Britain’s largest corporations pay no tax

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A massive 220 firms, almost one third of Britain’s largest 700 companies, including Cadbury, Standard Chartered Bank and British American Tobacco, paid no Corporation Tax in 2006-2007.

In addition, a recent report from parliament’s Public Accounts Committee reveals that a further 210 firms paid less than £10 million each. Just 50 firms (7 percent) paid 67 percent of the total. These firms came from 3 of the 17 industry sectors: banking, oil and gas, and insurance.

Small and medium-sized businesses paid nearly half of all Corporation Tax. Not only did large corporations pay just 56 percent of all Corporation Tax, but they paid £0.5 billion less in real terms than in the previous year.

Corporation Tax from large firms raised just £23.8 billion in 2006-2007. Her Majesty’s Revenue and Customs (HMRC) spends just £28 million in collecting tax from big business.

The Missing Billions: The UK Tax Gap, a report prepared by Richard Murphy of Tax Research for the Trades Union Council (TUC) in February 2008, examines the accounts of the 50 largest companies, and calculates the tax lost to the government from tax avoidance by the very wealthy at £25 billion annually. This comprises £13 billion from tax avoidance by individuals and £12 billion a year from the 700 largest corporations—and the figure is rising.

Corporations can avoid tax because they operate internationally. This allows them to trade between their various subsidiaries at prices that enable them to report profits in low-tax countries, a practice known as transfer pricing. Tax is payable in the country where the parent company has relocated its activities for tax purposes, not where the profits were generated.

Up to 60 percent of world trade is undertaken to redirect profit from where it is generated to where top management wants to locate it in the interest of lowering costs, including tax costs. The accounting rules mean that there is no disclosure of any intra-company trading that facilitates such transfers.

Tax Research found that nearly all the 50 largest companies paid 5 percent less than the amount they declare as payable in their accounts. Their effective tax rate, the amount actually paid, was about 22.5 percent, not the 30 percent set by Parliament, and fell by 0.5 percent a year over the previous seven years even though there was no change in the tax rate.

By 2011, when the new higher rate of Corporation Tax for small and medium-sized enterprises (SMEs) reaches 22 percent, big business will be paying a lower proportion of their profits on tax than SMEs.

Based on the de facto as opposed to the official tax rate, the UK ranks 16th highest in the European Union, with France the highest and Malta the lowest. It means that for all practical purposes, the UK—with the exception of Ireland—has the lowest Corporation Tax rate in western Europe.

The report estimates that the cumulative tax savings of these 50 largest companies was £47 billion, £2 billion *more* than the total Corporation Tax paid by all companies in 2006. In addition to the £25 billion lost revenues resulting from personal tax and corporate tax avoidance in the UK, a further £8 billion a year is lost as a result of tax planning, whereby the wealthiest—those earning more than £100,000—take advantage of the opportunities provided by Britain’s tax laws to reduce their tax rate. It states that the rich can “make a disproportionately greater and more lucrative use of tax planning than those on lower incomes. In particular, those on higher incomes who control their own businesses have more scope to plan their tax than those who pay tax primarily through PAYE [pay as you earn, whereby tax is deducted by employers].”

They do this by some combination of:

• Shifting income from the person who should pay the tax to someone else, which probably leads to a loss of tax revenue of at least £3.2 billion a year.

• Moving transactions out of Britain. This is believed to result in a tax loss of £4.3 billion a year. Changes to the rules announced in the 2007 pre-Budget report will cut this to a measly £500 million a year.

• Changing the nature of the transaction so that it is subject to Capital Gains Tax, not income tax, resulting in a tax loss of about £1.8 billion.

• Deferring income.

• Obscuring the nature of the transaction.

• Abusing the law relating to limited companies.

To get some sense of perspective of what all this means, the amount lost due to tax planning by those earning more than £100,000 a year would increase child tax credits by enough to halve child poverty. Recovering just under half the total amount lost due to tax avoidance would be enough to increase the state pension by 20 percent, or reduce the basic rate of income tax by 3p in the pound or build another 50 hospitals.

Unpaid tax by the rich and major corporations costs every British worker at least £1,000 a year.

