Technical Appendix 4

Company taxation

A number of definitions of tax unpaid by companies are available[28]. For the purposes of this report the most important is the Expectation Gap, which is the difference between the rate of tax set by the government in which the company operates and the actual rate of tax they pay. This Gap is a measure of the difference between the contribution society expects business to make by way of tax paid, and what is actually paid. It so happens that throughout the whole period surveyed, the UK corporation tax rate for the companies reviewed was 30%.

This comparison of the headline rate of tax with tax actually paid might seem a crude measure but in fact numerous academic studies have found that the headline rate appears to be a major influence on business decision making and that the effective rate is also of significance[29] whilst not much else is. If therefore business takes account of this difference in making their decisions it is entirely appropriate to do so for other purposes.

Unfortunately, when considering the Expectation Gap it is important to be aware that accounting for tax and paying tax are far from the same thing. Without appreciating this much of what follows will make little sense. The glossary of terms used for these appendices, may therefore be useful on occasion whilst reading this part of the report.

It has been customary to assess the tax rate a company pays by looking at its profit and loss account. Conventionally a profit and loss account looks like this (although International Financial Reporting Standards now mean that some of this data is harder to find within published accounts):

	£
Turnover	A
Distribution costs	(B)
Administrative expenses	(C)
Operating profit	D
Interest income	E
Interest paid	(F)
Profit or loss on sale of assets	G

[28] For a discussion of 20 possible Gaps see http://www.taxjustice.net/cms/upload/pdf/Mind_the_Tax_Gap_-_final_-_15_Jan_2006.pdf accessed 5-11-07

[29] For example, see Do Countries Compete over Corporate Tax Rates?, Michael P. Devereux, Ben Lockwood, Michela Redoano, 2005 http://www.sbs.ox.ac.uk/NR/rdonlyres/ACE5A5B5-1508-4F65-8F11-136CDB5C84C7/0/DevereuxLockwoodRedoano.pdf accessed 5-11-07

Profit before taxation	H
Taxation	(J)
Profit after taxation	K
Dividends paid and proposed	(L)
Profit retained for the year	M

Letters in brackets represent what are usually negative numbers to be subtracted from the total above them. The conventional profit and loss account tax rate is the ratio of the taxation charge (J) to the profit before taxation (H).

In preparing this report accounting data of the fifty largest companies in the FTSE 100 in July 2007 was reviewed in depth[30]. That review involved collecting extensive information on their financial reporting for each of their financial years ending in 2000 to 2006 inclusive (or a shorter period if they were formed after 2000 with no obvious predecessor, as was true in several cases). This involved three hundred and forty four sets of accounts in all spread over a seven year period. *

For the companies included in the survey the resulting conventional profit and loss tax ratios of the type noted above are as follows (with the companies surveyed being listed in the order of their market worth):

Table 1		2000	2001	2002	2003	2004	2005	2006	Average
Declared tax rate - percentage		%	%	%	%	%	%	%	%
1	Royal Dutch Shell plc	46.9	43.7	44.3	43.2	46.7	40.4	41.0	43.7
2	BP plc	29.4	38.3	38.5	34.6	34.2	29.7	35.6	34.3
3	HSBC Holdings plc	22.9	19.7	26.3	24.3	25.6	24.3	23.6	23.8
4	Vodafone Group plc	50.8	-15.9	-15.8	-47.6	-62.5	-44.3	-12.2	-21.1
5	GlaxoSmithKline plc	28.2	29.4	26.5	27.5	27.8	28.5	29.5	28.2
6	Royal Bank of Scotland Group plc	34.3	36.0	32.7	31.0	31.2	30.0	29.3	32.0
7	Barclays plc	27.0	28.0	29.8	28.0	28.0	33.6	27.2	28.8
8	Anglo American plc	26.1	24.7	33.3	27.5	27.6	24.5	27.6	27.3
9	AstraZeneca plc	33.8	27.0	29.2	27.2	24.7	29.1	29.0	28.6
10	Rio Tinto plc	32.6	36.2	54.0	27.1	23.4	24.8	23.2	31.6
11	HBOS plc	0.0	29.1	28.7	29.0	28.5	32.2	31.1	29.7

*Every effort has been made to avoid errors during the complex process of calculating tax rates from company accounts; any error which may exist is entirely unintentional.

[30] There was one exception: Standard Life should have appeared at 49 in the list but had been a quoted company for less than a year at the time the data was collected. Prior to 2006 it has a completely non-comparable reporting basis to all other companies in the survey as it was a mutual company. As a result it was excluded from the survey and the 51st company, Shire plc was substituted in its place.

12	British American Tobacco plc	44.9	42.9	38.7	49.7	35.1	26.7	25.9	37.7
13	BHP Billiton plc	0.0	39.3	36.3	33.6	23.1	24.2	22.6	29.9
14	Tesco plc	27.8	27.3	30.9	30.5	31.1	30.2	29.0	29.6
15	Lloyds TSB Group plc	28.6	27.4	29.3	23.6	28.7	33.1	31.6	28.9
16	Xstrata plc	0.0	0.0	16.8	13.1	12.9	22.1	39.9	21.0
17	BG Group plc	31.9	31.8	47.1	38.9	39.6	37.5	44.5	38.8
18	Diageo plc	27.6	24.2	27.1	74.5	24.7	21.0	8.4	29.6
19	BT Group plc	30.5	-63.2	30.3	14.5	27.7	22.3	24.1	12.3
20	Standard Chartered plc	26.2	32.9	30.7	32.1	29.5	26.5	25.9	29.1
21	Unilever PLC	51.5	42.7	38.7	33.6	27.5	26.3	23.7	34.9
22	Reckitt Benckiser PLC	29.5	28.3	25.1	25.9	23.9	23.6	22.9	25.6
23	Aviva plc	-18.1	82.5	-73.0	26.4	23.9	24.9	19.8	12.3
24	National Grid plc	0.0	0.0	-29.9	36.7	19.2	21.3	31.6	15.8
25	SABMIller plc	24.3	28.8	34.3	45.3	41.6	38.7	31.8	35.0
26	Prudential plc	30.0	5.5	9.1	41.1	35.7	24.1	28.4	24.8
27	Imperial Tobacco Group plc	28.2	28.1	33.1	35.4	34.6	33.2	26.5	31.3
28	BAE Systems plc	103.9	282.9	-11.4	96.6	-100.9	16.2	24.8	58.9
29	Cadbury Schweppes plc	29.6	29.6	30.7	30.7	29.4	16.6	15.6	26.0
30	Centrica plc	24.9	33.1	34.8	34.2	17.9	24.5	-158.8	1.5
31	Scottish & Southern Energy plc	21.5	21.9	26.4	27.6	26.3	39.8	29.2	27.5
32	Man Group plc	-45.8	21.9	21.2	21.0	22.0	22.4	18.0	11.5
33	British Sky Broadcasting Group plc	-3.3	-4.7	-8.3	-48.9	32.9	32.6	31.0	4.5
34	Marks & Spencer Group plc	37.9	98.1	54.3	29.1	29.3	21.2	30.2	42.9
35	J Sainsbury Plc	31.8	38.7	35.0	30.9	33.8	-333.3	44.2	-17.0
36	Rolls-Royce Group plc	50.0	44.8	49.5	35.6	33.0	27.3	28.5	38.4
37	Legal & General Group plc	36.3	-28.2	-69.8	13.9	28.2	36.3	15.4	4.6
38	WPP Group plc	30.0	30.7	50.3	34.9	30.7	32.8	29.2	34.1
39	Old Mutual plc	18.0	343.2	52.7	54.4	32.8	30.1	36.2	81.1
40	Land Securities Group plc	23.1	25.9	27.5	28.1	22.7	-77.0	29.0	11.3
41	Wm Morrison Supermarkets plc	36.7	34.5	36.1	34.1	38.2	30.8	20.0	32.9
42	Reed Elsevier PLC	82.8	53.8	37.0	35.3	45.7	33.8	13.3	43.1
43	Wolseley plc	35.9	36.4	29.8	30.0	29.0	28.8	30.2	31.4
44	Reuters Group plc	19.0	67.7	-4.7	44.9	16.7	13.0	6.2	23.3
45	Hanson plc	22.8	-1.2	31.5	-31.3	9.2	6.7	17.0	7.8
46	Imperial Chemical Industries plc	-134.5	27.3	35.0	48.2	32.3	16.0	17.2	5.9
47	British Land Company plc	17.6	11.9	6.9	19.2	7.8	-169.3	21.4	-12.0
48	Associated British Foods plc	44.9	29.7	22.6	28.0	29.6	29.0	26.5	30.0
49	Compass Group plc	25.1	36.2	36.1	39.9	41.1	78.4	18.4	39.3
50	Shire plc	4.7	56.1	-11.7	-21.8	123.3	-27.7	67.0	27.1
		1,207.9	1,964.9	1,163.8	1,421.3	1,305.2	617.6	1,131.3	1,258.8

Number in population	46	48	50	50	50	50	50	
Average	26.3	40.9	23.3	28.4	26.1	12.4	22.6	25.2

Negative rates usually indicate the existence of a loss, not a tax refund.

