

Npower's are avoiding tax despite all their claims to t...

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A [couple of weeks ago Npower were accused of not paying tax in the UK](#). The result was that 38 Degrees, the campaigning group picked up the issue. I looked at it and decided that Npower's claim that this was because of investment in the UK rang hollow. It seemed to me that it was because Npower was structured so that interest was paid from its UK operation to cancel profits earned, and since that interest was 99% due in inter-company loans that [looked like deliberate tax structuring to me, so I said so](#).

The usual accusations then flew, not least being that if the interest was paid to Npower's German parent company then the tax rate there was higher than here so how could this be avoidance.

And, of course, the company said it had done nothing illegal, was not avoiding tax, HMRC knew all about its arrangements and so on. All of which are true, I'm sure.

But I wasn't happy with that: the Npower structure could not have been by chance and looked tax motivated. So with some more work, and after discussion with Richard Brooks at Private Eye, I set to work again.

The result is a [new report published this morning](#) by me for 38 Degrees, and [a story in this morning's Sun](#) (I didn't choose it).

The summary of the story is this:

- * Npower is a complex group of companies, even in the UK, and much more so when considered as a part of its German parent company, RWE Ag;
- * Npower does not provide a single set of accounts for the UK, which has added considerably to the confusion surrounding this issue;
- * Npower has issued several quite different reports of its trading and profits in the UK. Depending upon the source used sales vary by hundreds of millions of pounds whilst profits reported by RWE and Npower for the UK vary between about £310 million in 2011 according to two reports, £240 million according to two other reports and a loss of £38 million according to the accounts of RWE Npower plc. It is almost impossible to tell

which of these claims is correct.

- * What is, however, clear is that according to RWE, (Npower's parent company):
- * It has a profitable operation in the UK;
- * That is true even after the costs of new investment in the UK are taken into account;
- * At no point does RWE report a loss making activity in the UK.
- * Despite this tax is not paid by Npower in the UK.

- * RWE does appear to pay, if anything, more tax than might be expected of it in Germany. At a group level, and as a whole, based on an assessment of its German accounts, it appears not to be avoiding tax.
- * However, when the structure of the UK operation is considered in detail it is clear that this is not true. Tax avoidance does appear to be taking place at this level. This is because:
 - * RWE does not mainly finance the UK operation of Npower with share capital. It does instead mainly use loans to fund the UK operation of Npower.
 - * Of the loans provided by RWE to Npower in the UK, totalling more than £2.7 billion in all, more than £2.3 billion are provided not by RWE in Germany but by a Maltese company that RWE owns called Scaris Limited.
 - * Accounts for Scaris Limited are not available but based on reporting by RWE in Germany it made a profit of at least £150 million in 2011 and maybe half of this comes from it making loans to Npower in the UK.
 - * Because Npower basically turns its UK profits into taxable losses by paying interest from this country to Scaris Limited it is likely that it has saved tax in the UK of maybe £108 million as a result of interest paid to Scaris Limited between 2008 and 2011.
 - * The interest received by Scaris Limited in Malta is likely to be taxed at between 5% and 10%, meaning a maximum tax bill on this interest in Malta of about £39 million, and maybe a lot less.
 - * If the interest is paid on by Scaris Limited to Germany as a dividend (which is almost certainly what happens) the income received in Germany from Scaris Limited would be tax free in Germany.
 - * The result is that Npower and its German group have saved more than £60 million a year in tax over four years by using this structure and maybe £100 million of tax in the UK has not been paid as a result of using it.
- * It is very hard to explain why RWE would lend money to Npower via Malta unless tax avoidance was its motive. The tax saving that results are very clear.
- * As a result it appears that Npower is shifting its profits from the UK to Malta by paying interest to a company based there with the only likely motive being a desire to

avoid tax in the UK and in turn, and in due course, in Germany. Missing Malta out of the structure would mean that the tax was not avoided and as a result its use suggests that tax avoidance is occurring.

What this then suggests is that two demands should be made of Npower.

The first is that they stop avoiding tax in the UK and elsewhere by using tax haven subsidiaries to which they are deliberately shifting profit.

The second demand is that Npower clear up the confusion about its profits and activity in the UK by publishing a single set of accounts for the UK as a whole showing just what trade it undertakes here, how much profit it makes in this country and how much tax it pays as a result. The days when companies can issue multiple profit figures for one country should be consigned to history.