

## The corporate tax debate is a Marmite issue: there's no...

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Across Europe a realisation has dawned in almost every government that the commodity now in shortest supply in almost every economy is tax revenue. From economies like the UK, [where tax income in aggregate from 1997 to 2007 comfortably covered current government spending](#) and a significant part of investment cost as well, to Greece where, let's be honest, rampant tax evasion associated with a [shadow economy representing more than 25% of GDP](#), the impact has been broadly similar. Something akin to suppressed panic is breaking out as the realisation dawns that the reason for continuing massive deficits accumulating no longer has much to do with, and certainly can no longer be blamed on, the failure of banks in 2008 and has instead everything to do with a failure of almost all governments to collect sufficient revenue to pay for the services their populations demand and which, very clearly, their economies have the capacity to supply.

This last point is vital: the reality is that government deficits are currently facilitating economic activity that there is real capacity to deliver. What is more, without deficits we would have massively more unemployment, greater inequality and a bleak future populated by under-trained people without hope, and with the prospect of shorter lives. Amazingly, that deficit spending is doing all this without boosting inflation, destroying the exchange rate or, astonishingly, leaving us with a mountain of debt, since quantitative easing has eliminated some of the risk there by [cancelling £375 billion of the cost of the deficit](#), so far.

However, even that sum though does not balance the books: we are still short of tax revenue. And that's why the outbreak of press interest in another dimension of this story in the last few weeks was, perhaps, predictable. I refer, of course, to [the problem of US multinational companies \(in particular\) not paying tax](#) on what appears to be all the profits they make in the UK. By a variety of means, whether it be multiple transfer pricing escapades in some companies, or by simply claiming that their sales do not arise here by way of legal artifice that leaves almost anyone with just a modicum of cynicism open to at least reasonable doubt that anyone with a similar modicum of credibility might suggest that such an arrangement is plausible, it seems that companies are simply sidestepping their UK tax liabilities. The amount lost is open to

dispute: identified cases are suggested, so far, to give rise to losses of at least [£900 million in tax](#). Those losses are, therefore, bound to be bigger. For the record, I would add that not a penny of this is in my estimate of the UK tax gap caused by the tax avoidance of large UK based parent companies, which [I think might be £12 billion a year](#): that's because these are losses caused by non-UK parent companies.

Let me leave aside how this abuse happens; that is for another place, even if it has not been properly explored yet. And let's also ignore for now why this happens: let's take it as read that companies think this is an action that is in their interests. So let's instead look at the political issues that the shortage of tax revenue, and the contribution of large companies to this phenomena, give rise to.

First, it is now apparent that politicians' panic about deficits has created the need for a villain. The first target was tax havens. They deserve their role, but they remain remote, conceptually and physically. Companies familiar to households across the country are not so remote. That means the perfect villain has been found by the media in the form of these companies, even though by itself their behaviour could never create the deficit, or resolve it if addressed. That does not matter; a media anxious to appease people who have now realised that the austerity that a shortage of tax revenue has created is very personal as its impact spreads, now has a ready, and seemingly guileless, villain to blame.

Secondly, the fact that for largely methodological reasons, for which I have some responsibility, it has been easier to target US rather than UK companies at this stage of the awareness building on this problem has also played into the hands of those who wish to blame 'someone else' for what is happening. These companies are undoubtedly tax avoiding; no-one could possibly suggest otherwise, but they have certainly played straight into the hands of opposition politicians and an anxious press by doing so.

Thirdly, the fact that it can be suggested that the solution to this problem lies elsewhere as well - at the Paris based OECD or within the EU - lets government politicians also express their outrage and then wring their hands when nothing can be done.

In combination it is a perfect amalgam for the creation of a political demand for change that those with responsibility for delivering it do, if their action is anything to go by, hope will pass before anyone notices they have done nothing about it.

That hope that this storm will pass is the action of what I have called cowardly politicians in my book [The Courageous State](#). Those politicians - and I cast quite a variety of politicians of recent years, including, almost without exception, the current government - seek always to put distance between themselves and a problem, trusting others, whether it be the market, other institutions or time, to solve it.

