

The Fair Tax Mark is debated in parliament

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There was an adjournment debate in Westminster Hall [on the Fair Tax Mark](#) yesterday introduced by Caroline Lucas MP and responded to by Treasury Minister David Gauke. [The full transcript was as follows](#):

Caroline Lucas (Brighton, Pavilion, Green)

It is an honour to serve under you in the Chair, Mr Howarth. I am grateful for the chance to raise the subject of fair tax today. I intend to build on the work that went into one of my first private Member's Bills, on tax and financial transparency. I want to highlight the growing case for the Government to require companies to come clean, and I want to explain why that should be matched by efforts to recognise and reward those companies that currently and proactively pay their fair share of tax. I will set out, too, why fair tax ought to be at the heart of the Government's corporate social responsibility agenda.

No one, I am sure, will be surprised at the timing of my request for the debate. We will all assemble tomorrow to hear the Chancellor of the Exchequer present his latest Budget. Among the measures he presents, there will no doubt be many references to taxation. Equally, I have little doubt that he will refer to the tax contribution that companies make to this country. After all, the UK's limited companies, of which there are now more than 3.2 million, make a valuable contribution to our Exchequer, including by way of corporation tax. That tax on the profit of companies is scheduled to raise £39 billion in total this year, for example. However, it is, as hon. Members will know, that tax in particular that has attracted so much public attention, not least because of campaigns by organisations such as the Tax Justice Network, ActionAid, Oxfam and Christian Aid, but also because of the invaluable work of Margaret Hodge, the Chair of the Public Accounts Committee.

The taxes paid by corporations were also, of course, the focus of much of the Prime Minister's attention last year during his period as chair of the G8, when he drew attention to the problem of international tax abuse and its impact on tax revenues in both the UK and elsewhere. Partly as a result of his efforts, the Organisation for

Economic Co-operation and Development is now devoting much of its attention to addressing what it describes as the problem of base erosion and profit shifting, which is a somewhat Orwellian term for something that most of us would simply call “shifting profits to tax havens”.

As anyone who has looked at this issue will know, it is incredibly difficult in many cases to work out precisely what tax is paid by which corporation, in what state, where and when. There are a number of reasons for that, including that both generally accepted accounting principles in the UK and the rules set down by the international accounting standards foundation are full of weaknesses when it comes to the requirements for accounting for tax. In both cases, it is necessary for a company only to specify a total tax charge, split between current taxation and deferred taxation. There is no need for a company to explain in which country the liabilities are due, to report when the actual sum is settled or to set out why the current tax liability has been reduced from that which would be expected if paid at the full UK corporation tax rate.

Criticism of those rules is widespread and not just from those who might be dismissed as the usual suspects. International accountants Ernst and Young—hardly associated with being anti-establishment—said this in a report that it issued last year:

“Public debate is increasingly focused on the tax policies of companies as well as the amount of tax they pay. With the dialogue played out across a number of channels including investors, parliamentary committees, governments and the EU as well as the national press and social media, there is growing pressure on organisations to respond or face reputational damage...In our view, the debate around ‘fair tax’ has raised the bar in terms of the expectations of the level of tax information provided by multinational companies and we expect the response will be a greater degree of disclosure by many organisations. Indeed, the debate is progressing at such a pace that it is difficult to envisage an environment where increased tax transparency in some form or another is not on the near horizon.”

The report concludes:

“Reporting, both voluntary and mandatory, is therefore a key element of tax transparency—simply complying with the current rules may no longer be enough.”

I could not put it better myself, which is why I have quoted the report at such length. As the accountants at Ernst and Young clearly understand, the time has come for companies, both large and small, to come clean about their tax affairs.

My Tax and Financial Transparency Bill, published in 2011, was designed to help the UK to recover billions of pounds of lost tax by forcing companies to become more transparent in their accounting. It included a requirement on multinational companies to publish information on where they make their sales, record their profits and pay their taxes in order to ensure that corporations make a fair and proper contribution to

society. The Bill would also have ensured that banks had to provide details on all accounts that they maintained for companies operating in the UK, so that Her Majesty's Revenue and Customs and Companies House could chase those companies that did not file the returns that they are obliged to make for the missing information—and the tax that they owed.

I hope that, in tomorrow's Budget, we will get an update on the latest action that the Treasury has been taking to tackle tax evasion, and to promote tax and financial transparency. Every step in the right direction is to be welcomed. However, we have yet to see any commitment from the Government to the kind of overhaul that would put fair tax, as envisaged by my Bill or indeed by Ernst and Young's accountants, centre stage.

