

Facing Paxman - and why this corporation tax reform is ...

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It's one of the oddities of the work that I do that I've had to learn to manage the media over the last few years. I admit I've had no training (and that might show) but more by luck than judgement, and entirely because of what I've had to say, I seem to have slowly but steadily worked my way around all sorts of media.

Last night was a first though - my first time live in the Newsnight studio with Jeremy Paxman. As the man has a reputation, it made the occasion interesting.

Was he fair? Well that's for others to decide. I think he was. It was also amusing to watch him switch instantly from cordial off air to a mildly aggressive on air persona.

I was there to talk about the reforms the government is proposing to UK corporation tax. Many - including my co-interviewee - would like us to see these as mere admin reforms, tidying up arrangements after Labour exempted dividend receipts from overseas subsidiaries from further tax in the UK in 2009.

I stress, that was a massive error on Labour's part. I won't beat about the bush on that. It began a process of dismantling several fundamental elements in the UK tax system. And that's exactly the point I, Richard Brooks of Private Eye and George Monbiot are making. It's terribly convenient to say this is just a bit of admin. It isn't. It's another step in the steady dismantling of the effectiveness of the UK corporate tax system that is intended to allow major corporations to get round as many of their tax obligations as possible - a process that will inexorably lead the way things are going to them being entirely free of tax.

The fact this is being done in stages is part of this subtle, but deliberate process. It's so convenient for the terribly conflicted John Whiting (ex PWC partner, professional spokesperson, head of the Office of Tax Simplification and so a government insider) to say this is just a bit of admin catch up for branches. But [read the consultation document](#) and it's nothing but that. Twice it says the aim is to provide UK corporations with effective tax rates of less than 10%. OK, that's on their financing and intellectual property activities offshore - but that's core to where the profit is in many groups. This

is no peripheral issue costing £100 million (and I've seen these Treasury assessments - they're pure mumbo jumbo). This is the dismantling of the central avoidance process at the heart of UK corporation tax. A number of key issues are at stake here.

First there is the principle of reciprocity - that all people should be treated equally. People, whether human or legal, that is. People (non-doms apart) who are resident in the UK are taxed on their world wide income. So in principle until 2009 were corporations. And then, building on pre-crash fears of corporations leaving the UK Labour relented and changed the law on income remitted from foreign subsidiaries, promising at the same time to reform the controlled foreign company rules to ensure that appropriate anti-avoidance rules were in place. Except they failed to deliver on that part of the deal, with the result that some companies actually left because of the vacuum of uncertainty that this created. But what we now have is a situation where people (and to large degree small business) will pay tax on world wide income and big business can virtually select what it will pay tax on in the UK. Reciprocity and the level playing field has gone. People will pay. The small business that is vital to the UK will pay. Big business will get off tax free - and we'll all pay for that in terms of monopoly abuse, a loss of innovation, a loss of jobs and of course a loss of services.

The ConDems have now exploited this uncertainty to dismantle anti-avoidance measures. These are in three parts. Transfer pricing stops profits being transferred out of the UK. Controlled foreign company rules were meant to stop UK corporate activities in tax havens exploiting the UK by deeming those subsidiaries to be UK resident. And if these two failed then taxing profits on their way back into the UK was meant to pick up the pieces and ensure we got the tax somewhere.

Supposedly transfer pricing rules will remain - except that revisions to the CFC rules have been deliberately designed to ensure that UK companies will in the future pay no more than 10% tax (or less) on their group finance activities and international property located in tax havens. In that case why challenge these profits leaving the UK? We're basically saying "please take them away, it's OK with us that you do" and this is the area where transfer pricing control is needed most now. Given we've now also given up taxing these profits on the way back in we have now, in effect, given up the right to tax whole areas of UK corporate tax activity at more than 10%.

And as I said on Newsnight - if you tax a smaller profit base (and we will) at lower tax rates (and the ConDems have promised them) then you're bound to get less tax - it's a mathematical certainty - and the loss will be a lot more than £100 million, I guarantee. The incentive to move profit out at will be far too great. Expect the loss to run to billions.

And this is, as I also said, a choice. A choice to pass the burden to ordinary people. A choice to make small business pay and lose out to big business. And most of all an unnecessary choice. The UK could cooperate with Europe to drive for a [Common Consolidated Corporate Tax Base for Europe](#) to stop such abuse - a process that could

drive out such abuse from UK tax. But we oppose that EU move that would ensure we had more profit to tax here. So this is not something we have to do. This is not something forced on us. This is not the inevitability of globalisation. This is the ConDems choosing to give tax back to big corporations.

That's why it was right to make a fuss on this issue.

It's why corporate tax will remain high on the agenda.

And that's why the apologists for this reform are wrong - this is no admin issue, this is subterfuge to undermine the Uk tax base.