I, on the other hand, favour Courageous politicians, driven by conviction that leads

them to take action in innovative response to the public mood. Nye Bevan instinctively understood such politicians when he wrote in 'In Place of Fear' "The first function of the political leader is advocacy. It is he (sic) who must articulate the wants, the frustrations, and the aspirations of the masses. Their hearts must be moved by his words, and so his words must be attuned to their realities."

The current tax crisis is a situation where, I suspect, only such courageous advocacy in tune with public opinion will do. Firstly, deficits are not going away, so this problem will persist. Secondly, as yet there is no reason to think companies will voluntarily change their behaviour. Thirdly, having established a simple means to identify this behaviour the press is unlikely to let it go. That means it will remain a perfect gift to opposition politicians seeking popular support. And therefore, lastly, hand wringing will not do unless a clear political fault line with potential significant consequences for the government is going to develop. No politician can afford to look weak in the face of a threat. These companies pose a threat to the government and its revenue and unless they act in the face of it then they will definitely look weak, and the public will perceive it.

That's not least because the tax justice movement, of which I am a part and which has helped generate many of these stories, is solution focussed. We have said there's an issue and the world now believes us. We have also said the problem can be solved. What is more the press and opposition know it. So do activists like UK Uncut and Occupy, whose role in this has been vital.

The option of knowing what corporations are doing is available if only [country-by-country reporting](#) were introduced, which would demand a profit and loss account for each and every jurisdiction in which a company worked. Worryingly for the government, this has enough NGO support to have already been driven onto the statute books of the US and (soon) the EU, albeit only in part and for the extractive industries alone, but the momentum is clear. And yet our government is doing nothing and says this is an issue for the OECD (which it is not, and never will be since they have no serious accounting remit).

So too is there momentum for a real [general anti-avoidance principle](#) in UK law, and yet the government in the face of the demand is delivering a proposal so toothless that its own impact assessment says it will have no measurable consequence for the UK economy. If ever there was an admission of cowardice in the face of a crisis that is it. The alternative, written by me and tabled by Michael Meacher in the House of Commons, is a strong measure designed to tackle just the sort of arrangement that US corporations are using. Unsurprisingly the Labour front bench are showing interest in it.

And there are moves afoot to suggest that in the face of George Osborne's move to a territorial base for UK corporation tax the whole logic of the OECD's approach to solving this problem, which he has demanded they tinker with in search of a solution, no longer makes sense and [that unitary taxation](#) - which apportions the profits of multinational

companies to states on a formula basis after which those states have complete sovereignty over tax rates and allowances (now but a dream) makes a great deal of sense.

Each of these steps requires vision, understanding and leadership though; qualities that this government is not evidencing. If the opposition assumed that mantle instead they could redirect a lot of anger aimed at the government's inaction onto their ability to solve a problem, and win credibility as a result.

The media have not latched onto this issue by chance, or by coincidence. The Tax Justice Network has worked on it since 2003. It's current emergence is not just the result of more data; it reflects real public concern about their own well-being which the press are reflecting in their commentary. That though makes this a difficult issue for government and opposition alike. Who has the courage to tackle this (conveniently) foreign aggressor and bring back the spoils to the UK? Those spoils are big enough to fight over. This issue has the potential to remain on the political agenda as a result.

Watch out for the story of tax avoidance to run, and run, to the next election and beyond. This is a Marmite agenda: where you are on this is for most people unambiguous. It has the power to divide politics as a consequence.

That is what I, and the Tax Justice Network, hoped for. We recognise that this is not a fence sitting issue. It is one that drives to the heart of our belief in democratic government that has the right to impose its will.

That is why I expect this issue to deliver opportunities, and since I can't see anyone in the current government rising to this challenge it is wide open for Labour. This is about One Nation, and its right to tax. That's pretty much a gift right now, and one that needs to be accepted with open arms.