This is an issue at the heart of corporate social responsibility. That is why I support the fair tax mark, which was launched in February of this year, and I am pleased that 40 Members of this House have signed my early-day motion commending the mark. I applaud those behind the mark, who are seeking to mainstream responsible tax in corporate responsibility discourse. For far too long, the issue has simply been ignored.

I equally applaud the three companies that pioneered the fair tax mark at the time of its launch. The Midcounties Co-operative, Unity Trust Bank and the Phone Co-op deserve to be praised for their courage in standing out from the crowd and making it very clear that they are committed to paying fair tax in this country.

For too long, the corporate responsibility world has been silent on this issue, and a jolt was needed to force it to come out into the open. It is not a coincidence, I believe, that social enterprises are at the forefront of this development, given the key role that they have already played in the global roll-out of Fairtrade—a scheme that works along similar lines. I hope that companies of all types and persuasions will join the early pioneers in applying for the fair tax mark over the coming years, and that this mark will become as familiar as the Fairtrade mark has become to many. Indeed, I have written to a number of businesses in my constituency that have already demonstrated strong ethical principles in their commitment to the living wage to make them aware of the fair tax mark scheme.

The potential is enormous. Recent polling by the Institute of Business Ethics has found that corporate tax dodging is now the No. 1 concern of the public when it comes to business conduct. This, though, will not be enough. Voluntary arrangements are important, and pioneers indicate the way in which society should change, but it is down to this House, and the Government whom we hold to account, to respond to such demands in ways that meet public expectation. Therefore, in the time remaining to me, I would like to ask the Minister four questions with regard to fair tax.

First, does the Minister welcome the development of the fair tax mark and the necessity of tax being a mainstream issue for corporate responsibility?

Secondly, many other hon. Members will be familiar with what is called country-by-country reporting by multinational corporations. It was a demand made by the tax justice movement that multinational companies publish separate accounts for each and every jurisdiction in which they trade. It was a requirement of my 2011 private Member's Bill that companies operating in the UK do that, so I was encouraged when, at the G8 summit last year, the Prime Minister asked that that information be supplied by multinational companies to their tax authorities, yet we know that his own Government have been working incredibly hard at European Union level and elsewhere to ensure that that information will not be required by the new EU accounting directive. Indeed, the UK has been reported to be blocking progress on that issue at present, so will the Government reflect the mood of some in the accounting profession, of the public, of this House and of stakeholders throughout the UK and the rest of the world and demand that companies put that information on public record?

Thirdly, I think that the time has come for the Government to initiate reform in the disclosure required concerning tax liabilities and payments in the accounts of UK companies. For too long, we have devolved responsibility on this issue to members of the accounting profession, whether it be in this country or internationally, because it is they who now set the disclosure rules, yet it is that same profession that has also promoted so much of the tax abuse that is now costing our country, and many countries in the global south, dear. I do not think that it is a coincidence that the big four firms of accountants are present in every major tax haven in the world. Can the Minister therefore tell me whether a review might be established to determine what disclosure should be made to ensure that we can hold all companies—large and small, national and international—to account for the tax that they should pay in this country?

Lastly, I, like many, think that the Government should reward responsible tax payment. It was only a year or so ago that the Government said that they were going to consider a company's tax record in their procurement policy, and I welcome the fact that the Cabinet Office has clearly stated in a procurement policy note of July 2013 that Government contracts worth more than £5 million will not be awarded to companies that aggressively avoid paying their tax. However, it is disappointing that the Treasury backed off from further action when it realised that there were problems with compatibility with EU law. I recognise that there are problems, but I have been told that they are not insurmountable. I have also been told that there is demand for reform on this issue in many countries in Europe—in particular France, Finland and Sweden—and elsewhere. Is it not time for the Government to say that they want to trade with businesses that show they recognise their responsibility to society by paying their tax? That might come from a straightforward endorsement of companies that have a fair tax mark. The Government might also try to revise EU law or seek informed opinion about how procurement arrangements can be revised within existing law.

The right hon. Member for Barking said in a Public Accounts Committee hearing last year that the tax avoidance that Her Majesty's Revenue and Customs acknowledged in

its tax gap calculations was “the tip of the iceberg” of the true cost to the UK. In 2010, the Prime Minister said: “Sunlight is the best disinfectant”. I agree that transparency is the best way to ensure that companies are held to account for the tax that they pay. I hope the Government will commit to ensuring that information is made available to make certain that all UK companies pay their fair share of tax. That is exactly what we should expect of them.

11:11 am

David Gauke (The Exchequer Secretary; South West Hertfordshire, Conservative)

It is a great pleasure to serve under your chairmanship this morning, Mr Howarth. I congratulate Caroline Lucas on securing the debate. As she said, she has a long-standing interest in the issue of tax transparency. She set out her case clearly, and I welcome her contribution. Before I speak about the issue of the fair tax mark, I will provide some context about wider Government policy on tax levels and tax avoidance.

