The Tax Avoidance Question

By Jordan Hulse, Deputy Business Editor (2015/16)
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The Panama skyline – Tax havens worldwide are being used to avoid paying nearly £5.3 trillion in tax.

Tax avoidance seems almost an everyday occurrence amongst wealthy individuals and corporations. The leak of the Panama Papers by the Panamanian Law firm, Mossack Fonseca—who act on behalf of 300,000 companies, half of which are located in the UK—has once again raised the question about whether it is fair that these companies avoid paying their fair share of tax.

Tax havens around the world are being used to avoid paying almost £5.3 trillion in tax, totalling 8% of the world’s wealth, according to economist, Gabriel Zucman.

In a recent ruling by the European Commission, Apple has been ordered to pay £11 billion in backdated taxes to Ireland, with whom they had an agreement to only pay 0.0005% tax— illegal under EU state aid rules, as European competition law forbids a member state to give one company an advantage over another in regards to taxes.

Although Apple and Ireland are strongly contesting the verdict, claiming no wrong has been done, Ireland’s corporation tax stands at 12.5%, a figure well above what Apple was paying.

This is a Europe who wants to prove a point by getting tough on multinational companies who are avoiding paying their fair share of tax. Margarethe Vestager, Europe’s competition commissioner wants it to be known that members of the EU cannot give unfair tax benefits to select companies, regardless of where these companies are from or what their size may be. This includes the likes of McDonalds and Amazon, who are also being targeted with deals struck with Luxemburg over tax arrangements.

However, America’s Treasury Secretary, Jack Lew, believes that US companies are being treated unfairly, while Apple’s Tim Cook believes that if the EU does not rethink their verdict, it will have disastrous effects for investment within the EU.

With the UK losing £5 billion through tax avoidance schemes each year, it seems almost impossible to enforce large multinational firms to pay their fair share of tax; as can be seen with the likes of Starbucks, who paid £8.6 million on £3 billion worth of sales, Google who paid £6 million on £2.5 billion worth of sales and Amazon who paid £11.9 million on £5.3 billion worth of sales last year.

Nevertheless, it seems that UK consumers are in the midst of a love affair with multinational corporations who use tax avoidance schemes, as a recent opinion poll found that 80% of Britons are angry about tax avoidance. Despite this anger, all three companies have reported a rise in their revenues, suggesting that consumers are choosing to ignore the fact that tax avoidance schemes are being used by these corporations and instead, are opting to remain loyal to the brand.

With this hard-line approach adopted by the EU, Downing Street has stated that Apple are welcome to move their operations to the UK. This is a U-turn on David Cameron's government who made tackling tax avoidance part of their long-term economic plan by opting for a tough stance on the issue.

However, Since the UK's decision to leave the EU, Theresa May is reported to be considering cutting corporation tax—which currently stands at 20%— in order to attract more international companies, who created 82,650 jobs through investment in the UK last year. Should the UK decide to open its doors to these multinational corporations through the offering of a generous tax break, one must wonder how much money the UK is hoping to make at the cost of further straining relations with our European neighbours. It's a trade war that the UK may be best avoiding.

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