

David Gauke sings the praise of Barclays and PWC's Mick...

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I note David Gauke, the Treasury Minister responsible for H M Revenue & Customs, [has made a speech today](#) to the Hundred Group of FTSE Finance Directors.

In it he said (and I quote extensively, but don't worry - it's all pretty vacuous so you can scan it quickly):

I believe that a Government who are focussed on supporting economic growth ... must ensure that we have a corporate tax system that is an asset to our economy, not a liability.

A tax system that encourages businesses to come here in the first place, not the reason they move away.

And that this is in the best interests of everyone.

Yet there are considerable challenges we face when trying to get this message across.

First, there is a perception that the total tax contribution businesses make is restricted to the corporation tax they pay.

Yes, corporation tax is important...

...but as the work carried out by the Hundred Group and PwC demonstrates...

...our largest firms make a vital contribution in terms of business rates, irrecoverable VAT, employers National Insurance Contributions, as well as the income tax and National Insurance Contributions paid for employees.

So his first point is that big business is right to claim that all the tax that they pay can be described as their tax contribution.

The first person I ever heard of doing this was Mohammed Al Fayed and we all laughed at how ludicrous his claim was.

No ministers endorse it and PWC sell the idea for blatantly political purposes to hide how little tax corporations really pay - just as Mohammed Al Fayed was doing years ago.

The tax debate has reached the level of farce if this is the benchmark Gauke wants to use. But it gets worse:

The second challenge we face is that people believe - or at least give the impression they do - that corporation tax is somehow a victimless tax, not paid by real people.

Of course, as with any tax, the incidence will ultimately fall on someone.

As far as corporation tax is concerned, the question is whether the burden falls on shareholders (largely in the form of pension funds) employees (through lower wages) or consumers (as a result of higher prices).

The consensus, among economists at least, is that it's predominantly the employee who foots the bill.

This is based on the work of Professor Mike Devereux at the [Oxford Centre for the Non-Taxation of Business](#). Mike is so neoliberal and so open minded he's banned me from his Centre for a) questioning his assumptions and b) challenging his objectivity when doing so. But ministers still listen to him because it suits their purpose to do so.

Devereux's work is, however, fatally flawed. What [he has argued](#) is that when corporate taxes increase then wages fall. There's a problem with this though. First, corporate tax rates have fallen almost universally for the last twenty years so he had to work really hard to find his data. Second, he tested only one way even though the hypothesis would have been vastly easier to test the other way - did wages rise when corporate taxes fell? If they didn't then clearly the relationship when corporate taxes rise is explained by other factors and the correlation he finds is just coincidence. Devereux must have known corporate tax decreases do not result in wage increases, but he chose to ignore the evidence running his tests in this direction could have given to ensure he could deliver the desired result of his work - that corporate taxes are, in accordance with his neoliberal mantra, and that of his funders (for the FTSE 1000 Group of Finance Directors do fund the Oxford centre) desired.

There are many other flaws in his work - but this is the fundamental one - and it reveals (in my opinion, but I know not his) clear political bias to the work which of course also appeals to David Gauke.

But let's move on, as Gauke does:

And it is testament to the lack of understanding of this fact that - when this point was made to a member of UK Uncut on Newsnight - his response was to say that this demonstrated the unfairness of the tax system.

It is rather like someone complaining about the law of gravity if an apple fell on his head.

And the third misperception is that a competitive corporate tax system somehow involves being weak on avoidance.

This Government is determined to be tough when it comes to reducing avoidance.

As part of the Spending Review, we strengthened HMRC's capacity in this area.

No you didn't. You're cutting HMRC's budget by over £2 billion in four years.

Under our watch all the major banks have signed up to the code of practice on taxation for banks.

Which is legally unenforceable - as they all know.

In December, we set out bold policies to tackle longstanding avoidance opportunities, including disguised remuneration.

And we have asked Graham Aaronson QC to explore how a General Anti Avoidance Rule might work in the UK and what it would look like.

Because we all know, at the margin, some people try to be too clever by half in an overly aggressive pursuit of lower tax bills.

True.

The truth is the public will not wear this - especially during times like these.

And as their representative, nor will we.

Might I mention Vodafone?

But it is equally unhelpful to try to exaggerate the scale of the problem.

We have all seen some campaigners choosing to stoke the fires of public opinion.

It is a feature of this debate that legitimate behaviour by taxpayers — consistent with both the letter and spirit of the law — is being classified as 'avoidance'.

This action artificially inflates both estimates and perceptions of the 'tax gap'.

It is, I think, to the credit of Richard Murphy, author of the oft-quoted TUC tax gap estimates, that he acknowledges the use of allowances and reliefs within his calculations.

