

Google's tax

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During the last week I was asked by the Sunday Times to look at a series of documents they supplied to me, including the Google Inc accounts for 2007 and the accounts of all the subsidiaries of Google Inc they identified in the UK and Ireland. They were interested in the tax Google paid in the UK.

I agreed through my firm of accountants to undertake a review using the data they supplied, and nothing else. The findings [have been reported](#) in the Sunday Times of 19 April under the headline:

Google avoids £100m UK tax

The website hailed as a 'paragon' is accused of adding to the public's burden

I am named in the report as:

Richard Murphy, the accountant who investigated Google's UK, Irish and American accounts for The Sunday Times, also found: Google avoided a further £135m (now £119m) in tax from Ireland during 2007. The search engine's Irish subsidiary is owned by one of two companies Google has set up in the tax haven of Bermuda. Several sets of Google's UK accounts were filed late, with one set of accounts outstanding by more than five months.

The logic is relatively simple. Google bills all its revenues in the UK through Ireland. Its UK turnover in published UK accounts is as a result almost exactly 10% in 2007 of the reported turnover billed to UK addresses noted in the Google Inc accounts. Google pays almost no tax on its declared UK turnover, however as noted by the Sunday Times. It pays very little more in Ireland which account for almost 92% of Google Inc turnover with third parties outside the USA. But Google Inc says it saves \$705 million dollars by having foreign profits taxed at rates lower than those charged in the USA. This can only be explained in my opinion if the Irish Google subsidiary makes substantial payments to a low or no tax jurisdiction whose activities are undertaken intra-group and are not

disclosed in the group accounts as a result. Google Ireland is owned by an intermediate Bermuda holding company.

Although this shows significant cost planning by Google the 2007 Google Inc accounts say (note 14, page 97):

*Our chief operating decision-makers (i.e., chief executive officer, certain of his direct reports and our founders) review financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by geographic region for purposes of allocating resources and evaluating financial performance. There are no segment managers who are held accountable by our chief operating decision-makers, or anyone else, for operations, operating results and planning for levels or components below the consolidated unit level. **Accordingly, we consider ourselves to be in a single reporting segment and operating unit structure.***

Emphasis added.

Note that the data Google uses to make management decisions is solely that produced by Google Inc plus limited revenue data by location. Costs are, according to this report, which has to be verified as correct by the auditors, not considered on a regional basis or by country. The consequence must be that the Board of Google Inc sees them as being controlled centrally, and by implication attributable evenly across all units, or that they are immaterially different for decision making purposes.

This is not how these costs are, however, recorded in practice. If however costs were split in proportion to revenues as the note to the Google accounts might imply the Google Board presume to be the case (without their seeking evidence to prove it true, be it noted) and as their treatment of the business as a single segment might quite reasonably suggest appropriate then substantial profits would arise in the UK and Ireland since Google Inc is far from a break even operation — profits being 34.2% of turnover in Google Inc i.e. for the operation as a whole. The calculation of tax legally avoided is based on the Google declared tax rate of 25.9% applied to the resulting reasonably anticipated profits in the UK and Ireland.

Of course Google can say that it has not avoided tax — the tax paid is the result of the structure it uses. My suggestion is simple: in view of the comments on segment reporting that it makes the only reason for choosing that structure must be to avoid tax. That is a choice it made. I explain less of the tax saved by it than it declares to have arisen in its own accounts. As such I make no revelation of facts unknown to Google or its shareholders.

But what I do show is that if tax paid is a measure of corporate social responsibility to the communities from which it generates its income — and in its case it generates more than 15% of its total revenue from the UK — then it is not acting in a responsible fashion in this country where its activities are, however, having significant social

consequence. It's my choice to say I think that wrong.