

Tax should be about law, not morality



Justin King said recently: “Tax is a moral issue... Trust is a moral issue and you can’t claim to hold a trustworthy space on any issue, including tax, by just saying ‘I’m operating within the law’.” Prime

Minister David Cameron has of course led this crusade, arguing that some companies lack moral scruples in avoiding tax.

Morality, business and politics are unhappy bedfellows. Cameron has already used these bandwagon campaigns, particularly on executive remuneration, to attack business.

Most business people steer clear of talking about morality and just ask for a level playing field. Indeed, when Sainsbury’s set up an operation in the Channel Islands to ship VAT-free DVDs, it was presumably just trying to compete on the same basis as Amazon.

Public opprobrium has focused on Amazon and Starbucks, alleging that they syphon profits off abroad – ie trading in the UK but claiming that the taxable activity actually takes place elsewhere. The other allegation is that transfer prices and cost recharges are being set artificially high to transfer profit abroad.

Such issues are actually always high up the list of tax inspection issues. The sort of financial review needed to detect them seems not very different to that for standard due diligence exercises. Why does HMRC find them so difficult? Management acting in one country but ‘transferred’ to another by having a conference call with one participant abroad is a longstanding, and legal, tactic.



Amazon came under fire over UK tax

“WHAT HAS BEEN LACKING IS THE POLITICAL WILL AND DETERMINATION TO CHASE DOWN ABUSES”

Why doesn’t the Government accept the need for a level playing field on tax? Physical retailers are now becoming more and more agitated about business rates, which represent a levy on stores that online players avoid. Business rates cost Home Retail Group £150m a year, six times more than corporation tax.

What has also been lacking is the political will and determination to legislate and chase down abuses. Why has it, for example, taken so long for governments to act on tax havens? Politicians, instead, blame business for their own failures.

Tax has to be a matter of law, not morality. If you end up suffering double taxation, HMRC will not turn round and let you off it on the basis that it is an accident of your structuring. They’ll say that it’s the law.

On the other hand, once it does get hold of our money, the Government can be cavalier in spending it. When the West Coast railway line franchising debacle emerged, wasting £50m, why didn’t Cameron condemn the Department for Transport and describe such waste as a moral issue?

As businesses, we inevitably want to keep both taxes and Government expenditure as low as possible. We want the former fair between competitors and the latter spent wisely. It is not in our interest for politicians to use the tax issue to blame business for its own failings.

Of course, businesses, like everyone else, need ethics. Companies should not use artificial tax avoidance schemes. The state should not waste money. But if business is to be a political football, then at least give us a level field on which to play.