What is readily apparent is that there is significant volatility both within companies over time and between companies on the declared rates of tax. This is because this ratio is a poor indication of the tax actually due by companies.

Whilst the ratios for average tax declared suggest that there is a Tax Gap in six of the seven years under review, in 2001 it actually suggests companies paid 10% more tax than required by UK law. This is misleading, as the data that follows will show. That is because better approaches are needed to establish what is really happening.

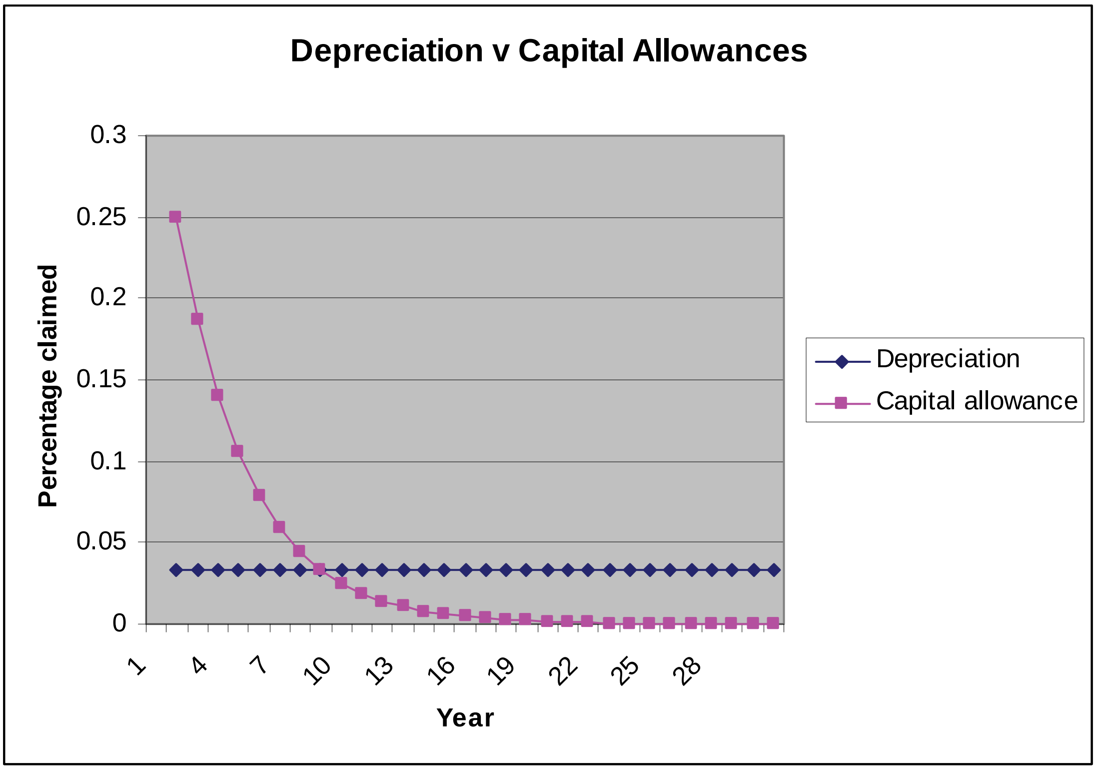
The first thing that is misleading about the above result is that some of the tax charged in the profit and loss account will almost certainly never be paid. This is because that tax charge is usually made up of two components. The first is the current tax charge and the second the deferred tax charge. In this case these terms are useful. It is only the current tax charge is likely to be paid by the company in the near future, which for these purposes usually means within twelve months of the end of the period for which the accounts have been prepared. Deferred tax might be defined as tax that might be payable at some time in the future as a consequence of transactions that have already occurred, but with there being no certainty as to when, if, or ever that tax might be paid.

It must be stressed, deferred tax is a notoriously difficult concept to grasp. It is however important to understand what it is and why it has come about.

A deferred tax charge can arise in a set of accounts whenever the tax treatment of a particular transaction is different from that used in the accounts themselves. For example, the tax treatment of the purchase of equipment is usually very different for tax and accounting purposes, and this difference by itself is of considerable significance in generating the deferred tax charges in the companies surveyed. The difference is that a company charges depreciation on the cost of buying equipment for use in its business. It can set whatever rate it thinks appropriate (and which it can persuade its auditors is appropriate) for depreciation to reflect the life of the asset. Very often this charge will be spread evenly over the life of the asset in fixed annual instalments.

But for tax the rules are rigid: in most cases tax relief is given at 25% of the cost of the equipment in the year it is acquired and for each year thereafter an allowance of 25% of the remaining worth of the asset for tax purposes is given. This means that the relief is 18.75% of cost in the second year, 14.06% in the third year and so on.

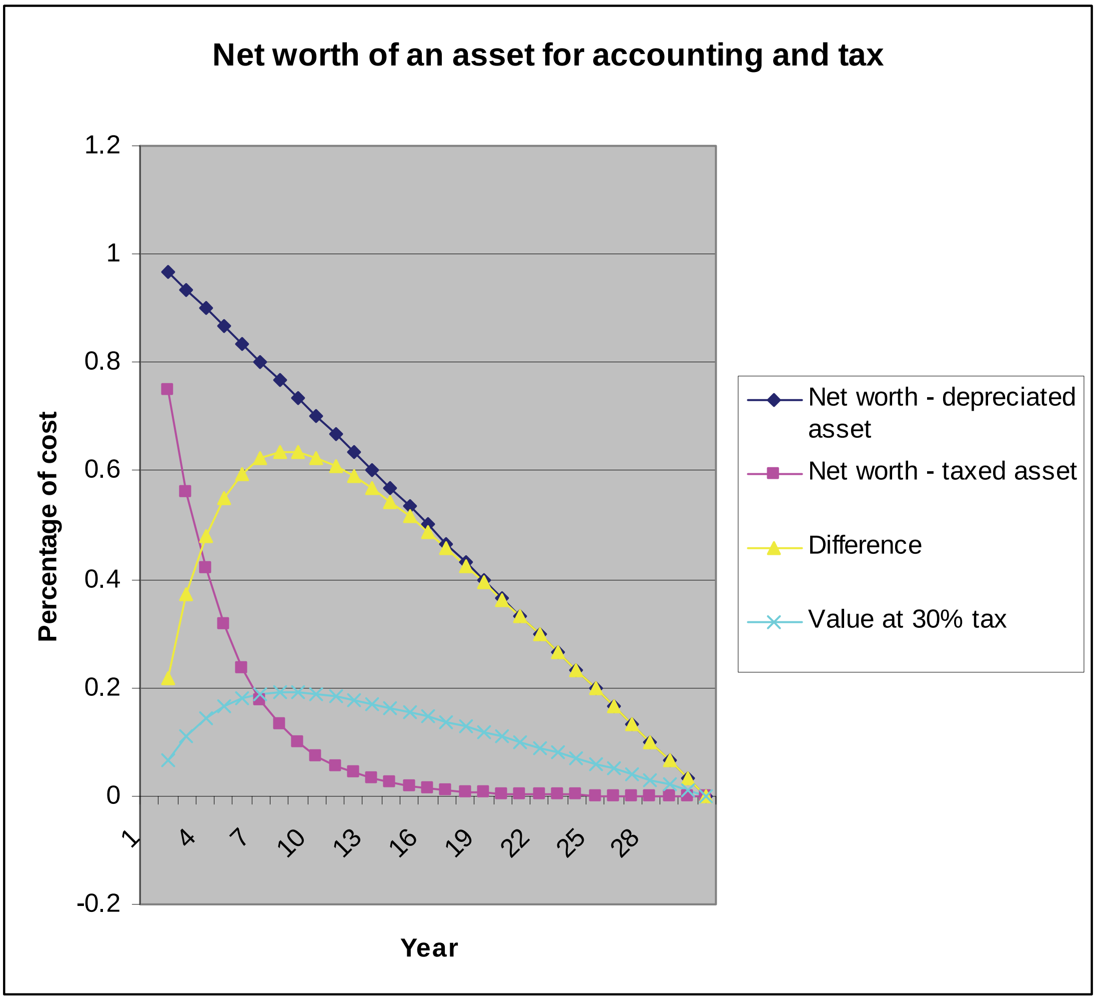
If, as is very often the case the tax relief is more generous than the accounting depreciation charge then very different patterns of expense occur for tax and accounting. The following graph happens to compare these differences for leased assets used by UK rail companies with a life of around 30 years. Some of the asset leasing companies involved are subsidiaries of companies in this survey[31]:



The depreciation is the same every year. That is not true of the capital allowance, which is high at the outset, falls below the rate of depreciation by year 9 and becomes negligible from about year 20.

