Funding the Future

Worstall misses the point time and again on UK Uncut

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I gather the profoundly right wing Institute for Economic Affairs is to publish an article written by the former press office of UKIP, Tim Worstall, criticizing UK Uncut.

I also gather he claims that UK Uncut misrepresent the facts and completely misunderstand the way that tax law operates — both within the UK and abroad. On their four main targets he says:

Vodafone has been attacked over a supposedly unpaid tax bill of £6bn, based on profits of its German subsidiaries. However, it is not — and never can be — a principle of tax law that a company should pay both UK tax and German tax on the activities of the German parts of the business. The amount under discussion is therefore much less than the £6bn suggested, and HMRC and Vodafone have come to a compromise owing to the discrepancies that exist between UK and EU law.

That's why the UK Revenue were winning all the way through the courts was it? Because they were. And that's also why Vodafone provided for a bill about twice what they paid, was it? Because they did? No, this is Worstall making the misrepresentations here. It's undeniable that no one knows the full facts of this case - except that as Private Eye have repeatedly alleged, that Dave Hartnett, boss of HMRC, took his winning team off it and with the help of Deloitte negotiated a cut down deal announced a few days before George Osborne was promoting the company in India. The allegation is not about tax in that case at all — it's about the deal that was done. Worstall completely ignores the real issue — or maybe seeks to misrepresent it.

Wortsall continues:

Boots has also been attacked without justification. A Swiss company, it pays UK tax on its UK profits. However, the company financed its operations through borrowing, and, as a cost of doing business, the interest paid was perfectly legally written off against profits before tax. It should also be noted that those who lent money will have paid tax on the interest they received.

Sure the deal was legal — no one said otherwise. But there's widespread feeling that the UK is being taken for a ride on this issue of giving extraordinarily generous relief for borrowing: borrowing in this case expended to buy Boots and not incurred in the course of its trade. That does stand contrary to a principle of general tax law — that relief is not given as a matter of course when it is incurred to put yourself in a position to do a trade rather than n in the course of actually undertaking it. But legality is not disputed. It's the way the law is being abused in the opinion of many that is being highlighted. Again, Worstall misrepresents the truth.

Back to Worstall

Philip Green and the Arcadia Group are possibly the most high-profile targets, Philip Green standing accused of avoiding tax by paying a dividend from a company he controls to his wife who, in turn, does not pay UK tax.This allegation is wrong in three respects. His wife owns Arcadia through a holding company that she also owns and her husband manages the company. Secondly, Arcadia pays corporation tax but any dividends must be paid to the owner — Tina Green. It is only further, higher rate, tax that is not being paid on the dividends. Thirdly, the UK tax system now taxes husbands and wives separately. The implications of UK Uncut's suggestion that Philip Green's tax status should determine the tax that Tina Green pays would be to send our tax system back to the dark ages.

All true, of course. And all utterly misleading. First, the UK has sought to challenge settlements from husbands on wives. Worstall ignores this. They have not in this case, but the law to do so exists. Second, Worstall ignores the fact that the protest highlights the offshore arrangements used — which are considered to be abusive in themselves by those protesting, and without which it is certain more tax would have been paid somewhere. So again Wortsall utterly misrepresents the basis for the protest.

So, let Worstall have his fourth try:

Barclays, the final target, has also applied a completely reasonable principle of tax law. Barclays reduced its corporation tax bill in the last tax year by offsetting losses made in previous years. If companies were not allowed to do this, those companies involved in risky businesses where profits fluctuate would pay much more tax than companies with stable profit streams — even if they made the same amount of cumulative profits. This would be a particular problem for "start-up" firms where losses are often accrued in the early days.

Wortsall is on a fourth loser here. The protest is fourfold. Firstly Barclays has form on tax avoidance. Second, Barclays hasn't made losses. http://www.barclaysannualreport.com/ar2009/index.asp?pageid=137. In that case, why has it got them available in the UK for tax purposes? Could this be because the UK has such generous relief for losses it decided to record those it had here? This is in itself a basis for protest. Third, the lack of transparency is an issue — we don't know why

Barclays paid so little tax. Country-by-country reporting of bank profits would resolve this. Fourth, Barclays enjoyed and still enjoys state subsidies. For example it has its depositors funds guaranteed. In that case to allow relief of losses already supported by the state is unreasonable and the law should be changed. Worstall misses all these points, I presume deliberately.

The result is the claims made by Worstall are not just groundless, they reveal either a profound misunderstanding of the issues or a deliberate willingness to misrepresent them.

Maybe it’s the latter. Worstall goes on in his piece to argue that:

Corporation tax is a very damaging tax. In a world of mobile capital, high rates of corporation tax reduce the amount of capital employed in a country and therefore reduce the productivity and wages of labour. Research suggests that the cost to workers of this effect in the UK is greater than the total corporation tax take.

That research is seriously flawed. It only tested tax increases. It never tested tax decreases. There was good reason no doubt: the benefit of corporation tax decreases never goes to workers. The research was as such political and inherently biased. Or wrong, if you like.

Then Worstall adds:

Further, corporation tax is not paid by the company but by the owners of the company. Such owners are, in general, prospective pensioners, beneficiaries of savings policies and so on and have had their returns severely curtailed by other economic events and government policies.

That’s also wrong. Only 15% of the UK stock market is UK pension fund owned. The reality is that ownership of much is hidden behind trusts and offshore companies, Remove corporation tax and no tax would be paid at all by these owners. No doubt that's Worstall's aim. As he reveals when he says:

Were UK Uncut’s recommendations to be implemented, they would cause huge injustices and would see a huge flight of capital from the UK — ultimately leading to a lower tax yield for the UK government, the very opposite to what UK Uncut want to see.

This is nonsense. Companies may leave the UK now when they like. In fact if you note the issues raised they're all about ones that have left the UK, at least in part. It can't get much worse. But it would if Worstall had his way:

Members of UK Uncut would do better to direct their energies towards campaigning for an abolition of corporation tax. Such a move would increase productivity and investment in the UK, see more jobs created and see far better growth in the UK economy.

Rubbish. Corporation tax pays for the infrastructure business needs to be profitable. Without it we'd have lower trained workers, poorer infrastructure, worse regulation, greater credit risk and much more, all of which would make the UK a much worse place to do business.

Worstall is wrong. He has just one aim — to allow tax abuse that let's the rich get richer at the expense of all the rest of us. He can't even be honest about his motive. And his logic fails at every stage.His article is a farce.