Corporate refusal to pay tax is not just a British but a universal phenomenon. A report by Christian Aid, *Death and Taxes: The True Cost of Tax Dodging*, published earlier this year, argues that illegal tax evasion by companies is depriving the world poorest countries of US$160 billion a year. The sums lost globally due to tax evasion, which is illegal, are approximately equal to nearly one and a half times the amount of foreign aid given to poor countries. Adding in tax avoidance, which is entirely legal, this would be several times greater than all foreign aid.

The money lost due to illegal tax evasion could save the lives of 350,000 children, 250,000 infants, every year. Christian Aid Director Daleep Mukarji said that “illegal, trade related tax evasion alone will be responsible for the deaths of some 5.6 million children under the age of five between 2000 and 2015.”

The charity blames the secrecy offered by more than 70 tax havens around the world for the widespread abuses and accuses the international accountancy firms of facilitating the evasion, often illegally, as the US$450 million tax fine on KPMG in the US illustrates.

Raymond Baker, someone who without blushing describes capitalism as “the greatest economic arrangement ever devised,” writes in his book, *Capitalism’s Achilles’ Heel*, that Western governments and banks are failing in their duty to police the system. “Falsified pricing, [tax] haven and secrecy structures and the illicit movement of trillions of dollars out of developing and transitional economies break the social contract…that Adam Smith incorporated into the core of the free market system,”

Baker notes that 6 out of 10 US corporations pay no tax and that advanced countries could make massive inroads into world poverty by tackling the abuse of the tax and banking systems.

In the final analysis, tax payments by business represent a deduction from the surplus value extracted from the working class and available to the capitalist corporations and their owners in the form of profit. Any reduction in tax payable—or more importantly, tax actually paid—represents an attempt to increase their profit or the rate of return on capital employed.

During the post-war period, when profit rates were rising or at least not falling, corporations largely paid their taxes. But in the 1970s, as the absolute amount of capital employed in modern industries rose, the rate of profit began to fall.

Corporate bosses sought to counter this by moving production overseas, cutting out swathes of the workforce, slashing wages, gutting working conditions, driving up productivity and eliminating their rivals as a way of restoring and then increasing the level of profit available for distribution to their shareholders. Later, they turned their attention to undermining and eliminating the welfare state.

Facing little opposition from trade union leaderships that have become ever more craven and openly part of management, major corporations demanded that governments cut taxes and employers’ contributions to social insurance funds. The mega-rich insisted upon, and got, a reduction in their own personal tax via cuts in the top rate of income tax at the expense of ordinary people.

Not only do the financial elite not “pay their way,” they make others pay for them. Governments everywhere have clawed back the billions lost in corporation tax via regressive taxes on the consumption of basic goods and services that have hit the poorest families the hardest.

The corporate and financial elite have become ever more venal, parasitic, and indifferent to the long-term consequences of their actions. With methods that have more in common with criminals and gangsters, they lie, cheat, steal, cook the books and break the law to avoid paying taxes.

Since Labour came to power in 1997, it has followed the policy of previous Conservative governments and shifted the burden of taxation from the rich to the poor. It has cut Capital Gains Tax from 40 percent to 18 percent and introduced a new entrepreneurs’ relief scheme, which will tax the first million of capital gains at just 10 percent. Corporation Tax will fall from 30 percent to an all-time low of 28 percent for the tax year 2007-2008. It has lifted the inheritance tax threshold from £300,000 to £700,000, and refused to lift the cap on the highest rate of Council Tax, payable by all householders.

More tax is now paid in the form of income tax and, even more importantly, consumption taxes such as VAT, which affects the broad mass of the population far more than the rich.

Government statistics show that the top fifth of households paid just 25 percent of their gross income in direct tax (income tax) while the bottom fifth paid 9 percent. The disparity of the burden of consumption taxes is much greater. It accounts for only 11 percent of the income of the top one fifth of households, but 27 percent of the bottom fifth. Thus the poorest pay the same combined percentage of their income in taxes as the wealthiest.

Average Corporation Tax receipts have been a mere 3.3 percent of GDP for the last decade. While the government loses no opportunity to attack those who abuse the benefits system, it has allowed tax avoidance by the very rich to grow to a massive £47 billion.