Funding the Future

Worstall really doesn't understand tax - unless he's hi...

Published: January 13, 2026, 3:27 pm

I note that Tim Worstall has written an article about UK Uncut, calling them blithering idiots for deciding to target Boots for alleged tax avoidance.

As I have made clear, I am not a spokesperson for UK Uncut, and have not been on any tax protest, but the idea that Worstall might suggest people are blithering idiots when he is so clearly wrong does seem worthy of comment, for a change.

The issue of Boots' tax seems to have come to public attention as a result of the work of the Guardian. Felicity Lawrence of that newspaper wrote on this issue on 11 December 2010.

In June 2008, after more than a century and a half in the UK, Boots moved out of the country to Switzerland. The British household name had been acquired, along with its parent company, Alliance Boots, in Europe's largest private equity deal in 2007, thanks to £9.3bn of borrowing from banks and other investors. The deal squeaked in with this enormous burden of debt just before the credit crunch brought such lending to a jolting halt. Private equity's gain turned out to be the UK revenue's loss.

Interest payments on the Alliance Boots debt in 2008 were so large they wiped out profit in the UK — and the tax that used to go with it. HMRC rules allowed the company to set interest payments on its debt against profits for tax purposes, a benefit to investors that has helped drive private equity deals.

Ten years ago the Boots group generally paid about one-third of its profits in UK tax. The Revenue could expect to see a tax charge around the £120-£150m mark each year, with over £100m of that coming from Boots the Chemist.

Then came the move to the low-tax Swiss canton of Zug. Alliance Boots GmbH is now registered at Zug's 94 Baarerstrasse, an address that is home to a post office. After huge interest payments, its worldwide profits last year were £475m. It is hard to see which parts of the company are now making what, but the cashflow statement for the year to March 2010 shows that just £14m was recorded as the tax charge on those profits — that is, just 3% of profits. John Ralfe, the former head of corporate finance at

Boots, told us he calculated that, "the UK has lost about £100m a year in tax as a result".

Worstall says in contrast:

It isn’t the move to Switzerland which has reduced Boots’ corporation tax bill. Not, at least, in anything more than a very minor manner.

It’s the interest bill it’s paying which has reduced corporation tax paid.

The company was bought by loading it up with debt. The interest on that debt is therefore an operating cost of the company and so reduces taxable profits.

Well this is the first important point. Boots was bought by a non-UK private equity company. The debt incurred has been loaded onto Boots. But let's be clear: the basic principle of tax relief is that costs incurred in the course of a trade are tax deductible against the profit of the trade. Those incurred to put you in a position to trade are not.

What the Guardian, and what I presume in consequence UK Uncut are protesting about is the fact that the UK tax system is in this case appearing to be abused. The cost of acquiring Boots is not a cost of Boots undertaking its trade as Worstall suggests; it was the cost of a third party acquiring shares in Boots, which had nothing whatsoever to do with Boots actual trading operations. They were the costs of a capital transaction in another location. So the question being asked is why are they being subsidised by the UK taxpayer? It is completely appropriate in this circumstance to protest that a tax loss is arising at cost to the British taxpayer which seems wholly inappropriate, and is an unnecessary subsidy from the UK to a third party located elsewhere to acquire a British company. I think that there is a very obvious campaigning point that this should not be allowed and that as a result UK companies should be protected from such predatory behaviour. it is not the action of blithering idiots to protest at this abuse of UK Exchequer funds.

Worstall goes on:

Do also note that it’s not actually certain that such a manouvre has reduced total tax collected. Of course, yes, the debt has reduced taxable profits at Boots and thus the amount of tax that Boots pays. But the interest received by whoever does actually receive it is taxed at the level of the recipient. If it’s, just as an example, a higher rate taxpayer who holds one of the Boots bonds, then they will be paying 40% (possibly even 50%) on that interest received: a higher rate than the 28% corporation tax that Boots would have paid without the interest bill.

This is yet more obvious misinformation. I fully admit that I do not know where the interest paid on this loan is received. Nor, I suspect, does Tim Worstall. But the possibility does at least exist, and I'm only suggesting it's a possibility, that the payment is made to a bank in a location with a lower tax rate than the 28% or 30% that might have been offered by way of tax relief in the UK. If that was the case then a considerable tax avoidance opportunity would arise as a result of the arbitrage of the rates in question. That would, if true, represent a tax subsidy from the UK taxpayer and it is quite right for people to protest at the possibility, at the very least, of such arbitrage occurring. Again, to do so is not the action of a blithering idiot, it is the action of an astute observer noting that the UK Exchequer may well be losing out.

But perhaps the most absurd comment Worstall makes is this:

And whining that all the interest goes to foreigners doesn't work either: what this means is that there's some £billions (whatever the number is) of foreign capital being used to provide luvverly shops and pharmacies for Brits to enjoy: us getting the benefits of foreign capital is a good thing.

Again, this is completely and utterly untrue. That foreign capital was not used to invest in Boots. It was used to acquire Boots. That is something fundamentally different of course. Investment requires the creation of new assets generating a tangible rate of return. Buying Boots simply required the assignment of ownership rights. That is something fundamentally different. To put it another way, I suspect all or most of the current Boots shops and pharmacies were in existence before Boots was sold to a private equity operator. I imagine the net new investment from the private equity operator has been low, but I stand to be corrected. However, they're claiming tax relief on their purchase cost, and not on their new investment, and that is a fundamental breach in my opinion of the tenets of tax allowance for interest in the UK economy that should apply, even if present we let something else happen. So this is a valid campaigning point for a change in the law, again.

And as for that move to Switzerland, did it save tax? Point 1 is, unless it did it would not have happened. No one moves to Zug for any other reason. it is only a tax haven. Point 2 is that Boots is a pharmaceutical company with, no doubt, income arising from intangible assets. Switzerland will almost certainly reduce the overall rate of tax on these compared to the UK. Of course there was a tax motive in that switch in that case, I have no doubt about it at all. I can't see another reason for it.

I leave it entirely aside whether or not it is appropriate for UK Uncut to protest about this in whatever way they choose: I have made clear that I think civil protest is acceptable so long as it is non-violent and property is not damaged. But to say that someone is blithering idiot for opposing inappropriate tax relief within the UK tax system, which undermines the potential revenues due to the UK Exchequer is, I think quite extraordinary. Such relief is, after all, akin to government expenditure. isn't it amazing that right-wingers can somehow think that spending is fine if it is on tax relief, but terrible if it is actually spent on something of benefit? That they do so just simply reveals their ideological bankruptcy.