A key priority for the Government is to ensure that the UK boasts a competitive and fair tax system so businesses can flourish, but we also want to stamp down on avoidance. We have reduced the main rate of corporation tax from 28% to 21% from next month, and it will go down to 20% next year. We have introduced a single rate for all companies, small and large, and the lowest corporation tax rate of any G8 company and the joint lowest rate in the G20. We have introduced the patent box; the seed enterprise investment scheme, which helps new businesses starting up in the UK with equity finance; and substantial new tax reliefs aimed at the creative and high-tech industries. Taken together, those steps encourage businesses to invest, innovate and create employment in the UK.

We want to offer competitive tax rates to ensure that companies locate jobs, invest and expand in the United Kingdom, but we are also determined to deal with tax evasion and contrived tax avoidance schemes, so individuals or businesses are not able to gain an unfair advantage. It is sometimes argued that the objectives of ensuring competitiveness and dealing with avoidance and evasion are contradictory. I do not accept that. I believe it is possible to create a tax system that is attractive to businesses, ensures that tax law is not exploited in ways that Parliament does not want and is properly enforced. To that end, the Government are investing almost £1 billion in Her Majesty's Revenue and Customs in this Parliament to clamp down on avoidance and evasion. We are also giving HMRC new legal powers to tackle tax evaders and the promoters and users of tax avoidance schemes. The amount of money that HMRC obtains from taxpayers as a consequence of the actions it has taken has increased to record levels, and is substantially higher than the levels we inherited in 2010. We have made great progress in dealing with tax avoidance and evasion.

It is not surprising that, as the hon. Lady said, public concern and interest in this issue

has never been so strong. We are addressing the challenges of our large deficit, and bringing it down requires tough decisions. The public rightly expect the Government to be vigilant and ensure that everybody pays the share of tax that is required under law, and that nobody abuses the system that is designed to ensure that everybody makes a fair contribution.

As the hon. Lady said, it is right to say that the issue of tax–corporation tax, in particular–should not be looked at solely as a domestic issue. There is international concern about tax transparency, and we are working closely with our international partners. Our goal is simple: we want to reform the international tax system so companies pay the tax that is due where it is due. It is right and fair that they pay tax in the jurisdiction in which their economic activity occurs. Last year, the United Kingdom used our presidency of the G8 to focus on improving transparency by proposing a new tool to require multinationals to report to tax authorities on where they make their profits and pay their taxes around the world. We also proposed a tool for securing more extensive information exchanges to tackle tax havens and pierce through the corporate veil. On top of that, the Prime Minister announced last autumn that the Government will establish a publicly accessible registry of company beneficial ownership.

Transparency is vital to tackle a range of illicit finance threats and to discourage tax evasion by removing the secrecy that enables businesses and some individuals to hide information from HMRC. As the Prime Minister said, “We need to know who really owns and controls our companies.” Therefore, the hon. Lady is right to raise the issue of transparency.

Caroline Lucas (Brighton, Pavilion, Green)

I am grateful to the Minister for his full answer, but will he focus on the EU accounting directive? He said that the Government want greater transparency, and he implied that they are in favour of country-by-country reporting, which is positive. However, the message we are hearing is that the UK has not supported the EU accounting directive.

David Gauke (The Exchequer Secretary; South West Hertfordshire, Conservative)

I will make three points. First, the UK believes that there is a need for greater transparency. There have been discussions about that issue in the G8, in particular about the UK Government’s proposal that companies should provide information about where their activity takes place and where they pay tax.

I will not digress for long on this point, Mr Howarth, but a year or so ago I had a meeting at Euston tower with the HMRC officials who deal with transfer pricing matters. They said it would help them to have a relatively simple form to provide information about the companies into which they enquire so they know where those companies make their profits and where they pay tax. The officials said it would help them to have

high-level information that could tell them, for example, that a high proportion of profits were being transferred to a low-tax jurisdiction. They said that type of information would enable them to assess risks and determine where to put their resources. That conversation and others resulted in our proposal for the high-level tool.

Secondly, we want to ensure that we have the information that can help HMRC to make risk assessments and know where to focus its efforts. However, we want to do so without in any way compromising our desire not to impose unnecessary burdens on businesses and not to create a whole lot of bureaucracy that does not necessarily help tax authorities much.

The hon. Lady may not have much sympathy with our third point, but the long-standing position of the UK Government—under all parties—is that tax is principally a matter for member states. We have concerns about a tax measure being included in a non-tax directive, thereby undermining the competency of member states in direct tax matters.