Only last month he wrote that:

'It is a persistent argument of business that the tax gap on corporate profits (which I have estimated to exceed £10 billion a year in the UK) is not the result of any form of avoidance at all, but simply the use of perfectly acceptable allowances and reliefs.

And some of it may be... of course that has to be true.'

And he then went on to argue:

„[that] the use of such reliefs is a valid element in the tax gap.'

That is not my view, nor, I think the view of most people.

But David - my point is - how do we know? The data published by companies is becoming almost impossible to use to assess their compliance. I have told you the answer - [country-by-country reporting](#) - but you won't endorse it. Why not? Until we have data we have to work on what we've got - and if that absent data does not tell us what part of the gap is from abuse of allowances and what part from legitimate use then we'll rightly assume the worst - when the evidence is compelling that big companies are paying less tax than small when you intend otherwise.

But it does demonstrate the difficulty and confusion that can exist in this area.

Yes - which you could help diffuse, but won't.

Where a combination of complexity in the law, fluidity in definition and, quite rightly, a strong desire on the part of the public to see that everyone pays what's due, can often conflate the problem.

It is not surprising, therefore, that individual businesses - some of our biggest high street names, even the guardian media group, whose publications regularly provide comment on tax, for instance — are finding their individual tax affairs under intense public scrutiny.

And it strikes me that this won't be the last of it.

It will just run and run.

You're right. UK Uncut are here to stay. And the Tax Justice Network is not going away either.

At present many of the more questionable assumptions that fuel this campaign are taking place without effective rebuttal.

Maybe that's because we're right?

So, having set out the challenges that faces a Government wanting to put in place a competitive tax environment, let me set out a challenge to business.

I know that, for most businesses, the sensible course of action is to keep a low profile here.

Don't plead guilty in other words.

To avoid being drawn into a contest that is both complicated and unpredictable.

But although that might make sense for the individual, there is a danger that the collective voice of business is getting lost.

We could have a better-informed debate over the coming years if businesses were willing, perhaps, to be more transparent about the tax they pay... and explain the story behind the figures.

We're [back to country-by-country reporting](#).

At a time when, across the board, the public expect greater openness...

...I think it could be in your long-term interests to engage more forthrightly in this discussion.

Legislate then.

To set out your own position. To be more robust on the essential contribution you are making individually to reduce the deficit.

Yes, that may mean greater scrutiny and, for some, this could be uncomfortable.

You bet! He admits there are abusers!

But it could also be an opportunity... an opportunity to address some of the myths and confusion that exist.

That's why I welcome the work undertaken in respect of the Total Tax Contribution.

It is a valuable source in the debate

And a constructive first step towards meeting one of the key communication challenges for UK business over the coming years.

A first step toward, generating and maintaining public consensus in support of an effective and competitive tax system in the UK.

Thank you.

Oh dear - and then he endorses PWC's Total Tax Contribution - their contribution to the Mohammed Al Fayed School of Accounting.

The PWC TTC is utterly flawed. It adds together all the taxes companies pay - even their TV licences and road fund licences in their desperation to prove they should not pay a penny themselves.

But it's worse than that - it provides no data at all to prove that the information provided is right. So VAT may be reported, but not the level of sales it's charged on. And PAYE will be reported but not labour costs. And corporation tax but not profit. This is not accounting data. This is joust an exercise in coming up with a big number. And worse still it's a boy's game - where one company says 'mine's bigger than yours' but without any context or relevance.

We need accounting data. That is country-by-country reporting.

But we also need some economic logic in this debate. Not the faux logic of Mike Devereux - choosing data to suit his purposes. No we need some logic on some simple issues - that are gloriously confused in what Gauke has to say. If he had any understanding at all of the incidence argument he'd realise the glorious irony of PWC's TTC. That adds up all the tax a company pays and says it's all the company's doing. But the incidence argument Gauke refers to says companies can't pay tax at all - that someone else always does. Amazingly Gauke embraces both wholeheartedly in the same speech - saying companies don't pay - and labour does - and at the same time saying companies pay lots, as do PWC.

Come on David - you can't have it both ways. They either pay or they don't. Or they pay some - such as corporation tax, but not VAT paid by consumers and PAYE and NI paid by labour.

The fact is that in this arena taxes are paid by those labelled with the liability. That's the real truth. Devereux denies it. But Gauke swings both ways. And the nobly consistency is from those like me working on the Tax Gap. And our argument resonates and won't go away because it's right.

In which case the solution is simple:

- a) Make companies pay
- b) Make them report they pay
- c) Close the gaps that let them avoid both obligations.
- d) Stop offering excuses and do (a) to (c).

NB There's more on this [here](#) and [especially here.](#)