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The Tax Gap Ltd & Tax Justice Network
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New report shows UK's largest companies aren't paying their taxes

Corporation tax left unpaid each year could fund a £10 weekly cut in every council tax bill

The UK's 50 largest companies have paid £20bn less tax than was due according to headline tax rates over the last five years, shows a groundbreaking study released today [15 January] by a leading tax researcher.

'Mind the Tax Gap', a detailed study of the public accounts of all FTSE 50 companies, is the first ever published measure of the UK's 'Corporation Tax Gap': the difference between the expected rates of tax on UK companies, and the tax rates actually paid. The UK Government estimates the 'VAT Gap' left unpaid by individual consumers, but has never published equivalent estimates for companies.

The study finds that from 2000 to 2004 the UK's 50 largest companies have paid an average of 5.7% less corporation tax than expected (according to weighted UK and worldwide corporation tax rates).

- While ordinary consumers are increasingly paying the VAT expected of them, the UK's Corporation Tax Gap is increasing: from 4.2% in 2000 to 7.6% in 2004

- Over 5 years, these companies have paid £20 billion less tax on their profits than expected rates

- In 2004-5 alone this estimated 'Expectation Gap' constituted around £4.6 billion in lost tax revenue from these 50 companies (calculating that 60% of the tax was due in the UK)

- Across all UK companies, the likely total UK 'Expectation Gap' may be as much as £9.2 billion a year: about 27% of corporation tax receipts in 2004-05. This lost corporation tax revenue is larger than the equivalent 'VAT Gap' (estimated by HM Revenue & Customs at around 16% in 2002), **and is sufficient to fund an average £520 cut in each council tax bill**.[1]

The study has been produced by Richard Murphy, a chartered accountant and director of Tax Research LLP. It is backed by the Tax Justice Network, an international coalition of researchers and campaigners, who argue that the corporation tax gap increases inequality and undermines efforts to tackle poverty.

The report identifies several ways in which major companies have enabled their profits to be taxed well below headline tax rates. The biggest single cause is excessive tax relief on investment in capital equipment, encouraged by governments competing for business through tax competition. Perhaps most worryingly, many companies do not explain why they do not pay tax, attributing shortfalls to undefined ‘other’ reasons in their accounts. The report criticises this lack of clarity as unacceptable accounting practice.

In addition to their shortfall on current tax bills, the report also finds that these companies had £36bn of 'deferred tax' liabilities. Since this deferred tax is increasing by about £3bn annually, it appears that it may never be paid. As report author Richard Murphy says: “*These deferred tax bills are in effect interest-free loans to business, with no set repayment date. Years of complaints from the CBI about excessive corporation tax can no longer be credible. We now know that large corporations actually pay far less tax* *than is expected of them by official tax rates."*

Mike Lewis, a spokesperson for the Tax Justice Network, said: *"Ordinary taxpayers are not in the position to decide if and when to pay their taxes. Why should the UK's wealthiest companies be allowed to do so?"*

The full report will be available at www.taxjustice.net from Sunday 15 January. For an advance copy, contact media@taxjustice.net

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Note

[1] Total council tax revenue is expected to be £21bn in 2005-6 [2005 Pre-Budget Report Chart 1.2 p. 12]. Since average (Band D) council tax in 2005-6 will be £1,214 [http://www.odpm.gov.uk/index.asp?id=1136804], £9.2 billion extra annual revenue would permit a £522 cut in each council tax bill.