I hope that I have provided some context for our thinking on the matter. Nevertheless, I want to underline the point that that does not diminish the fact that the UK is leading the way in ensuring that the right kind of information is provided to tax authorities in order to enable them to assess a company, how aggressive it is in its tax planning, how much it is putting into low-tax jurisdictions and how much it is putting into mainstream jurisdictions.

Let me turn to the subject of the debate, namely the fair tax mark, although I appreciate that we are having a wider discussion. I welcome any contribution that informs and progresses the debate about transparency and a better understanding of the taxes paid by companies. We welcome any business moving to improve the transparency of its own tax affairs. Indeed, as a Minister I have made the point for at least three years that companies must do more to explain the tax that they pay and some of the complexities of their situation, which can be lost in a febrile public debate. They must be much more open and transparent in explaining their arrangements, because it would be to the benefit of all companies if people understood such matters better. Often, companies' silence leads to suspicion, whether well-founded or not.

The specific proposal for a fair tax mark is a new initiative—let us see how it works. I generally welcome anything that progresses the debate. If such an initiative is to work effectively, clear and objective criteria must be in place and must be applied fairly and objectively by informed and credible experts who are well respected by business and the wider public. There must also be a governance structure that addresses any concerns about conflicts of interest and ensures independence. If the fair tax mark can meet those tests, it will be a particularly valuable contribution to the debate.

Of course, HMRC's role is different. It must collect the tax that is owed under the law, help businesses to understand their obligations and make them aware of reliefs to which they are entitled and, of course, pursue relentlessly the minority who bend or

break the rules. HMRC is also leading the way in improving transparency by opening up its own processes to greater public scrutiny, both to restore public confidence and to demonstrate to the public that it does not settle disputes with any taxpayers otherwise than in accordance with the law. We welcome efforts by businesses to improve the transparency of their affairs, and I see the fair tax mark as part of that debate.

As time permits, I would like to say a little about country-by-country reporting. The hon. Lady pointed out that the international base erosion and profit shifting process—the BEPS project—is under way. I very much welcome the development of a standardised country-by-country reporting template, a proposal that the UK initiated under our G8 presidency last year. The template will help tax administrations with their risk assessment, provided that it is focused on useful information that will show, at a high level, where businesses are making their profits and paying their taxes around the world. That will give tax authorities, including those of developing countries, a new tool to help them to identify and assess risks efficiently. I would emphasise that, although the UK supports the OECD’s work on the template, we remain mindful of the need to balance that against the need not to disproportionately increase the compliance burden on business.

Caroline Lucas (Brighton, Pavilion, Green)

I am grateful to the Minister for giving way—he is being very generous. I feel that there is a gap between the strong words of welcome he gives to the idea of greater transparency and the actual actions he is prepared to see taken in order to follow them up. To return to the EU accounting directive for a moment, the issue is simply one of transparency. He says that the Government are not in favour of it because it brings tax matters under a non-tax regulation, but it is about transparency, which is cross-cutting.

Similarly, the Minister says, for example, that the Government would welcome contracts not being awarded to companies that aggressively avoid paying tax—will he tell me about any concrete action that the Government are going to take to follow that up? We can either change EU laws or work with other countries in order to make it possible for that to be operational.

David Gauke (The Exchequer Secretary; South West Hertfordshire, Conservative)

I do not want to repeat myself on the EU accounting directive, but we believe that we must protect the broad principle that tax matters are for member states. There has been action at the EU level on banking and extractives, which we recognise and support, but we are sensitive to any creep of powers in this area—I am not at all embarrassed to make that point. We must also find a way to ensure that we get the information that tax authorities need without imposing unmanageable burdens on businesses.

On procurement, it is worth pointing out that we are the Government who have brought in new rules where none were in place before. The new rules will come into effect on 1 April and require all suppliers to declare tax non-compliance. Departments will have the ability to terminate a contract on the basis of such a declaration, if they so wish. From the hon. Lady's perspective, that should be welcomed, and the Government deserve credit.

Returning to country-by-country reporting, I repeat that although we support the OECD's work on the template, on which we very much led the way, we remain mindful of the need to balance that against the requirement not to increase disproportionately the compliance burden on business. My officials have worked extensively with business and representative bodies over the past four months in order to understand the compliance impact of country-by-country reporting and the practicalities of collecting information. I am pleased to see that the OECD work is on track to deliver the September 2014 deadline. I would like to thank business, civil society and the advisory community for their input to date. Work will continue in consultation and discussions with the OECD over the coming months.

The Government want a tax system that is good for jobs, good for growth, and good for our economy. I believe we have taken steps towards achieving all those goals, and I have been grateful for the opportunity to explain why. I would like to underline the fact that we believe businesses should pay the tax that is due. We have been involved in international reforms through the OECD work and been instrumental in encouraging a climate of greater transparency. We continue to welcome the debate.