

Tax haven UK runs a voluntary box corporation tax syste...

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The extent to which the UK has become a tax haven became apparent yesterday at the Public Accounts Committee Hearing when Margaret Hodge asked why 30% of all UK companies are not asked to submit tax returns, [a statistic based on my research in 2009-10](#).

Jim Harra replied that the companies in question were either dormant or not liable to tax in the UK as they were entirely trading overseas. He cited the example of Germany as a country where a great many UK registered companies trade because it is much cheaper to form a UK company than a German one. He even resorted to claiming that "off the shelf companies" held by company formation agents were another explanation - which is absurd: they don't stay on the shelf that long.

I find all these answers deeply troubling. The last is troubling because it indicates an official thrashing around to find an answer when they don't really know what they're talking about, but the other two are more profound.

Firstly he claimed that form CT41G sent to a company when incorporated showed whether a company was dormant or not. It does, if its completed. There is no penalty for non-completion.

Second, the exemption from filing a corporation tax return if form CT41G with a statement that the company is dormant is completed is almost invariably 5 years. That's absurd. Just because a company is dormant at a point in time does not mean it will stay so. This five year exemption granted without almost any questions being asked or evidence being supplied is therefore a simple opportunity for those in the know to form a company, declare dormancy and then trade with tax impunity. And although it is true that forms are sent out towards the end of the five year period to enquire whether or not the company has traded these do not ever appear to be followed up in practice. The system is wholly unpoliced, a point on which Margaret Hodge did not, on this occasion, drive home her advantage as much as she might.

The reality is that there is simply no excuse for not sending out a corporation tax return

to supposedly dormant companies every year - and for pursuing it if not submitted. Ways of policing the arrangement are included in the [UK Corporate and Individual Tax and Financial Transparency Bill](#). I have written for Michael Meacher MP and which is back before the House of Commons for debate on Friday.

And this answer also ignored that fact that [at least a third of all tax corporation tax returns requested are not submitted](#) - meaning the overall failure rate can be as high as 50%. That's why corporation tax is now a voluntary collecting box arrangement in this country due to HMRC failing to undertake the obligations imposed on them by parliament.

The claims on residence are even more troubling though. The default assumption of UK tax law is that all UK registered companies are UK tax resident unless proved otherwise. [As the HMRC manual says](#):

The incorporation rule at CTA09/S14 states that, with certain exceptions, a UK incorporated company is resident in the UK for tax purposes. This rule was originally introduced as FA88/S66 and FA88/SCH7.

The exceptions are the important bit, of course. Broadly speaking the same section of the HMRC manual says these apply as follows:

Some companies may clearly fulfil the condition, for example, a company which can show that

** its place of management, for example, its Head Office, is in a country which, at least in principle, taxes companies incorporated in the country on their worldwide income*

and

** the company is taxed there on the same basis as a company incorporated there.*

These are strict conditions and they need data to prove they are true. So, to qualify it must be known that:

- a) The company is based abroad
- b) That the company where it is based taxes it
- c) Its world-wide income is taxed

There is no way this can be known without a corporation tax return that requires accounts to be submitted with evidence on all three points - and part of that evidence would have to be data on which country is taxing it under what reference with some indication of tax being paid.

But that's not what Jim Harra said HMRC demand. Instead he said that HMRC simply do not require corporation tax returns or accounts from these companies. Now that is worrying. Because that's something very different to what the law seems to demand of HMRC - which is that it must be satisfied on the basis of evidence that the company is not resident here and because it is resident somewhere else. A bland statement from a director cannot prove that - only evidence of another tax jurisdiction accepting taxing responsibility can do that and that requires a corporation tax return with that evidence attached.

But that is not being required so what we have is a situation where HMRC is simply turning a blind eye to the fact that UK companies are being formed at almost no cost and no economic gain to the UK to be traded overseas, often run by nominee UK directors and shareholders to hide their true identity and are almost certainly as a result not paying tax anywhere but about which companies HMRC ask no questions, so facilitating their fraud.

This, to put it bluntly, is the activity of a grossly negligent tax haven state. It's what I have accused the Crown Dependencies of for years, and now it is being admitted quite openly that it is what is happening here in the UK.

This farce has to end. Proper regulation of UK companies has to be put in place, Every company has to submit a UK corporation tax return and accounts. penalties have to be imposed on those that do not do so. And the UK has to proactively collect data on companies registered here but trading elsewhere to make sure we fully cooperate with other counties to ensure that tax is paid in the right place at the right rate and at the right time. The last thing HMRC can say is that they are ensuring that this is the case at present and that is an outright scandal.

I've said it before and I'll say it again: we have a tax authority that seems better suited to running tax abuse than collecting tax right now and that has to change.

And we're fast heading for being the default tax haven for Europe so negligent are we on these issues. That has to change too. But where is the willingness to force that through?