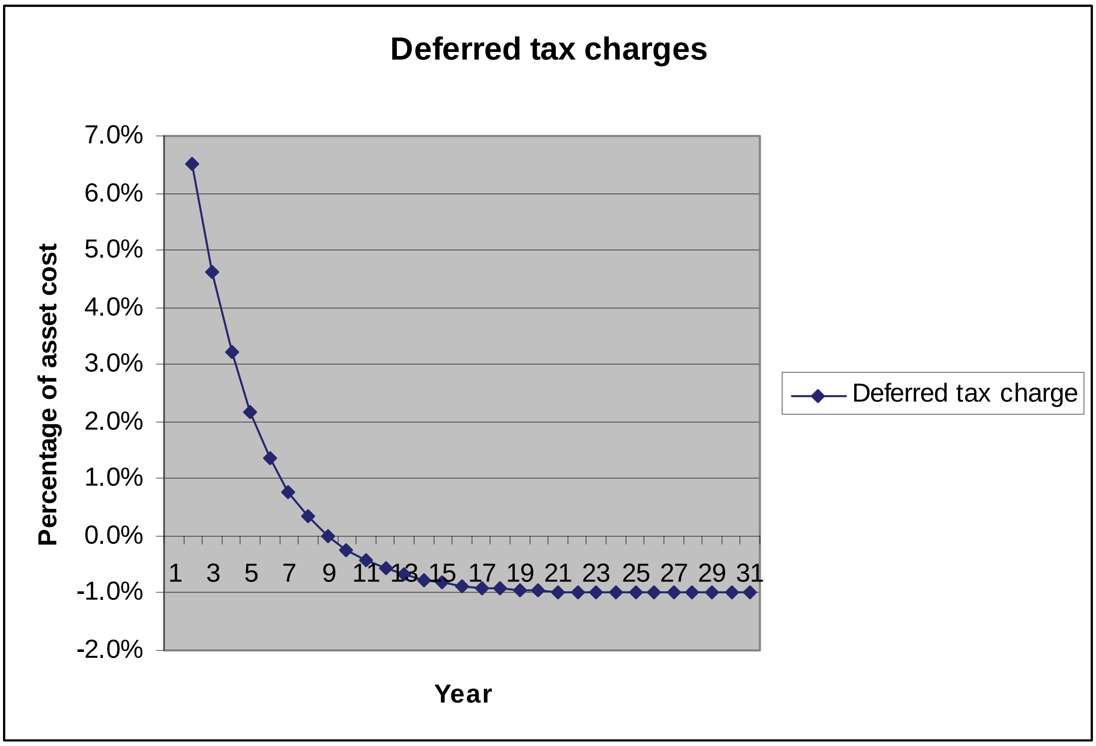
This has a significant impact on the value of the asset for the different purposes of tax and accounting:

[31] This work was originally prepared and published in Tax paid by Railway Companies: A report for the RMT by Richard Murphy FCA of Tax Research LLP available from http://www.taxresearch.org.uk/Blog/2007/10/05/rail-companies-pay-79-corporation-tax/ accessed 7-12-07



The value for accounting falls away in a straight line. For tax it tumbles down and becomes negligible from year 20. The difference is marked. But, most important, this has a tax consequence. 30% of the difference between the values is saved in tax. From years 1 to 9 the tax relief on the asset is more than the depreciation charged. From year 10 on it is less.

Accountancy however requires that costs and their benefits be matched in a set of accounts. This is called the 'accruals' concept. What this means is that in the accounts of a company relief can only be recognised for tax for the expense claimed in the year in the accounts. So, tax relief for accounting purposes is claimed on the depreciation even though in reality tax relief will actually be claimed under the much more generous tax rules. The conundrum of how to account for the difference between the two has to be solved, and the result is the mysterious art of deferred tax accounting. The deferred tax charge is 30% of the difference between the accounting and tax charges each year (30% being the expected UK tax rate for the period considered in this report – although as the rate is now falling to 28% this will be used in future). These charges have this pattern:



Note that whilst tax relief exceeds depreciation there is a charge and when the situation is reversed deferred tax becomes an income stream for the company. However, these charges are not actually due to anyone. So they are simply put on the balance sheet of the company as a 'provision' against a possible cost. This is the deferred tax balance noted above. So long, however, as a company keeps buying new equipment the position where the overall level of deferred tax reverses does not arise and the balance keeps on rising. This is possible because the assets are considered as whole for this purpose, not individually.

The result is that the more a company spends on equipment the more tax subsidy it gets from the government. And the more fictitious its tax charge becomes because the bigger the component of that charge that will be made up of deferred tax. This is obvious from the graphs noted above.

The result is twofold. There is a substantial and continuing subsidy for replacing people with equipment in business, which is harmful for labour prospects. Secondly, labour is doubly suffering in this scenario because it is both losing employment prospects as companies seek to avoid paying tax by pursuing ever more automation and yet it is labour that is picking up the resulting tax bill to provide this subsidy which is, in turn, passed to those who own the companies in question.

In addition there is no seeming prospect that deferred tax provisions will be paid at any time in the future. As such they can be ignored in all the calculations of the real tax paid by these companies. Tax that will not be paid is not a tax at all. It is a figment of an accountant's imagination invented to make sure that it looks like companies are paying tax when in fact they're receiving interest free loans from the government instead.

For current purposes its most important feature is the fact that for many companies it is very unlikely that the deferred tax charges made in their profit and loss accounts will result in real tax liabilities being paid at any time in the foreseeable future. In that case, for all practical purposes deferred tax charges included in the profit and loss account can be, and should be, excluded from any consideration of taxes to be paid when measuring the Tax Gaps.

This is confirmed by the following table of the deferred tax balances owing by the companies in the survey, in this case sorted by the average balance owing over the period:

Table 2		2000	2001	2002	2003	2004	2005	2006	Average
Deferred tax owing at year end		£m	£m	£m	£m	£m	£m	£m	
1	GlaxoSmithKline plc	-889	-871	-631	-835	-827	-1,645	-1,528	-1,032
2	HSBC Holdings plc	495	206	10	-691	-280	-1,159	-1,164	-369
3	Unilever PLC	-556	-525	-538	75	-315	-525	-179	-366
4	BAE Systems plc	-37	-59	-51	-1	89	-1,308	-1,062	-347
5	Reuters Group plc	-52	-154	-233	-240	-205	-210	-171	-181
6	Standard Chartered plc	-16	-17	-128	-147	-175	-270	-292	-149
7	Compass Group plc	-141	-122	-85	-132	-95	-60	-219	-122
8	British Sky Broadcasting Group plc	0	0	-39	-190	-151	-100	-100	-116
9	British American Tobacco plc	-84	-12	-4	-118	-20	-13	23	-33
10	Imperial Chemical Industries plc	-32	10	140	79	82	-232	-211	-23
11	Shire plc	0	-22	-26	-35	-44	33	15	-13
12	Man Group plc	8	7	6	-4	-5	-5	-2	1
13	Wolseley plc	0	-16	0	-13	-3	45	72	14
14	Old Mutual plc	-234	-203	-142	-280	-57	153	882	17
15	Rolls-Royce Group plc	49	52	74	97	115	-261	111	34
16	Imperial Tobacco Group plc	20	16	59	40	40	20	64	37
17	Marks & Spencer Group plc	48	44	106	105	-4	36	-29	44
18	Diageo plc	-18	28	104	193	208	245	-439	46
19	WPP Group plc	-57	-62	-62	-70	-77	403	359	62
20	Wm Morrison Supermarkets plc	39	42	40	37	18	93	423	99
21	J Sainsbury Plc	-3	-4	172	190	234	173	-55	101
22	SABMIller plc	14	9	53	24	32	21	616	110
23	Associated British Foods plc	0	0	79	84	134	72	316	137
24	AstraZeneca plc	-121	10	195	376	434	-3	184	154
25	Reed Elsevier PLC	37	-126	-69	-3	-21	714	680	173
26	Centrica plc	109	43	242	188	237	447	15	183
27	Hanson plc	163	153	215	134	112	256	333	195
28	Legal & General Group plc	17	27	51	170	206	492	472	205
29	Reckitt Benckiser PLC	-23	-24	235	238	241	300	622	227
30	British Land Company plc	87	78	90	93	101	101	1,331	269

