Funding the Future

How much tax has the UK lost on the Vodafone deal? At l...

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According to the FT this morning:

Shareholders in Vodafone are set to receive one of the biggest ever payouts from a corporate asset sale, with the UK company planning to hand back some $84bn in cash and shares after striking a deal to sell its stake in its US mobile phone business.

Now, we know this deal is being done in the Netherlands to avoid tax on it, and we know that will work.

We also know coincidentally that there would be no tax to pay on this deal if it had been undertaken in the UK, but that's irrelevant, because it wasn't. I have criticised that exemption, but it would not have applied in this case.

What would have applied until 2009 was a charge to tax in the UK on the dividend received from the Dutch subsidiary of Vodafone, less any tax paid in the Netherlands on the income giving rise to the dividend (in this case, nothing). But what happened in 2009 was that a law, which had been subject to consultation before the 2008 crash, was brought in which exempted those overseas dividends from tax in the UK. That law was enacted because the UK's plcs lined up to say they would leave the country if the law was not changed. And Brown and Darling, in the face of companies like Shire plc queuing up to move headquarters, if not real commercial operations, outside the UK, caved in. Osborne has given much more away since, deliberately, and with relish.

The result is that in this case we will end up with double non-taxation: no tax in the Netherlands and no tax in the UK. This is exactly the problem at the heart of corporation tax worldwide now. And although Vodafone has done nothing wrong in law to exploit the opportunity I am, I maintain, absolutely justified in saying that this is an exemption that was ill advised in the first place (and which proved the whole folly of asking big business its opinion on tax - as happened in this case - as they will always advise solely in their own interests) and which should now be changed. The aim of this relief was to encourage the use of the the City as a mergers and acquisitions base. We now know that was socially useless activity by socially useless people that failed to add economic value to this country.

And the cost in terms of tax lost on that Vodafone dividend? Over £12 billion. That's what has gone by the wayside.

And before some say that small UK shareholders will pay some tax in the UK on this, let's please note that large parts of the dividend will go offshore where they won't be taxed either, making it triple non-taxation. No one, anywhere, can justify that.

This is the perfect example of why the world's corporate tax systems are failing and are in need of urgent reform, now.

But I am not optimistic that the G20 will act and yet I see this as an issue of the highest international priority because these sorts of sums, floating around the world tax free are massively economically and socially disruptive and are clearly being used to undermine the democratic process by highlighting the contempt that the business world has for accountability to that process. Let's be under no illusion about the harm that causes: it is considerable.