

The Observer

How UK plc stays ahead of the taxman

Britain's top businesses complain about the burden of corporation tax, but they've been paying rather less than they might, says Conal Walsh

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Nobody likes paying taxes, but Britain's biggest companies have got complaining down to a fine art. Several are currently engaged in a long-running fight to prove that some British tax rules have broken EU law. If the European Court of Justice rules in their favour, Gordon Brown will be forced to hand back billions of pounds in tax. But UK plc might be better advised not to provoke the Chancellor of the Exchequer too much.

A detailed study published this weekend by the Tax Justice campaign group shows that Britain's largest companies are already paying far less tax than might have been expected. Over the past five years, the biggest 50 have paid just 24.5 per cent of their profits on average to the British Exchequer and other tax authorities.

When measured against the UK's notional corporate tax rate of 30 per cent, this represents a saving of £20bn since 2000 - of which about £12bn could have gone to Britain's Inland Revenue, Tax Justice says.

In 2004 alone, the biggest 50 companies in the FTSE 100 index avoided paying taxes to the tune of approximately £7.7bn, according to Richard Murphy, a former KPMG accountant who wrote the Tax Justice report. 'The tax gap is growing steadily, a trend that is not explained by changes in tax rates around the world,' he says. 'That means tax avoidance has to be a significant part of the explanation.'

There is no suggestion that there has been any illegal conduct on the part of big multinationals, who routinely consult tax planning advisers in order to maximise the returns for their shareholders. But the new figures may prove rather galling to the hundreds of thousands of smaller companies in Britain paying the full corporate tax rate, as well as to ordinary citizens who cannot easily draw upon the advice of specialist accountants about which tax loopholes to exploit.

The Tax Justice report may also concern HM Revenue and Customs (HMRC), which is studying its findings this weekend. Tax Justice's figures fly in the face of Brown's efforts to crack down on tax evasion and avoidance. HMRC, formerly the Inland Revenue, has closed a number of loopholes in recent years, and its large business office, which polices companies with turnovers of £100m or more, recouped £2.1bn from tax-evading firms last year - up from £1.7bn in 2004.

The Tax Justice calculations follow accounting conventions by taking a company's pre-tax profits before amortisation as the key taxable figure. The campaign group has also disregarded companies' 'deferred tax' liabilities, which in practice are rarely paid.

Using this formula, Tax Justice claims that nearly all the top 50 companies have managed to pay the taxman less than 30 per cent of their profits, sometimes much less. AstraZeneca, the pharmaceuticals giant, declared an operating profit of \$4.7bn (£2.6bn) last year, but over the past five years has paid just 23 per cent of its profits to tax authorities around the world, according to Tax Justice's estimates.

Yesterday the company explained that this was because 'we are a complex, global organisation and taxation rates vary across the countries in which we operate'. AstraZeneca also benefits from research and development tax credits in many countries.

Airports operator BAA, which runs Heathrow and Gatwick among others, was also happy to explain its relatively low tax liability. This represented just 18.1 per cent of profits in 2004, according to Tax Justice, and has averaged 24.4 per cent over the past five years.

'Because we invest so much in our UK airports - £1.5bn this year alone - we are eligible for tax allowances from the Treasury,' said a spokesman. 'If we were ever to stop making these vital investments in Britain's infrastructure, then you would see our tax rate go up.'

These explanations are perfectly plausible but, says Tax Justice, neither AstraZeneca's experience nor BAA's is widely replicated among other FTSE companies. In particular, the campaigning group has not found strong evidence that many of our largest corporations enjoy lower tax bills just because they do much of their business - and pay many of their taxes - abroad.

'With the exception of offshore havens, corporate tax rates in the rest of the world are pretty similar to Britain's,' Murphy says. 'The accounts we looked at suggest that companies are not usually benefiting from using offshore. However, there is no obligation on them to say that they are, and much of the reporting is poor and inconsistent. Some companies that do base part of their operations offshore may be hiding the fact.'

In fact, the Tax Justice campaigners' report claims that Britain offers large companies one of the most benign taxation regimes in the world. Crucially, it allows these companies to claim back tax against all interest payments, an arrangement that has seen many firms increase their borrowings and reduce their tax bills at the same time. As a result, says Murphy, our top companies are conducting most of their tax avoidance in Britain.

He estimates that the top 50 companies make 63 per cent of their profits in Britain on average, but pay only 42 per cent of their tax bills here. Companies can even claim British tax relief on interest payments if the cash borrowed is used solely for overseas purposes.

'It's often claimed that companies are getting a bad deal from the UK. Our survey does not support that view,' says Murphy. 'Our top companies are abusing the UK's generosity.'

It remains to be seen what Gordon Brown will think.

Liability gap? Big names respond

BT

The telecoms company paid just 20.5 per cent of its profits to the British and other tax authorities between 2000 and 2004, according to Tax Justice. BT says this is mainly because it offsets the depreciation of its assets, principally its network, against its tax bill. 'We have a duty to our shareholders to be tax-efficient but we always comply with the law and pay hundreds of millions in tax,' it says.

HSBC

Britain's largest bank announced record half-year profits of £5.6bn last August, and boasted of 'paying considerable tax to Gordon Brown'. Tax Justice estimates it has actually paid just 20.8 per cent of profits in tax over the past five years, but HSBC insists the real figure is closer to 27 per cent. It adds: 'We work in 77 countries and are clearly subject to many different tax regimes.'

Cadbury Schweppes

The firm made profits of £600m last year, mainly in the US, now its biggest market. But Tax Justice estimates that the chocolate and beverages group paid only 23 per cent of its profits to tax authorities around the world over the past five years. A Cadbury spokesman said this reflected the fact that the company had made an overly large provision for its tax liability in earlier years.