31	BHP Billiton plc	0	478	601	524	329	40	-129	307
32	Land Securities Group plc	0	1	125	173	173	116	1,968	365
33	Tesco plc	19	24	440	505	572	731	308	371
34	Barclays plc	631	630	461	646	738	14	-482	377
35	Cadbury Schweppes plc	105	262	318	224	196	831	880	402
36	Scottish & Southern Energy plc	40	50	427	462	513	530	833	408
37	BG Group plc	98	403	597	666	633	649	1,072	588
38	Xstrata plc	0	0	30	6	-44	723	2,770	697
39	Aviva plc	429	364	243	319	623	1,440	1,878	757
40	Rio Tinto plc	496	466	546	750	741	1,163	1,148	758
41	HBOS plc	0	628	648	662	726	1,751	2,591	1,168
42	Anglo American plc	94	47	859	1,265	1,579	2,641	1,800	1,183
43	BT Group plc	354	270	2,140	2,017	2,191	2,174	741	1,412
44	Lloyds TSB Group plc	1,559	1,719	1,317	1,376	1,473	1,145	1,416	1,429
45	Prudential plc	332	2,005	696	1,154	1,522	2,322	2,870	1,557
46	Vodafone Group plc	-224	-3	1,294	2,008	2,643	2,397	5,530	1,949
47	Royal Bank of Scotland Group plc	1,224	1,456	1,795	2,238	2,826	1,539	3,108	2,027
48	National Grid plc	0	0	2,996	3,031	2,952	3,036	2,002	2,803
49	Royal Dutch Shell plc	3,805	3,879	6,770	7,250	6,976	4,452	5,497	5,519
50	BP plc	989	898	7,337	8,292	7,237	8,927	9,835	6,216
	Total	8,772	12,086	29,504	32,933	34,603	34,433	46,699	
	Number in population	42	46	50	50	50	50	50	
	Average	209	263	590	659	692	689	934	

The evidence is clear: over seven years the deferred tax due by this group of companies has risen year on year from an average of £209 million each to an average of £934 million each. By 2006 the amount of deferred tax on the balance sheets of these companies, for which no payment date was known amounted to £47.7 billion, and as such exceeded by more than £2 billion the total corporation tax paid in the UK in the tax year 2006/07[32].

This fact, by itself, shows three things. This first is that the figure for tax due in the profit and loss account of the quoted companies almost invariably includes tax that will not be paid. Second, this figure for deferred tax not paid shows that deferring tax is growing in significance. Finally it suggests caution should always be exercised when a company declares that it has a high tax rate. This is a clear indication that some modifications to the reported numbers are needed to give a better indication of the real tax rates due on profits earned by these companies.

The first such modification in the light of this evidence is to only use the current element of the tax charge when considering what is likely to be paid. After all, tax is of no benefit to governments unless it is paid to them.

The second modification is to reconsider the figure for profit declared by these companies. As a matter of fact in most developed countries (but admittedly less so

[32] http://www.hmrc.gov.uk/stats/tax_receipts/table1-2.pdf accessed 9-11-07

in developing countries) declared profit as per the accounts is not the sum on which a company is charged to tax. Instead a taxable profit is used. The differences between the two are numerous, and vary from country to country, but in general terms the following hold true:

1. Charges for the use of fixed assets (called depreciation) included in accounts are disallowed for taxation purposes, and different (usually more generous) taxation allowances are given in their place. These are called capital allowances;
2. Almost no tax relief is given for the write off of goodwill in accounts. Goodwill is the difference between the price paid when buying a company and the actual value of the assets that are acquired. This sum has to be written off over time under most accounting rules and substantial goodwill write-off charges are included in the profit and loss accounts of many of the companies in this survey;
3. Some expenses a company incurs may not be offset against its income for tax purposes. These might include some legal costs; entertaining expenses in the UK; some costs of fundraising; and a wide range of other items;
4. Some income is not taxable (for example, dividends from other UK companies) or may be subject to tax at low effective rates (for example, capital gains);
5. Some income earned overseas is not subject to tax in the UK. For example, if profits are earned in a subsidiary company, and the UK parent company can satisfy the UK's taxation authorities that the subsidiary is really undertaking a trade, then the fact that the profits of the subsidiary company may be taxed at rates lower than those charged in the UK does not prevent the subsidiary being able to enjoy these lower tax rates in the country in which it operates, so long as the profits it earns are not paid back to the UK parent company via dividends.

For all these reasons, accounting profit can be the wrong basis for assessing the Tax Gap.

There is another very good reason why the accounts of a consolidated group of companies (as are all the companies reviewed in this report) do not form a perfect base for assessing the Tax Gap. That is because consolidated accounts are not for any legal entity that actually exists. Consolidated accounts are instead a way of presenting the third party transactions of a group of companies which are either under common control, or under some degree of shared control (since the results of associated companies in which the parent company has a stake of more than 20% are also included in the parent company's accounts, at least in part). This view quite successfully represents the economic resources over which the group parent company has some control and how those resources have been managed with regard to third parties. But groups of companies are not, at least as yet, taxed on the basis of their consolidated accounts. They are instead taxed on the basis of the profits each constituent member of the group of companies makes, and this can provide a very different view of the tax liabilities owing for two reasons:

1. Tax rules vary significantly from country to country, and groups tend to have an international orientation (there are only a couple of exceptions amongst the companies covered by this report, most notably BSkyB and Scottish & Southern Energy plc which are both almost entirely UK based);

2. Group companies trade with each other. In fact, the OECD has estimated that 60% of all world trade is undertaken between companies who are constituent members of the same trading group. None of these inter-group transactions are reflected in consolidated accounts. Indeed, the main purpose of consolidating the accounts is to remove all inter-group transactions from view. But as a result the underlying economic transactions which actually give rise to the group's tax liabilities are much harder to identify and analyse.

That said though there is currently no more satisfactory basis for assessing the Tax Gap than the data made available in companies' consolidated accounts, whatever their known shortcomings and despite the fact that many of the shortcomings with these accounts are incapable of remedy when undertaking the exercise. For example, although figures for depreciation of fixed assets are disclosed in accounts the replacement figures for taxation purposes called capital allowances are not, and as such no adjustment for this can be made.

In practice just two changes can be made to secure a better view of the tax liabilities due by companies. Both are accepted as normal practice when undertaking analysis of taxation issues, and both can be done using published accounting data. As such they are not controversial. They are:

- To remove deferred tax from the reported tax charge for the simple reason that it is unlikely to be paid, and;

- To add goodwill amortisation charged in the profit and loss account back to profit since it is almost invariably not tax allowable.

As was mentioned above, goodwill is the difference between the price paid when buying a company and the actual value of the tangible assets that are acquired. This sum has to be written off over time under most accounting rules. This charge is called amortisation and is equivalent to the depreciation charge on tangible equipment. Substantial goodwill amortisation charges are included in the profit and loss accounts of many of the companies in this survey, and like depreciation charges they are not tax allowable.

Very different figures for the Expectation Gap emerge if these two adjustments are made, as the following table shows:

