

Let's blow this myth apart: companies do pay tax

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[Overseas businesses put off by UK tax regime, Brown told | 0000Business | 0000guardian.co.uk](#)

There was a conference yesterday at which Gordon Brown and Lords Mandelson "welcomed 250 international leaders to London to reassure them the UK remained a competitive place to do business despite the turmoil of the financial crisis and recession."

The response of business may be typified by that of George Buckley of 3M (maker of the post it note - which the world could easily survive without) who said:

Britain has a stable government and good education and innovation, but it also has high taxes and the trains and roads are not as good as in continental Europe

So George wants the state to provide him with the infrastructure so he can make money. But as he argued:

Companies are not taxpayers, but tax collectors

So let's be clear then: he thinks business does not pay tax so what he's demanding is that the people of the UK provide him with the opportunity to make money in the UK from which he has no intention of paying a return to them as his company does not, according to him pay tax. It's a one way deal on that basis, isn't it? Why should we bother if this is true?

Well, for one good reason - which is that he's wrong. Let's say it loud and clear: companies do pay tax. I agree - they do their best to pass the bill on to others. Some goes to shareholders. Some claim it's passed on to customers, but given that's only possible in the odd world of the economists who argue companies don't pay tax if you're a monopolist there are other more important issues to address in that case. Some argue that companies pass on the cost to labour - but the paper that claims to prove this by Mike Devereux at Oxford has to assume to get to this result (quite extraordinarily) that a company facing a strike can move its production from the UK to another country without disruption to output and without cost incurred - showing how

absurd the hypothesis is in the form in which economists present it (although I do not deny that in some situations - such as when a financial transaction tax might be imposed on a bank such a situation might arise).

The reality is that Buckley is pushing a line of argument that is not true that has been [created by economists](#) who have propagated the delusion, based on misunderstanding of the scientific method, that an economy can be accurately modeled using counterfactual propositions about its nature. In the real world companies pay tax.

How do I know this. I do so for three reasons. First they think they do. That's pretty powerful evidence. Either business is staffed by people who are all deluded or economists are: this may be a genuine case of one or t'other.

Second, if business did not pay tax it would not spend nearly so much time trying to avoid it. There's no evidence they do so on behalf of shareholders to whom they have no relationship. They appear to only do so on behalf of management who wish to command resources which they otherwise perceive as lost to them i.e., yet again they act as if they know they cannot pass the bill on elsewhere so they must avoid the bill itself.

Third, if tax compliance is seeking to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes then we can say with some assuredness that business spends a great deal of time seeking to pay too little tax in the wrong place and later than they should by ensuring that the form in which transactions are declared is inconsistent with their economic substance. That's because companies pay tax.

Mt Buckley denies an obvious truth. What credence should we give to anything else he said?