

Tax, transparency and remuneration committees

By Tony Hatton-Gore, Rewardhr Ltd

The Panama papers have catapulted tax transparency into the headlines. Much has been made of the implications for politics and the EU referendum because of high profile individuals but I am concerned about the implications for the wider population and the role of employers.

We have recently lived through an era of concern about the impact of income tax rates on incentivising or de-incentivising individual achievement and wealth creation. At the same time countries have competed to offer lower rates of corporation tax.

I was struck by a statistic quoted in Thomas Piketty's new book* that in the five golden decades of economic growth between the great recession of the 1930s and 1980 the highest rates of income tax in the USA (yes, the USA) was at least 70% and averaged 80%. Rates were similarly high in other developed economies, including the UK.

Is it a coincidence that since then, when the highest rates of income tax have typically been much lower in these countries (up to about 50%), there has been exponential growth in the differential between average pay and executive pay, more apparent sharp practice in the financial sector to manipulate compensation and a global banking crisis?

One of the responses to the growing disenchantment or lack of trust with the so called elite is to question why more highly paid individuals effectively have the option to determine their own tax rates (by use of tax planning and professional advice); whereas most people are obliged to pay tax by PAYE and have no opportunity

to influence their effective rate of tax. We have also recently seen concern about the way policy on benefits for vulnerable individuals is determined, with suspicion about the relative weightings of political concerns and need.

If the systems of tax and benefits cannot be trusted there is likely to be pressure for dismantling of the whole HMRC and benefits edifice and support for a universal basic income (<http://www.theguardian.com/politics/2016/apr/13/should-we-scrap-benefits-and-pay-everyone-100-a-week-whether-they-work-or-not>). This may seem unlikely but there is growing pressure from respected bodies such as the RSA, “left wing” economists like Piketty and Yanis Varoufakis are becoming more influential and we are constantly told that political parties are moving away from the centre.

Concern about fair treatment has become one of the key issues in our society. It places a greater moral responsibility on remuneration committees to ensure fairness, not only to their executives and their employees, but also to society at large. Otherwise we will see more companies needing to deal with unwanted publicity about their pay policies, as happened last week with BP.

*Chronicles on our Troubled Times, Thomas Piketty

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