Table 3 **Declared current tax rate to pre-goodwill profit - percentage**		2000	2001	2002	2003	2004	2005	2006	Average
		%	%	%	%	%	%	%	%
1	Royal Dutch Shell plc	44.4	43.8	44.6	43.2	47.8	43.3	38.6	43.7
2	BP plc	28.2	35.2	24.0	25.9	30.0	20.4	26.0	27.1
3	HSBC Holdings plc	22.5	22.7	18.2	22.1	18.6	21.7	22.8	21.3
4	Vodafone Group plc	39.9	70.1	-25.3	37.7	30.0	31.5	44.5	32.7
5	GlaxoSmithKline plc	29.8	30.6	26.0	31.6	27.8	29.2	33.8	29.8
6	Royal Bank of Scotland Group plc	23.9	26.0	22.6	19.5	22.0	23.8	23.3	23.0
7	Barclays plc	26.4	25.9	28.6	21.5	24.5	34.9	26.6	26.9
8	Anglo American plc	25.9	24.4	26.0	19.6	21.3	25.1	24.6	23.9
9	AstraZeneca plc	28.0	19.2	23.6	20.6	21.8	26.8	30.5	24.4
10	Rio Tinto plc	28.0	36.3	51.7	27.3	26.0	23.4	23.6	30.9
11	HBOS plc	0.0	23.9	22.6	25.1	25.4	20.2	18.9	22.7
12	British American Tobacco plc	41.9	36.6	33.0	41.9	25.2	28.0	24.8	33.1
13	BHP Billiton plc	0.0	41.6	28.3	29.7	30.3	27.1	27.4	30.7
14	Tesco plc	27.3	26.6	27.7	25.5	25.9	21.8	28.7	26.2
15	Lloyds TSB Group plc	25.7	25.0	32.6	20.6	24.3	20.2	18.1	23.8
16	Xstrata plc	0.0	0.0	14.8	5.5	19.1	19.7	35.2	18.9
17	BG Group plc	28.4	28.8	32.8	31.8	37.0	40.4	30.5	32.8
18	Diageo plc	25.5	21.2	21.3	70.4	18.6	17.4	12.1	26.6
19	BT Group plc	29.7	26.5	10.0	17.6	18.6	22.8	15.2	20.1
20	Standard Chartered plc	27.7	27.6	30.3	29.6	26.2	24.4	20.9	26.7
21	Unilever PLC	52.9	28.3	34.9	23.0	32.9	21.4	19.3	30.4
22	Reckitt Benckiser PLC	28.9	28.3	20.8	23.8	21.6	24.1	22.4	24.3
23	Aviva plc	-24.7	78.9	-226.3	23.7	17.7	-12.3	12.1	-18.7
24	National Grid plc	0.0	0.0	-82.9	5.7	12.1	8.3	23.5	-6.6
25	SABMIller plc	24.4	28.7	31.1	31.8	33.2	34.7	30.5	30.6
26	Prudential plc	25.3	8.3	15.1	39.1	34.0	-45.9	-15.9	8.6
27	Imperial Tobacco Group plc	26.6	26.5	33.0	27.5	26.8	28.7	26.5	27.9
28	BAE Systems plc	35.6	50.3	-1,500.0	22.1	10.5	16.0	22.5	-191.9
29	Cadbury Schweppes plc	27.3	22.5	26.1	25.0	14.0	21.4	14.8	21.6
30	Centrica plc	31.9	20.9	23.4	31.8	14.4	16.1	67.7	29.5
31	Scottish & Southern Energy plc	18.5	19.9	21.6	22.5	23.5	35.6	28.0	24.2
32	Man Group plc	-137.5	21.9	21.1	19.1	20.1	20.1	18.3	-2.4
33	British Sky Broadcasting Group plc	-3.5	0.0	-1.5	35.6	19.9	20.7	16.6	14.6
34	Marks & Spencer Group plc	38.5	101.5	28.5	29.3	26.3	13.9	20.3	36.9
35	J Sainsbury Plc	31.3	38.4	30.9	28.6	27.9	21.7	28.8	29.7
36	Rolls-Royce Group plc	41.5	22.9	24.0	18.1	22.0	11.6	4.4	20.7
37	Legal & General Group plc	35.8	-32.3	-108.3	8.2	24.1	22.5	15.5	-4.9

38	WPP Group plc	31.6	30.9	27.4	30.6	28.2	29.5	26.1	29.2
39	Old Mutual plc	24.1	26.6	21.7	29.4	25.8	18.2	19.6	23.6
40	Land Securities Group plc	22.8	25.8	25.1	12.0	23.0	-117.1	24.3	2.3
41	Wm Morrison Supermarkets plc	34.6	33.1	37.0	35.2	37.6	50.9	-4.3	32.0
42	Reed Elsevier PLC	21.2	29.4	6.0	12.8	19.9	22.1	11.1	17.5
43	Wolseley plc	34.4	33.3	24.7	25.9	25.6	20.5	27.3	27.4
44	Reuters Group plc	19.1	65.7	-57.3	24.7	7.8	6.8	0.5	9.6
45	Hanson plc	20.5	-4.7	6.4	19.2	14.4	6.0	15.0	11.0
46	Imperial Chemical Industries plc	-188.5	7.4	9.6	76.9	19.8	16.2	1.1	-8.2
47	British Land Company plc	13.7	22.0	0.1	17.4	4.8	-174.1	0.4	-16.5
48	Associated British Foods plc	43.9	24.7	24.4	23.8	23.3	24.2	18.0	26.1
49	Compass Group plc	24.6	16.0	3.3	13.4	20.9	17.7	23.5	17.1
50	Shire plc	3.6	24.8	27.8	32.9	37.7	17.6	49.4	27.7
		862.0	1,392.3	-958.9	1,336.0	1,190.5	719.2	1,093.5	804.9
	Number in population	46	47	50	50	50	50	50	
	Average	18.7	29.6	-19.2	26.7	23.8	14.4	21.9	16.1

The position shown is already quite different from the first table, but some statistical aberrations also arise, such as the impact of the high tax charge in relation to the loss made by BAE in 2002. To limit the impact of these statistical aberrations two further changes are needed to give the best indication of the underlying trend in tax paid. The first is to rank this data in terms of average rates, which results in the following table:

Table 4 **Declared current tax rate to pre-goodwill profit - percentage** **Ranked by average**		2000 %	2001 %	2002 %	2003 %	2004 %	2005 %	2006 %	Average %
1	BAE Systems plc	35.6	50.3	-1,500.0	22.1	10.5	16.0	22.5	-191.9
2	Aviva plc	-24.7	78.9	-226.3	23.7	17.7	-12.3	12.1	-18.7
3	British Land Company plc	13.7	22.0	0.1	17.4	4.8	-174.1	0.4	-16.5
4	Imperial Chemical Industries plc	-188.5	7.4	9.6	76.9	19.8	16.2	1.1	-8.2
5	National Grid plc	0.0	0.0	-82.9	5.7	12.1	8.3	23.5	-6.6
6	Legal & General Group plc	35.8	-32.3	-108.3	8.2	24.1	22.5	15.5	-4.9
7	Man Group plc	-137.5	21.9	21.1	19.1	20.1	20.1	18.3	-2.4
8	Land Securities Group plc	22.8	25.8	25.1	12.0	23.0	-117.1	24.3	2.3
9	Prudential plc	25.3	8.3	15.1	39.1	34.0	-45.9	-15.9	8.6
10	Reuters Group plc	19.1	65.7	-57.3	24.7	7.8	6.8	0.5	9.6
11	Hanson plc	20.5	-4.7	6.4	19.2	14.4	6.0	15.0	11.0
12	British Sky Broadcasting Group plc	-3.5	0.0	-1.5	35.6	19.9	20.7	16.6	14.6
13	Compass Group plc	24.6	16.0	3.3	13.4	20.9	17.7	23.5	17.1
14	Reed Elsevier PLC	21.2	29.4	6.0	12.8	19.9	22.1	11.1	17.5

15	Xstrata plc	0.0	0.0	14.8	5.5	19.1	19.7	35.2	18.9
16	BT Group plc	29.7	26.5	10.0	17.6	18.6	22.8	15.2	20.1
17	Rolls-Royce Group plc	41.5	22.9	24.0	18.1	22.0	11.6	4.4	20.7
18	HSBC Holdings plc	22.5	22.7	18.2	22.1	18.6	21.7	22.8	21.3
19	Cadbury Schweppes plc	27.3	22.5	26.1	25.0	14.0	21.4	14.8	21.6
20	HBOS plc	0.0	23.9	22.6	25.1	25.4	20.2	18.9	22.7
21	Royal Bank of Scotland Group plc	23.9	26.0	22.6	19.5	22.0	23.8	23.3	23.0
22	Old Mutual plc	24.1	26.6	21.7	29.4	25.8	18.2	19.6	23.6
23	Lloyds TSB Group plc	25.7	25.0	32.6	20.6	24.3	20.2	18.1	23.8
24	Anglo American plc	25.9	24.4	26.0	19.6	21.3	25.1	24.6	23.9
25	Scottish & Southern Energy plc	18.5	19.9	21.6	22.5	23.5	35.6	28.0	24.2
26	Reckitt Benckiser PLC	28.9	28.3	20.8	23.8	21.6	24.1	22.4	24.3
27	AstraZeneca plc	28.0	19.2	23.6	20.6	21.8	26.8	30.5	24.4
28	Associated British Foods plc	43.9	24.7	24.4	23.8	23.3	24.2	18.0	26.1
29	Tesco plc	27.3	26.6	27.7	25.5	25.9	21.8	28.7	26.2
30	Diageo plc	25.5	21.2	21.3	70.4	18.6	17.4	12.1	26.6
31	Standard Chartered plc	27.7	27.6	30.3	29.6	26.2	24.4	20.9	26.7
32	Barclays plc	26.4	25.9	28.6	21.5	24.5	34.9	26.6	26.9
33	BP plc	28.2	35.2	24.0	25.9	30.0	20.4	26.0	27.1
34	Wolseley plc	34.4	33.3	24.7	25.9	25.6	20.5	27.3	27.4
35	Shire plc	3.6	24.8	27.8	32.9	37.7	17.6	49.4	27.7
36	Imperial Tobacco Group plc	26.6	26.5	33.0	27.5	26.8	28.7	26.5	27.9
37	WPP Group plc	31.6	30.9	27.4	30.6	28.2	29.5	26.1	29.2
38	Centrica plc	31.9	20.9	23.4	31.8	14.4	16.1	67.7	29.5
39	J Sainsbury Plc	31.3	38.4	30.9	28.6	27.9	21.7	28.8	29.7
40	GlaxoSmithKline plc	29.8	30.6	26.0	31.6	27.8	29.2	33.8	29.8
41	Unilever PLC	52.9	28.3	34.9	23.0	32.9	21.4	19.3	30.4
42	SABMIller plc	24.4	28.7	31.1	31.8	33.2	34.7	30.5	30.6
43	BHP Billiton plc	0.0	41.6	28.3	29.7	30.3	27.1	27.4	30.7
44	Rio Tinto plc	28.0	36.3	51.7	27.3	26.0	23.4	23.6	30.9
45	Wm Morrison Supermarkets plc	34.6	33.1	37.0	35.2	37.6	50.9	-4.3	32.0
46	Vodafone Group plc	39.9	70.1	-25.3	37.7	30.0	31.5	44.5	32.7
47	BG Group plc	28.4	28.8	32.8	31.8	37.0	40.4	30.5	32.8
48	British American Tobacco plc	41.9	36.6	33.0	41.9	25.2	28.0	24.8	33.1
49	Marks & Spencer Group plc	38.5	101.5	28.5	29.3	26.3	13.9	20.3	36.9
50	Royal Dutch Shell plc	44.4	43.8	44.6	43.2	47.8	43.3	38.6	43.7
		862.0	1,392.3	-958.9	1,336.0	1,190.5	719.2	1,093.5	804.9
	Number in population	46	47	50	50	50	50	50	
	Average	18.7	29.6	-19.2	26.7	23.8	14.4	21.9	16.1

