

What the Starbucks tax expose means for ordinary companies

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When tax avoidance debate is about Google, Facebook and Apple it can be argued that the UK has no equivalent companies so that there is nothing that can be done about what's going on. We must, it is said by some in those cases, put up with what US companies will do for the benefit of having them here in the UK. It's not an argument I agree with, but it's one that is right if only to the extent that it's true that there are no UK equivalent entities.

Suggestions that [Starbucks is avoiding tax changes that](#). We do have home grown coffee shops in the UK. A lot of them. And they have to pay their taxes in full here in the UK. They can't make payments to offshore entities for the use of their logos or advice on how to add hot water to coffee just to avoid tax: they have to pay in full on what they earn in this country. What Starbucks is doing may be legal, but what it also shows is that business does not operate on a level playing field in the UK.

Reuters are suggesting that Starbucks use offshore licencing, transfer pricing that routes profits to Switzerland and intra-group funding to reduce their UK profits. The result is that despite Starbucks apparently being a highly successful operation — something they do not just acknowledge, but make a point of saying — they haven't paid tax here for the last three years.

And let's straight away dismiss the "but their employees pay income tax and NIC and their customers pay VAT" argument: that's equally true of their UK based competitors who must also pay corporation tax.

What's clear from what's happening is something that's been glaringly obvious to a few for a long time, but for which there hasn't been a clear example, and that is that multinational companies and the rules by which they can trade very obviously provide a clear, unfair and wholly unjustifiable competitive advantage to such corporations over smaller, locally owned and nationally based businesses.

This makes no economic sense. First, even the most pro-market person will say that tax should not distort markets. On this occasion I agree with them: there is no reason at all

why the UK tax system should favour one company over another in this country when they are in direct competition one with another.

More than that though, if there is to be any such competition it should be the smaller, home grown business that should very clearly get the support of the tax system. But it isn't: the exact reverse is happening.

That's bad for British business, bad for the prospects for growth in this economy, bad for the creation of an atmosphere of tax compliance in the small business community when they can clearly see the tax system picks on them, and bad for communities of the UK that need local initiatives to ensure that they prosper and thrive.

The UK international tax system is failing us. [HMRC say they can't do anything about that](#): candidly I don't believe them. They could stop sacking staff, for a start. But even if that were true they would still have a duty to point out the fact that the system is not working fairly and to suggest to ministers ways in which the system should be reformed.

Saying that does, however, that points this whole issue back to where change has to happen, which is at the top, in the field of tax policy making, which is firmly located in the political domain.

And there are serious questions to be raised at this level, targeted most heavily at the current government. The last Labour government made a policy mistake by excluding the dividends received by UK companies from their overseas subsidiaries from tax, which at a stroke made the use of tax havens much more attractive. But this government has exacerbated that, considerably. It has made clear that almost no questions will now be asked about the use of tax havens by multinational companies by virtually abandoning the UK's controlled foreign company rules and it has actively encouraged multinational companies in the UK to move their treasury functions out of the UK and into tax havens. At the same time it has made sure that the barriers to smaller companies doing this remain in place. The charge that can be leveled against this government is then that it has deliberately widened this gap between large and small companies and national and multinational companies so that the small and nationally based companies are always penalised. They've even shifted corporate tax rates for large companies to ensure that this is the case too.

So the Starbucks tax case is important because it raises real issues of tax policy here in the UK that if not addressed will threaten the viability for UK small businesses. There can't be anything much more important than that when we're looking for UK business to help pull us out of the recession, but so far the government seems quite unable to see the seriousness of the situation they have created. And that leads to the inevitable question of why that is the case, and in whose interests they are governing.