

Funding the Future

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I suspect most people will not get to see the full press release issued by the Public Accounts Committee on its findings on H M Revenue & Customs, Starbucks, Google and Amazon, so for the record, this is it:

HM Revenue and Customs: Annual Report and Accounts 2011-12 (Session with Starbucks, Amazon, etc)

Chair: The Rt Hon Margaret Hodge

The Rt Hon Margaret Hodge MP, Chair of the Committee of Public Accounts, today said:

“Global companies with huge operations in the UK generating significant amounts of income are getting away with paying little or no corporation tax here. This is outrageous and an insult to British businesses and individuals who pay their fair share.

“Corporation tax revenues have fallen at a time when securing proper income from taxes is more vital than ever.

“There is little credible information about what is going on. The evidence we took from large corporations was unconvincing and, in some cases, evasive. HMRC also lacked clarity when trying to explain its approach to enforcing the corporation tax regime.

“The inescapable conclusion is that multinationals are using structures and exploiting current tax legislation to move offshore profits that are clearly generated from economic activity in the UK.

“HMRC should be challenging this but its response so far to these big businesses and their aggressive tax planning has lacked determination and looks way too lenient. Policing the tax system must be at the heart of what HMRC does.

“It must be more aggressive and assertive in confronting corporate tax

avoidance. This is essential for the credibility of both the Department and the tax system.

Confidence in our tax system can only be maintained if every company and every individual is seen to be paying their fair share. That requires HMRC to act firmly now.

"But the drive to make these companies live up to their obligations will have to be conducted on a number of fronts. These include possible legislative change within the UK and efforts to increase international cooperation. The multinationals should be required to report their tax practices transparently. Prosecutions should be mounted where necessary and offenders should be publically named and shamed.

"We consider that paying an appropriate amount of tax in the country in which profits are made is not only a matter of basic economics. It is also a matter of morality. The UK should be taking the lead in making this point."

Margaret Hodge was speaking as the Committee published its 19th Report of this Session which, on the basis of evidence from HM Revenue & Customs, examined the Department's annual report and accounts for 2011-12.

Transparent, predictable and fair taxation is at the core of our public finances. The Government has a responsibility to assess and collect tax due from all taxpayers, without fear or favour, and taxpayers should pay all that tax which is due. Whilst we looked at a range of issues among HM Revenue & Customs' (HMRC's) activities, our principal enquiries were into the corporation tax paid by multinational companies.

The hearings we held showed that international companies are able to exploit national and international tax structures to minimise corporation tax on the economic activity they conduct in the UK. The outcome is that they do not pay their fair share. We believe that this practice is widespread and that HMRC is not taking sufficiently aggressive action to assess and collect the appropriate amount of corporation tax from these multinationals. If companies do not pay their fair share of tax, other taxpayers have to pay more. Both HMRC and corporate taxpayers are failing to meet the legitimate public expectations from the tax system.

We took evidence from multinational companies and HMRC to understand how successful companies with huge operations in the UK pay little or no corporation tax. The evidence we received was unconvincing, and in some cases evasive. We are concerned that multinationals have an unfair competitive advantage over British businesses which have no choice but to pay their corporation tax. It is also unclear whether HMRC have the

necessary resources or are devoting the time and effort to collect the appropriate level of tax.

HMRC needs a change in mindset in the way it approaches collecting tax from multinationals. At the moment there is a pervasive acceptance of the status quo by the top officials in HMRC and we have seen little evidence of a desire to be more assertive. For example, it is perplexing that, on transfer pricing HMRC consider a royalty fee of 6% or 4.7% can be competitive when the company involved consistently makes a loss. We expect HMRC to prosecute multinational companies who do not pay the tax due in the UK.

This change of mindset needs also to apply to HMRC's approach to the Tax Gap — the difference between tax collected and that which, in the Department's view, should be collected. While total tax revenues have increased by £4 billion since 2010-11, the Department's own assessment of the gap stands at £32 billion and has only reduced by £1 billion since 2004-05. Despite this poor performance, HMRC were unconvincingly positive about the situation. While we recognise that it will always be an unequal fight between HMRC and multinational companies, HMRC should not be so accepting of failure and should set ambitious targets to reduce it as soon as possible.

There is currently a complete lack of transparency about why multinationals pay so little corporation tax. Global companies structure their companies in ways that are impenetrable to the public and HMRC disclose very little about their approach to collecting tax from them. This undermines public confidence in the tax system and in HMRC which could have a negative impact for wider tax compliance. Effective change may require international cooperation to make sure that the UK is not isolated, but there is a moral case on top of the basic economic case that taxation of economic activity should transparently reflect where that activity occurs. The UK should be in the lead in making and enforcing this case. There are also steps HMRC and the UK Government can take to improve the legitimate tax take from multinational corporations.

For individual taxpayers, HMRC deserves praise for clearing the backlog of un-reconciled legacy PAYE cases, before its target of December 2012, but is too complacent about the service it provides to customers. The next challenges HMRC faces are the roll-out of the Real Time Information system and the changes to child benefit. HMRC did not convince us that it will manage the potential increase in its workload or that it had fully considered the impact on taxpayers. There are four months to go before the main roll-out of the Real Time Information system. The system is vital for the Department for Work and Pensions' introduction of Universal Credit, but HMRC has no contingency planning to cope with any delays in implementation.

The Department's performance in reducing the level of error and fraud on the tax credits it pays has got worse rather than better, and it has failed to meet its target. In the future, families may find themselves struggling to repay money from much reduced Universal Credit payments as a consequence of the Department's poor performance.

Worth reproducing, I think.