The second change is to eliminate the statistically outlying data that distorts the underlying trend. This is done first of all by eliminating all negative data resulting from the declaration of losses (which is likely to increase the overall declared rates of tax paid) and to eliminate from the sample the top and bottom three companies. The average ranking in the following table has, however, been kept constant for ease of comparison. The following table results:

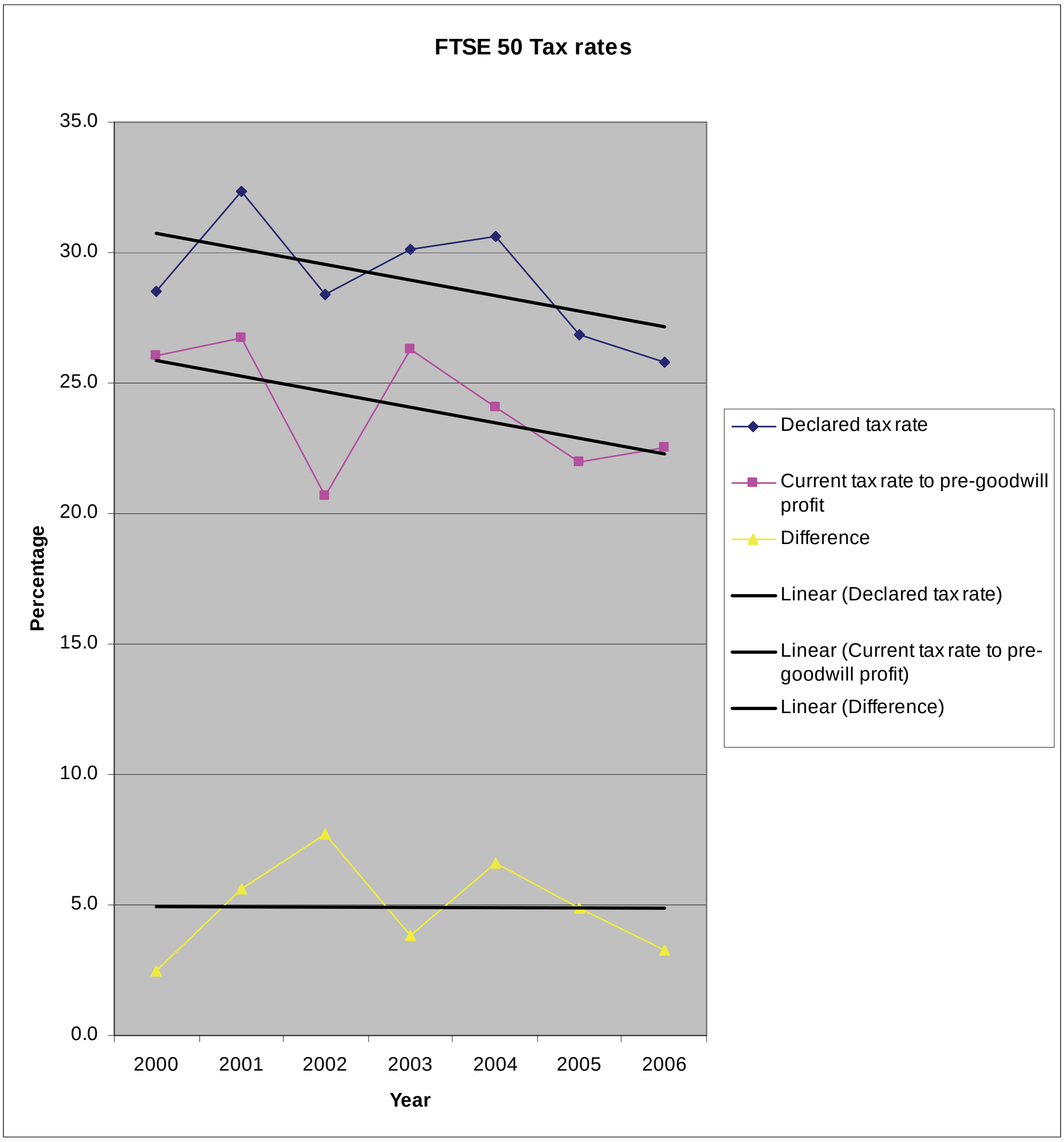
Table 5 **Declared current tax rate to pre-goodwill profit - percentage** **Ranked by average - top and bottom 3 of sample eliminated**		2000 %	2001 %	2002 %	2003 %	2004 %	2005 %	2006 %	Average %
Losses eliminated									
4	Imperial Chemical Industries plc		7.4	9.6	76.9	19.8	16.2	1.1	-8.2
5	National Grid plc	0.0	0.0		5.7	12.1	8.3	23.5	-6.6
6	Legal & General Group plc	35.8			8.2	24.1	22.5	15.5	-4.9
7	Man Group plc		21.9	21.1	19.1	20.1	20.1	18.3	-2.4
8	Land Securities Group plc	22.8	25.8	25.1	12.0	23.0		24.3	2.3
9	Prudential plc	25.3	8.3	15.1	39.1	34.0			8.6
10	Reuters Group plc	19.1	65.7		24.7	7.8	6.8	0.5	9.6
11	Hanson plc	20.5		6.4	19.2	14.4	6.0	15.0	11.0
12	British Sky Broadcasting Group plc		0.0		35.6	19.9	20.7	16.6	14.6
13	Compass Group plc	24.6	16.0	3.3	13.4	20.9	17.7	23.5	17.1
14	Reed Elsevier PLC	21.2	29.4	6.0	12.8	19.9	22.1	11.1	17.5
15	Xstrata plc	0.0	0.0	14.8	5.5	19.1	19.7	35.2	18.9
16	BT Group plc	29.7	26.5	10.0	17.6	18.6	22.8	15.2	20.1
17	Rolls-Royce Group plc	41.5	22.9	24.0	18.1	22.0	11.6	4.4	20.7
18	HSBC Holdings plc	22.5	22.7	18.2	22.1	18.6	21.7	22.8	21.3
19	Cadbury Schweppes plc	27.3	22.5	26.1	25.0	14.0	21.4	14.8	21.6
20	HBOS plc	0.0	23.9	22.6	25.1	25.4	20.2	18.9	22.7
21	Royal Bank of Scotland Group plc	23.9	26.0	22.6	19.5	22.0	23.8	23.3	23.0
22	Old Mutual plc	24.1	26.6	21.7	29.4	25.8	18.2	19.6	23.6
23	Lloyds TSB Group plc	25.7	25.0	32.6	20.6	24.3	20.2	18.1	23.8
24	Anglo American plc	25.9	24.4	26.0	19.6	21.3	25.1	24.6	23.9
25	Scottish & Southern Energy plc	18.5	19.9	21.6	22.5	23.5	35.6	28.0	24.2
26	Reckitt Benckiser PLC	28.9	28.3	20.8	23.8	21.6	24.1	22.4	24.3
27	AstraZeneca plc	28.0	19.2	23.6	20.6	21.8	26.8	30.5	24.4
28	Associated British Foods plc	43.9	24.7	24.4	23.8	23.3	24.2	18.0	26.1
29	Tesco plc	27.3	26.6	27.7	25.5	25.9	21.8	28.7	26.2
30	Diageo plc	25.5	21.2	21.3	70.4	18.6	17.4	12.1	26.6
31	Standard Chartered plc	27.7	27.6	30.3	29.6	26.2	24.4	20.9	26.7
32	Barclays plc	26.4	25.9	28.6	21.5	24.5	34.9	26.6	26.9
33	BP plc	28.2	35.2	24.0	25.9	30.0	20.4	26.0	27.1
34	Wolseley plc	34.4	33.3	24.7	25.9	25.6	20.5	27.3	27.4
35	Shire plc	3.6	24.8	27.8	32.9	37.7	17.6	49.4	27.7

