The Tax Gap - the numbers do the talking

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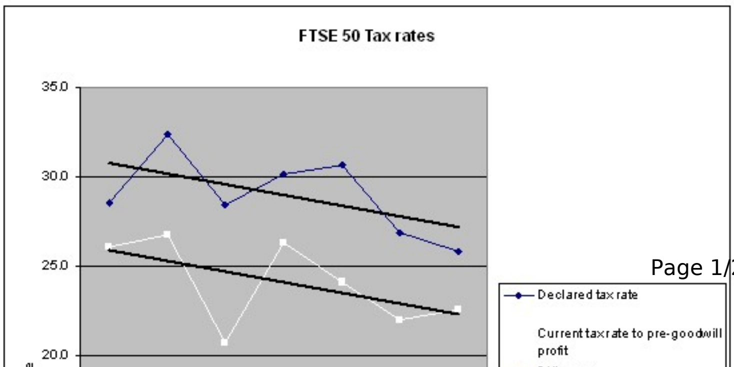
I note that Tim Worstall is persisting in his claims that my methodology used in the TUC report, The Missing Billions, is flawed.

I have already dismissed his arguments on tax incidence. They are substantiated only by the false assumptions he makes about the reality of transparency in the corporate world. Let me now deal with this second, false, allegation.

Worstall's argument appears entirely dependent upon rhetoric. If ever there was a man to split hairs it is him. I am reasonably confident if there was no person left on earth to argue with Worstall would take issue with a lamp post, and it has to be said that argument with Worstall is totally pointless because it continues ad nauseum without any benefit arising. As a result, candidly, I will not bother. Far too many people of sound mind had been convinced by my argument to need to engage with him in that way.

I do instead issue a straightforward challenge. As my research has shown, using the data published by the 50 largest companies in the UK in the period from 2000 to 2006 and considering just the current tax charge and profits with goodwill added back, because the goodwill charge in a set of accounts is almost never allowed for tax, an extraordinary trend is apparent. In 2000 the ratio of current tax declared to pre-goodwill profit was 26.1%. By 2006 it was 22.5%. On a trend basis the decline was just over 3.5% during the seven year the period even though the UK corporate tax rate throughout this period was flat at 30%.

Throughout this period the current tax rate was almost exactly 5% less every year than the declared tax rate placed upon the proper loss account of the companies in question: in other words, always and persistently the companies paid at least 5% less in tax than they declared on their profit and loss accounts. The resulting graph looked like this:



In addition in 2000 there was under £9 billion of deferred tax liability on their balance sheets. In 2006 it was almost £47 billion, an increase in unpaid tax of £38 billion in seven years from just 50 companies.

I'm well aware that Deloittes tried to brand this finding 'just rubbish' but unfortunately for them they audited a significant amount of the data I used to reach this finding. All they managed to do as a consequence was questioned the credibility of their own audit procedures, for these are facts. Whilst the tax rate in the UK was not falling, and whilst the weighted average tax rate around the world taking population as the basis of weighting hardly fell at all, the overall declared corporate tax rates of these companies fell dramatically.

I say that was because of a significant and deliberate increase in the abuse of the world's tax systems by these companies through the undertaking of tax avoidance. Worstall disagrees.

My challenge to Worstall is simple. Produce the data that can show any other explanation for this trend, but I warn you in advance: do not use KPMG's survey of corporate tax rates because that is a simple statistical analysis which takes no account of the population size of the countries in question, or of the size of their GDP and therefore of their relative economic significance. As I noted above, when these factors are taken into account this cannot explain this trend, as I proved in earlier research.

Tim Worstall can nitpick, but I have produced answers and he has not. That is the difference between us and right now I can find no alternative explanation of the evidence I created and which others can now reproduce.

That's why I stick by my work, its methodology and its findings and the obvious inferences that can be drawn from it.

The numbers tell this story loud and clear. That's enough to justify action.