Funding the Future

# Fisking Eric Schmidt of Google

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The Observer has been even handed this morning. As well as reporting the efforts to stop global tax abuse [it also gave a column to Eric Schmidt](), Google's global Chairman. I have to say he used it to spread misinformation which I feel duty bound to rebut. He opened saying:

*At a time when families are having to tighten their belts and funding for vital public services is under pressure, corporate taxation is rightly a hot topic. And as a company that has always aspired to do the right thing, we understand why Google is at the centre of that debate. In the interests of moving the argument forward — away from accusation and toward action — here are three principles we hope most people can agree upon.*

So far, so good. He then began to set out those principles:

*First, corporation tax should be paid on a company's profits, not its revenues.*

Well, maybe. Actually there's a lot of evidence that internet companies (Amazon, in particular) also avoid sales taxes. So, the claim is only partly right. But he's referring to corporation taxes here so I let him continue, saying:

*When a company only operates in one country, it's obvious where its profits are generated and thus where its taxes should be paid. But for multinational companies with a global presence, it's much more complicated. To pay the right amount in taxation, you need to determine where the profit is actually created. So most developed countries, including the UK, have worked together to create a set of tax treaties. These are based on the principle that corporate taxes are levied in the country where a company conducts the economic activity, and takes the risk, that generates its profits — not where products are consumed.*

This is just not true. It's absurd to say that a company makes all its money where it engineers its product. If it was true we'd need to know why Rolls Royce, despite having its engineering and most of its people in the UK paid no tax here, but paid lots elsewhere, for example. We'd also need to know why Google, despite engineering its product in the US actually records much of the world wide profit arising from it in Bermuda. And the claim is anyway just wrong. You can't make a profit without customers. It's impossible. So a major part of profit allocation has to go to the sales teams that face customers. And Google has a very big team of such people in the UK who it denies make any money.  No one says they make all the value in the UK sale: that would be absurd. But to say they make no margin at all, as Google does, is equally wrong. And in that case this first claim by Schimdt is best described as sophistry, but not truth.

He continued:

*Second, politicians — not companies — set the rules.*

This is almost risible in the current environment of corporation tax. Companies spend small fortunes lobbying for the tax laws they want; the non-exec board of HMRC is made up wholly of large business people, almost all consultation panels on tax are comprised almost entirely of representatives of big business or their sponsored academics, lawyers and accountants (the General Anti-Abuse Rule being an exception where we were outnumbered 9 to 2), the OECD listens to big business almost entirely and the result is business gets that tax it wants. This claim by Schmidt is simply unjustifiable.

But I should let him finish:

*Third, given the intensity of the debate, not just in the UK but also in America and elsewhere, international tax law could almost certainly benefit from reform. It's why the Organisation for Economic Co-operation and Development (OECD) will be publishing a hotly awaited paper in July on how to make these rules simpler and more transparent. Change won't be easy because it will require the renegotiation of international tax treaties, not just action by individual nation states. And many of those countries will doubtless have competing interests.*

*For example, it's tempting for every government to assume that they will benefit if and when the current structure changes. But in reality, it's probably only a significant increase in corporation taxes globally that would make every country a "winner" — and the consequences of that would likely be less innovation, less growth and less job creation.*

Look at the markers being laid down already:

"*We'd love reform, but it's so hard*"

"*We want reform but it's competing national interests that prevented it - even if we did sponsor the idea of tax competition and exploit it in the first place*" *and*

"*You're really being anti-business in asking for reform - because after all, asking us to pay tax is anti-business*"

*and*

"*If you spite us, we'll spite you*"

It's nice, isn't it?

Margaret Hodge was right: Google does evil.