36	Imperial Tobacco Group plc	26.6	26.5	33.0	27.5	26.8	28.7	26.5	27.9
37	WPP Group plc	31.6	30.9	27.4	30.6	28.2	29.5	26.1	29.2
38	Centrica plc	31.9	20.9	23.4	31.8	14.4	16.1	67.7	29.5
39	J Sainsbury Plc	31.3	38.4	30.9	28.6	27.9	21.7	28.8	29.7
40	GlaxoSmithKline plc	29.8	30.6	26.0	31.6	27.8	29.2	33.8	29.8
41	Unilever PLC	52.9	28.3	34.9	23.0	32.9	21.4	19.3	30.4
42	SABMIller plc	24.4	28.7	31.1	31.8	33.2	34.7	30.5	30.6
43	BHP Billiton plc	0.0	41.6	28.3	29.7	30.3	27.1	27.4	30.7
44	Rio Tinto plc	28.0	36.3	51.7	27.3	26.0	23.4	23.6	30.9
45	Wm Morrison Supermarkets plc	34.6	33.1	37.0	35.2	37.6	50.9	-4.3	32.0
46	Vodafone Group plc	39.9	70.1	-25.3	37.7	30.0	31.5	44.5	32.7
47	BG Group plc	28.4	28.8	32.8	31.8	37.0	40.4	30.5	32.8
		1,042.1	1,096.2	911.1	1,158.3	1,058.1	967.4	990.8	0.0
	Number in population	40	41	44	44	44	44	44	
	Average	26.1	26.7	20.7	26.3	24.0	22.0	22.5	24.1

A clear trend is now seen. Effective tax rates are falling over the period. If these effective tax rates are compared with the tax rates as shown by the original table, but with that in turn having losses eliminated and the top and bottom three companies eliminated from the sample for the sake of consistency then the following table results:

Table 6		2000	2001	2002	2003	2004	2005	2006
Declared tax rate	%	28.5	32.3	28.4	30.2	30.6	26.9	25.8
Current tax rate to pre-goodwill profit	%	26.1	26.7	20.7	26.3	24.0	22.0	22.5
Difference	%	2.5	5.6	7.7	3.8	6.6	4.9	3.3

If expressed as a graph the following trends are clear:



Declared tax rates in the UK are on average a consistent 5% higher than current tax rates. Both have fallen over a seven year period.

In 2000 the effective current tax rate was 26% and in 2006 it was 22.4%.

Declared rates were, on a trend basis 5% higher in both cases.

The average decrease in current tax rates a year was just over 0.5% per annum throughout the period.

Throughout the period the UK tax rate was 30%.

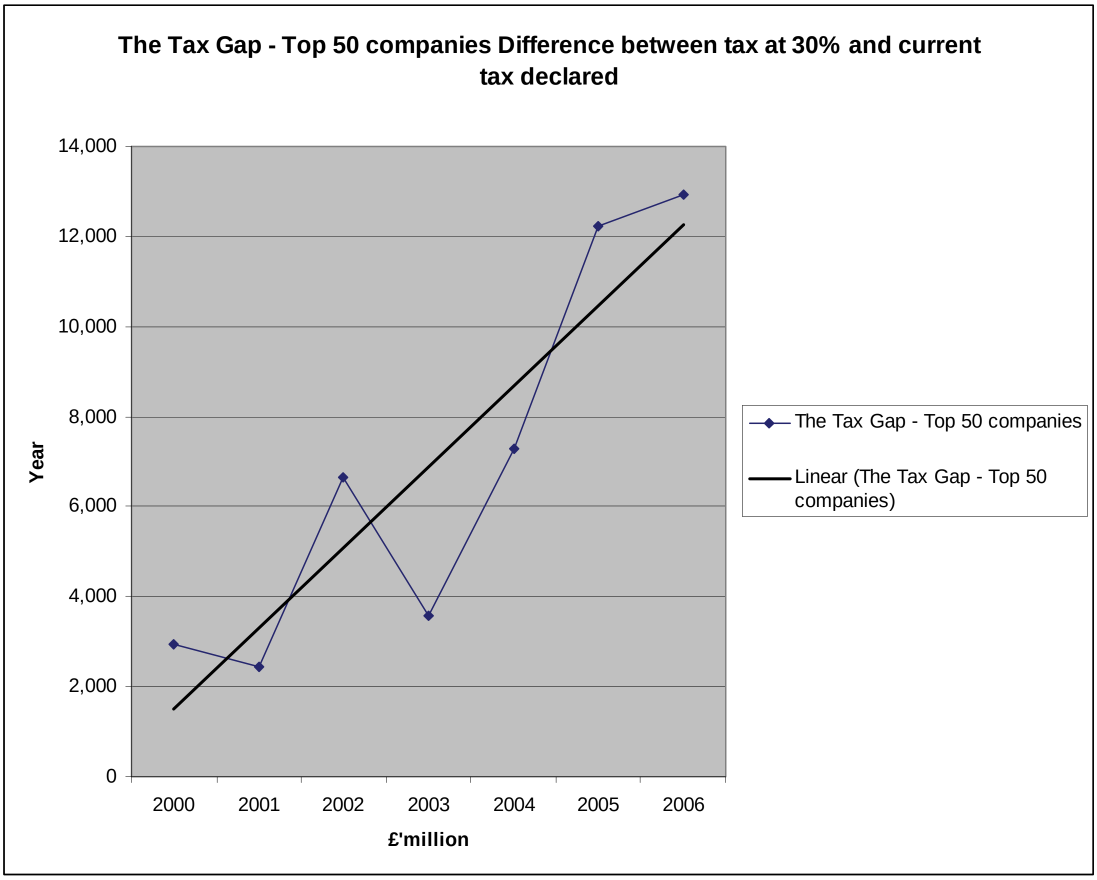
To give some indication of the value of both this trend and the tax not paid the following table compares the pre-goodwill profits of the sample companies (this profit being the closest indicator of taxable profit available) with the percentage average tax gap for each year reviewed to calculate the potential tax lost:

Table 6		2000	2001	2002	2003	2004	2005	2006
Pre Goodwill profits of sample group	£'m	59,842	60,243	58,894	80,138	98,986	121,359	138,915
% tax gap	%	3.9	3.3	9.3	3.7	6.0	8.0	7.5
Difference	£'m	2,362	1,966	5,474	2,946	5,892	9,725	10,395

If the same ratio is applied, as is reasonable, to the whole sample then the following calculation results:

Table 7		2000	2001	2002	2003	2004	2005	2006
Pre Goodwill profits of top 50 companies	£'m	74,665	74,996	71,546	97,459	122,506	152,665	172,919
% tax gap	%	3.9	3.3	9.3	3.7	6.0	8.0	7.5
Difference	£'m	2,947	2,447	6,649	3,583	7,292	12,234	12,939

Expressed graphically, this is shown as follows:



It would seem that just fifty companies have a tax gap of almost £13 billion by 2006.

It does, however, have to be recognised that the situation is a little more complicated than this. First of all, out of the total tax gap over the period of some

£48 billion at least £38 billion can be explained (at least in part) by the increase in deferred tax balances over the same time period. To this extent, and because these deferred tax balances suggest that these companies recognise that they might owe this tax at some point this proportion can be said to represent a mix of tax planning and tax avoidance and only the difference between these figures of £10 billion can be said with certainty to be tax that has been wholly avoided.

