f Reuters and the PAC have found Google has a permanen...

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The Guardian has reported, following the Reuters report to which I referred this morning , that:

Google and its auditor Ernst & Young will be recalled to parliament to restate their evidence on the internet search giant's tax position following an investigation into Google's advertising sales practices.

Let's be clear what this is about, because it is very simple. Google has said to the PAC and to HMRC that it makes no sales in the UK. As a result all its UK source revenue is booked in Ireland and is taxed there, and not in this country. Hundreds of millions of UK tax have been avoided in my estimation as a result.

And as Tom Bergin of Reuters has found, and as the Guardian reports:

Google employs "a couple of hundred" staff at its European headquarters in Dublin whose job it was to sell to UK clients, but 700 in marketing and advising on its products in the UK.

The profiles of around 150 London-based employees on the LinkedIn networking website said they were involved in formulating sales strategy, managing sales teams, closing deals or other sales work.

Google's own corporate website was found to be calling for London-based staff whose duties would include "negotiating deals", closing "strategic and revenue deals" and achieving "quarterly sales quotas".

So the suggestion is that Google has not told the truth. Either it is selling in the UK, or not, and this is not a matter of what the contracts say, it is a matter of fact. Reuters are challenging Google's version of those facts.

But let's also be clear what is at stake here.

First it's Google's reputation, and cash, obviously.

Secondly it's Ernst & Young's reputation. If they signed this arrangement off as auditors and it's wrong they are seriously at risk from claim, but more important, from reputational damage. Remember Andersens?

And yet neither of those are the big deal. The big deal is with HMRC. Google is dealt with the by Large Business Office of HMRC, which has customer relationship managers for each taxpayer who (with their staff) are meant to crawl all over the business of each taxpayer they are responsible for to make sure the right tax is paid. It so happens that the LBO is also the division that has rather cosy relationships with business within HMRC, following the lead given by Dave Hartnett on this issue in 2006. The aim is not to confront these taxpayers, but to work with them to negotiate their tax liabilities. If, however, it's shown that despite this HMRC did not realise what was happening right under their noses, and despite their level of access to the business, then quite candidly the whole of the LBO business model that HMRC has pursued is holed below the waterline.

It's not hard to work out if someone is selling or not. It's not hard if you're HMRC to get evidence (just ask for email files - and then you'll find out: better still, look at staff structures and pay rewards for selling, plus team meeting records - which are always candid on such issues since few front line staff understand tax nuance as is obvious from what Tom Bergin has found on Linkedin). And if they did none of that? Then, I think, the future direction of HMRC is in doubt, heads should roll, the organisation should be shaken up from top to bottom and the relationship with business would have to change.

Right now memos will be being written in HMRC asking for ministerial support to limit the damage from the fall out from all this. There will be panic in the upper echelons of the organisation, and rightly so. And this time, if Google are selling here, then ministers have a duty to withhold their support. This time HMRC will have to carry the can.

Are the days of the cosy relationship over?

They're not if Google are right. But that's a slender hope based on the evidence now coming out.

Watch this space.