Funding the Future

It's true- small business really does pay tax at higher...

Published: January 12, 2026, 10:09 pm

I am a regular critic of the Oxford Centre for Business Taxation, and I think with very good reason, but I also give credit where credit is due, and this Centre has published a new report which is welcome because it supports an argument that I have put forward some time, which is that large business in the UK pays tax at a lower rate than small companies in this country.

This argument has, of course, been made in my work for the TUC, including the Missing Billions and an update on the tax gap in the UK published last October. In both of those reports I argued that the effective tax rate of large companies in the UK had fallen to a point where they were likely to be below the small companies rate of UK corporation tax. Many in the business community, and, it has to be said some academics at the Oxford Centre, dismissed this work. So too have ministers in thecurrent government, but it has now been proven to be correct. As the new Oxford report says when looking at the corporate tax system as a whole:

We begin by presenting stylised facts, based on aggregate data.
â€šÃ„¢ In 2010 the UK had the 7th lowest corporation tax rate in the G20, and the lowest in the G7.
â€šÃ„¢ For over 25 years the UK's corporation tax rate has been well below the G7 average.
â€šÃ„¢ Despite this, as a proportion of GDP, UK corporation tax revenue has generally been above the G7 average. Revenue peaked in 2007/08 at around £46 billion, before falling back to less than£36 billion in 2009/10.
â€šÃ„¢ UK corporation tax revenues have been volatile: more volatile than both GDP and personal income tax revenues. Revenues from the financial sector have been particularly volatile.

It then goes on to look at details:

â€šÃ„¢ One reason for the growth in corporation tax revenue up to 2007/08 was a substantial increase in the number of companies with positive taxable income. This more than doubled from 450,000 in 1998/99 to over 920,000 in 2007/08 before falling back slightly.
â€šÃ„¢ The growth in the number of companies was associated particularly with the reduction to zero of the starting rate of corporation tax between 2002/03 and 2005/06.
â€šÃ„¢ Despite the growth in the number of companies, corporation tax payments are

highly concentrated. The top 1 percent of all companies pays 81 percent of UK corporation tax.
â€šÃ„¢ Independent companies pay just over 10 percent of UK corporation tax. By far the largest share of corporation tax is paid by companies that are part of multinational groups, with a similar proportion from UK-owned and foreign-owned groups.
â€šÃ„¢ A significant proportion of companies that have a positive accounting profit do not show a positive corporation tax charge in their accounts; this proportion is similar across the different groups, and ranges from 13 percent to 15 percent.
â€šÃ„¢ Independent companies tend to have a higher proportion of zero tax liabilities. Companies that are part of groups have a higher incidence of negative tax liabilities, possibly because they are able to surrender losses to other companies through group relief.

And dealing with tax return data (which was made available to them for their research):

â€šÃ„¢ Tax return data indicate that a significant proportion of companies do not have a positive tax liability.
â€šÃ„¢ Amongst the smallest companies, this proportion is around 60 percent; as size increases, the proportion drops to 40 percent and then increases slightly to about 50 percent for the largest companies.
â€šÃ„¢ Within each sector there is evidence that, as a proportion of trading profit, the tax liabilities of the largest 100 companies are generally lower than for other companies.

I added the emphasis - but the case is proven.

That said, what is significant about the report is what it does not say - which is why so many companies are not paying tax. **As the FT notes:**

Michael Devereux, of the Oxford University Centre for Business Taxation, said there were a number of possible explanations for the finding that the largest companies paid lower rates of tax as a proportion of earnings before interest and tax than smaller companies except in publishing and the sector covering textiles, wood and paper.

These included big groups' greater use of capital allowances and ability to offset losses against profits. He warned against drawing firm conclusions. "We do not have enough information."

In other words - there is compelling evidence of systematic tax avoidance, because large companies should be paying tax at 28% and are actually paying it at less than the 21% due by small companies but we must not, Oxford says (returning to its normal apologist style) draw any conclusions from this - a point on which I fundamentally disagree with Mike Devereux, as ever.

It is, however, interesting to note that they did at least have the courage to analyse the difference between the last Labour tax reforms in 2008 and the Conservatives reforms of 2010, of which they say:

â€šÃ„¢ Although the 2008 corporation tax reform reduced tax revenues overall, around

71 percent of companies had a higher tax liability because of the rise in the small profits rate, while only 1 percent of companies had a lower tax liability.

â€šÂ„¢ By contrast, the 2010 corporation tax reform resulted in around 64 percent of companies having a lower tax liability

The message that the Tories are indeed ensuring we're not all in this together and that they are, as many suggest, favouring large companies and their wealthy owners is right.

It's good to have Oxford support all I've been saying about this for some time.

It's a shame that Oxford will continue to fail to draw the obvious conclusions from the exercise - that tax avoidance needs to be clamped down on, tax haven activity needs to be stopped and allowances and reliefs must be targeted where they result in real economic benefit, and not at banks. But that may be asking too much. The Oxford Centre is, after all, funded by the FTSE 100 Group of Finance Directors.