That said though, the analysis of what makes up the deferred tax balances of these companies varies widely, is not subject to any systematic pattern and can vary from the complex to the absurdly simplistic. This suggests that what is disclosed is very much chosen to suit the whim of the company, and not any desire to impart meaningful information.

This is also the case of the reconciliation between the effective rate of tax charged in these companies' accounts and the UK standard rate of 30%. For example, a summary of this reconciliation shows that these reconciliations show that in 2006 across all fifty companies just £89 million of the tax not paid apparently arose because of differences between the UK rate of corporate tax and that of overseas jurisdictions. What is more, the difference in question increased the companies' liabilities, and did not decrease them. This suggests that none of these companies undertake any offshore tax planning, transfer pricing planning or tax rate arbitrage arrangements, an impression which runs completely counter to that gained from the enormous literature on these subjects in the taxation press. There is only one obvious explanation for this apparent dichotomy and that is that all tax avoidance is discreetly hidden, and the accounting rules that apply to these companies allow for this to happen.

Alternative analysis is, therefore, needed, in particular to work out how much of this expectation gap with regard to tax relates to the UK. This exercise is hindered, yet again, by the way in which these companies report. It is not obligatory for a UK based company to disclose what its activities are in the UK, even if incorporated here. It has only to do so if they are 'material' (which is accounting speak for relevant) to an understanding of its accounts. Roughly half the sample surveyed do make disclosure of their UK activities but those that do tend to be the smaller companies. This clearly hinders analysis, and is a major impediment to understanding the contribution these companies make to the UK economy. In itself this is a powerful reason for suggesting that country-by-country based reporting would add enormous value to these accounts[33].

Based on data from those that do make such declaration, 52.5% of all employees worked in the UK, 41.9% of profits were in the UK and 41.6% of their tangible assets were UK located. It is very difficult to make profit without these three essential business components being present, and there is a theory of international taxation that suggests that profits should be allocated to countries in accordance with the weighted average of these three present in that state rather than on the basis of

[33] See http://www.taxresearch.org.uk/Documents/CountrybyCountryReporting.pdf accessed 22-11-07 for more on this theme

the accounting profits that a company decides to allocate to a particular country. This basis of taxation is called unitary taxation and if it was to apply to this data it would suggest 45.4% of the profits of the companies surveyed should be allocated to the UK.

Based on data for tax paid though this is not happening. Almost all the companies in the survey did disclose the split in their tax liability between that arising in the UK and that arising elsewhere and the ratio is markedly different: 27.1% of current tax charges disclosed by these companies are declared as arising in the UK. Since profit is not analysed at this level this has to be the best indication of profit allocation available.

Just to complicate matters further, when this same ratio was calculated for those companies that had provided an analysis of UK employees, sales or assets the situation becomes even harder to interpret. In the case of both staff and sales the ratios of UK tax paid to total tax paid were lower than the ratio of UK staff to total staff and UK sales to total sales, and both by several percentage points. This reversed though when it came to assets, where asset holdings in the UK where higher in proportion to total assets than was the ratio of UK tax paid to total tax.

What all these differences indicate is the presence of tax planning: profits are under-declared in the UK compared to economic activity being undertaken but assets are higher in the UK than expected because the UK has a well known and liberal tax regime when it comes to the deduction of interest from profits which encourages the location of assets in the UK to attract interest relief on the cost of financing them, so disproportionately reducing UK taxes.

What is not clear though due to the incomplete nature of the sample is how significant overall this trend is. What is clear though is that UK companies appear to be shifting profits from the UK for tax purposes, or are exploiting the UK tax system to pay lower taxes than they might elsewhere in the world, or both, a process assisted by not being required to give indication as to overall what proportion of profits relate to the UK.

That proportion must then be estimated in another way. The following table shows the previously noted current tax rate of the sample companies when compared to their pre-goodwill profits; the same ratio for dividends (having eliminated those with rates in excess of 100% to reduce statistical aberrations) and the deduced approximate rate of profit retention by the companies in question:

Table 8		2000	2001	2002	2003	2004	2005	2006
Current tax rate of sample companies	%	26.1	26.7	20.7	26.3	24.0	22.0	22.5
Dividend payment rate	%	34.0	40.8	30.7	38.0	32.7	27.8	26.3
Retention rate (by deduction)	%	40.0	32.5	48.6	35.7	43.3	50.2	51.2

The significance of dividend payments is that these are likely to pass through the parent company and within this sample this is likely to mean that these sums should be subject to UK taxation. On average dividends represented 32.9% of pre-goodwill profits in this period and taxes represented 24.1% of the same profit. The grossed up (i.e. pre tax) value of dividends paid was therefore, using this tax rate, 43% of total profit (further degrees of accuracy being irrelevant in such an estimate). This, by chance, is not dissimilar to the 45.4% that a unitary allocation of profit, noted above, suggested should be paid in the UK. A figure of 44%, being a compromise between the two, will therefore be used for this purpose as the best estimate available of profits that should be declared in the UK by the companies surveyed.

If that is the proportion of profit attributable to the UK within the sample, the UK tax gap for these companies might be as follows:

Table 9		2000	2001	2002	2003	2004	2005	2006
Pre Goodwill profits of top 50 companies	£'m	74,665	74,996	71,546	97,459	122,506	152,665	172,919
% tax gap	%	3.9	3.3	9.3	3.7	6.0	8.0	7.5
Difference	£'m	2,947	2,447	6,649	3,583	7,292	12,234	12,939
Attributable to UK	44%	1,297	1,077	2,926	1,576	3,208	5,383	5,693

An expectation tax gap of £5.7 billion might arise from these companies alone in the UK, and that gap is increasingly significantly over time. This represents a UK effective rate of loss of approximately 33% of expected tax given that the companies in question declared £11.5 billion of UK tax liability in 2006. This is higher than the overall rate of loss suggesting that these companies whilst located in the UK are in fact effectively managing the relocation of their profits from this country to other locations where the tax rate is lower, a trend that is certainly consistent with strong, consistent and similar trends found in the USA[34] and with the evidence of individual company behaviour noted above.

Extrapolating this data to the rest of the UK requires some further consideration. First of all, it is unlikely that the same opportunities for tax planning are available to small companies as are available to large ones. They are more likely to tax evade, and HM Revenue & Customs data suggests that they do partake in this activity which is, however, beyond the scope of this report.

Extrapolation of the sample result across all companies is not, therefore appropriate. Extrapolation across all large companies is, however possible. These

[34] In 2004 Former US Treasury Economist Martin Sullivan noted in Tax Analysts in the USA that U.S. multinational corporations were increasingly shifting tens of billions of dollars of their profits to such tax havens as Bermuda, Ireland, Luxembourg and Singapore, keeping those profits from U.S. tax collectors. He found that profits of foreign subsidiaries of U.S. corporations in 18 tax havens increased from $88 billion in 1999 to $149 billion in 2002. http://www.taxanalysts.com/www/pressrel.nsf/Releases/4BD31CEDCC0DB2A385256F180060FC65?OpenDocument accessed 12-11-07

companies are approximately 700 in number for corporation tax purposes and have their affairs managed by the Large Business Service of HM Revenue & Customs, about whom the National Audit Office issued a report in July 2007[35].

In 2006-07, HM Revenue & Customs raised £44.3 billion in Corporation Tax, of which £23.8 billion came from those businesses within the Large Business Service. In 2006 the companies in this survey declared UK current tax liabilities of £11.5 billion, or just under half the total tax managed by this unit. That this might be commonplace may be indicated by the fact that, as the NAO report noted, in 2005-06 around 220 businesses whose affairs were managed by the Large Business Service paid no Corporation Tax and a further 210 businesses each paid less than £10 million. Some would appear to be in the companies surveyed in this report. Others clearly cannot be, but given this preponderance of companies not paying corporation tax at all and the individual examples provided above that this need not suggest limited economic activity in the UK, it seems reasonable to extrapolate the tax loss from the sample survey across the entire payment of corporation tax made by large companies in the UK. If this is done the total corporation tax loss might be some £11.8 billion. This is an increase from £9.2 billion, which was the estimate made the last time a similar exercise to that undertaken here was completed, relating to the period to 2004[36].

As a proportion this may be the highest gap of all. Much may be due to legitimate tax planning, but by no means all is. The disproportionate size of the UK gap suggests significant avoidance is taking place too. Guessing a split is, however, to apportion what cannot be allocated: the data to undertake this calculation is not available.

[35] http://www.nao.org.uk/publications/nao_reports/06-07/0607614.pdf accessed 12-11-07
[36] http://www.taxjustice.net/cms/upload/pdf/Mind_the_Tax_Gap_-_final_-_15_Jan_2006.pdf accessed 12-11-07