

How to put a stop to Amazon's tax games

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[I've already mentioned](#) the [Guardian's news story](#), published this morning, discussing Amazon's UK tax affairs.

The essence is this. In 2010, as I surmise it, (and I'm being cautious) the turnover in the UK could have been at least £2.8 billion - and may have been over £3 billion of actual sales to UK customers based on [Amazon's worldwide accounts](#). Of that, according to the Guardian, just £147 million was accounted for here, but all of that would have been billed to Luxembourg for what might be called sales fulfilment services. Just £1.9 million was paid in tax here in the UK in 2010. There were however 2,265 people in the UK and just 134 in Luxembourg - servicing 27 countries, meaning maybe just 10 at best were servicing the UK. And let's then make a further assumption - that the fixed assets in Luxembourg are pretty meaningless - say £5 million in total but that the Swindon warehouse cost, and I suspect this is modest, £100 million. I stress - I'm guessing this but. And finally, the profit in the UK [should \(and I suspect I'm low on this one\) be £125 million](#).

But with these facts we can recalculate what Amazon should pay here in the UK using the unitary apportionment formula method of [taxation I discussed yesterday](#). We split the profit in accordance with a formula.

First split the profit in three. One third is then allocated between the UK and Luxembourg based on where the sales really are. Well, all these sales are to UK customers so that ratio is 100% to the UK and 0% to Luxembourg. So that £125 divided by three = £41.66 million of profit allocated to the UK.

Then we split the next third on the basis of where the people are. That's 2,265 here and 10 in Luxembourg. $£41.66 \text{ million} \times 2,265/2,275 = £41.5 \text{ million}$ to the UK and £166,000 to Luxembourg.

And then let's do assets - admittedly the one I have had to guess. The guess is £100 million here and £5 million in Luxembourg so that is $£41.66 \text{ million} \times 100/105 = £39.7 \text{ million}$ of profit here and £1.96 million to Luxembourg.

Add it up and near enough £122.8 million of profit would be in the UK and £2.2 in Luxembourg. Instinctively that feels right of course - because that is exactly how the economics really are. Glaringly obviously, as Amazon's accounts admit, the market is here in the UK, not in Luxembourg. But the game of abuse that is being played means that almost all the profit goes to Luxembourg on this one - and almost none to us.

That's why we need radical corporation tax reform in the UK and worldwide. Unitary apportionment formula taxation stops tax haven abuse of countries like the UK. It's glaringly obviously fair and the data to do it could be available if we had country-by-country reporting accounts.

The time for it is now.