and businesses to develop a plan for helping train and retrain people throughout their lives. This must include strong and continuous investment in adult education. techUK notes that the Government's trial aimed at enabling increased participation within the Adult Education Budget, but is concerned that in the near future a significant expansion of funds made available for lifelong learning will be needed in order to deliver training at the scale necessary.[14]

techUK also believes that it is important that Government considers how they can make it easier for people to understand the job roles of tomorrow and access associated training. Government should look to the example of other countries for best practise in delivering platforms that allow clear engagement with reskilling. In particular, techUK is keen that the Government considers the approach taken in India through the *Future Skills* initiative, launched by Prime Minister Modi in February 2018.[15] This platform building on a significant piece of Government funded research to identify the job roles of the future. The platform then groups these job roles and is seeking to ensure that the appropriate skills modules for each role can be identified and accessed through the portal. techUK believes that the UK Government should

[13] Budget 2017

[14] https://www.gov.uk/government/news/adult-education-budget-aeb-2018-to-2019-increased-flexibility-for-learners-in-receipt-of-low-wage

[15] http://futureskills.nasscom.in/

consider undertaking a similar scoping exercise with the view to identifying the relevant job roles for the future of the UK economy.

PART 4: Ensure that the Governments approach to taxation continues to treat companies equally and does not undermine the digital economy.

techUK is deeply concerned by reports that the Government is planning to bring in a new tax measure specifically targeting digital businesses.[16] As made clear in techUK's response both to the original Position Part on Corporate Taxation and the Digital Economy, and the updated position paper, a revenue tax targeting businesses based on the principle of 'user generated content' would risk severely damaging the UK's world leading digital economy and as an impediment to investors looking to put money into UK tech companies. .[17]

Furthermore, as the economy digitises it is increasingly difficult to split digital from non-digital companies. That is why both the OECD and the EU's Expert Commission of Digital Taxation have said that it would be "inappropriate to seek to create a special tax regime for digital companies."[18]

techUK continue to support significant reforms to improve the transparency around multinational taxation at an international level. Government should set out a comprehensive plan for reform of the international tax system for all companies with the aim of meeting the OECD's target for global consensus on reform by 2020. techUK also supports the reform of business rates to ensure that high street premises are not disadvantaged when they seek to make improvement to their property. However, it would be incorrect and unhelpful to suggest that there is a link between business rates and the level of corporate tax paid by tech businesses. It would be inappropriate to seek to use new taxation measures on a growing UK sector such as tech to generate revenue to offset overly high taxation burdens elsewhere in the system.

While claims have been made about the proportion of tax raised from the tech sector, in reality research by UHY Hacker Young suggests that in 2016 the effective tax rate for FTSE 100 tech companies was 23.4 per cent, compared to just 13.1 per cent for pharmaceutical companies.[19]

Therefore, the Government should seek to provide further evidence of the need for a digital tax and produce a comprehensive study of its impacts before any further steps are taken towards introducing such a measure. Government should also seek to reassure tech businesses and investors that they will not seek to create a revenue tax that would risk mission-critical investment such as on R&D in a way that would put UK tech businesses as a competitive disadvantage.

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[16] Sky News, *Chancellor Philip Hammond considering 'Amazon tax' for online retailers*, August 2018, access from: https://news.sky.com/story/chancellor-philip-hammond-considering-amazon-tax-for-online-retailers-11468623

[17] techUK, Corporate Tax and the Digital Economy Position Paper Response

[18] European Commission, *Commission Expert Group on Taxation of the Digital Economy,* May 2014

[19] Hacker Young Chartered Accountants, recovered from: https://www.uhy-uk.com/news-events/news/ftse-100s-effective-tax-rate-falls-again-down-to-just-22-6-on-average-from-30-1-five-years-ago/

PART 5: Support the UK's place as the home of the world leading Data Centres.

The UK is the second biggest market for data centres after West Virginia. Data Centres play a vital role in supporting the UK's role as central to the global digital economy because of the amount of data that is stored here. As a result the UK accounts for 11.5 per cent of global data flows and is the lynchpin for data flowing between the EU and the USA.

Data Centres also contribute significantly to the UK economy in their own right. Generating £6.2 billion in GVA in 2015 and employing 46,000 people. As the data economy grows, the importance of a strong offering on data centres will help underpin the UK's position as competitive place for data heavy activities such as AI.

However, despite these successes there remain significant challenges to the UK's position within the data centre economy. Risks of restrictions on the free flow of data post Brexit mean that the UK must show investors and businesses that the UK continues to provide a competitive offer. One critical area where steps could be taken is around energy costs.

Consequently, techUK is deeply concerned by the decision by the Department for Business, Energy and Industrial Strategy to close the Climate Change Agreement (CCA) to new entrants from 31 October 2018. The voluntary scheme enables participants to receive a 90 per cent discount on the Climate Change Levy, reducing their electricity costs by 0.525 pence by Kilowatt Hour.[20] For UK Data Centres this relief totals over £21 million a year when taken together with the discount from the Carbon Reduction Commitment.

The closure of the scheme comes without proper consultation and risks seriously undermining the UK's competitiveness as a hub for Data Centres. We therefore urge the Chancellor to make resources available to maintain the scheme for existing and new entrants past the proposed October closure. The estimated cost of continue the CCA for new entrants is between £5 and £15 million, on top of existing costs.

PART 6: Make the NHS and Social Care system a 21st Century service that embraces digital tools

The new Secretary of State for Heath, Matt Hancock, has set out an exciting and compelling vision for health and social care, embracing new digital technologies to improve efficiencies, support care and improve health outcomes while also freeing up the health and social care workforce to focus on patients and citizens. techUK strong supports these visions and welcomes the Government's commitment to making health and social care truly digital.

In particular we welcome the £4.2 billion Personalised Health and Care programme which aims to use data and technology to transform outcomes for patients and citizens. Such a process will have short term productivity benefits but also create new, rich NHS data that can assist in the development of AI aimed at improving diagnosis and other clinical benefits. The recently announcement of £487 million as

[20] techUK, *Climate Change Agreement: Closure to New Entrants,* access from: https://www.techuk.org/insights/news/item/12494-climate-change-agreement-closure-to-new-entrants

part of this programme is a welcome step in releasing these funds to NHS Digital, Clinical Commissioning Groups and Trusts.

However, given the current resource constraints on the NHS, it is important that this money remains targeted at its purpose and is not used to plug budgetary shortfalls within the NHS network. Therefore techUK calls on the Chancellor to formally ring-fence this funding for its intended purpose at both a local and a national level.

Digitisation has a pivotal role to play in leading the UK health and care system to improved outputs and productivity resulting in better health outcomes. It is envisaged that equipping health and care leaders with the right digital skills will help facilitate the change required for this much needed digital transformation. That is why we strongly supported the NHS Digital Academy that fosters the development of personnel who can drive technology transformation across health and care. The Academy initially received funding for three years, with the aim of training 300 digital leaders. This funding will come to an end in 2021.

As technology continues to change, it could not be more important to continue to train leaders in digital delivery. Therefore, techUK believes that the Chancellor should use the budget to guarantee the funding of the NHS Digital Academy until 2030. Based on the £6 million originally allocated, this would cost £19.5 million across the nine years of funding.

In addition to ensuring the digitisation of health and care, it is also vital that Government recognises the benefits that new technologies can have for individual patients. The Personal Budgets programme is an important part of enable patients to make choices about their care. techUK welcomes the Government's commitment to enabling 100,000 people to take advantage of personal budgets.[21] In doing so the Government should look to allow a wider range of users to utilise personal budgets and to be able to select new, proven, digital treatments. techUK therefore calls on the Government to ensure that any citizen with ongoing healthcare needs can apply for a personal budget if the NHS is already funding an alternative digital, or non-digital, product on an ongoing basis. Such a measure would be cost neutral but a valuable step towards enabling everyone to have a stake in their care and to choose options that fit their lifestyles.

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For further information contact:
Giles Derrington
Head of Policy, Brexit, International and Economics
giles.derrington@techuk.org
Tel: 07708967468

[21] Conservative Party Manifesto 2017