Funding the Future

Fisking Caffe Nero's tax

Published: January 14, 2026, 8:53 am

I have been sent an email issued by Caffe Nero to a concerned commentator regarding their tax affairs. Caffe Nero said:

Over the last few years, we have worked hard to create our business and are proud of generating over 4000 jobs. The figure quoted in the media regarding our profit is before we pay the interest on debt owed to British banks. In 2007 we took on significant debt in order to take the company private (off of the London Stock Exchange) and also to fund the growth and job creation in this country. The level of interest we have to pay off to our banks as a result of that debt is substantial and after paying this we have no profit left on which to pay Corporation Tax.

This needs a little debunking, using as a reference point my analysis of their tax affairs, available here.

First of all, no one disputes that Caffe Nero have done a good job of creating a profitable business in the UK: they very obviously have. In 2013 that business made a profit of £21 million on sales of £204 million. They are to be congratulated on that achievement, but let me, or rather, former White House financial reform adviser Elizabeth Warren, put that in context:

"You built a factory out there? Good for you. But I want to be clear. You moved your goods to market on the roads the rest of us paid for. You hired workers the rest of us paid to educate. You were safe in your factory because of police-forces and fire-forces that the rest of us paid for. You didn't have to worry that marauding bands would come and seize everything at your factory – and hire someone to protect against this – because of the work the rest of us did. "Now look, you built a factory and it turned into something terrific, or a great idea. God bless – keep a big hunk of it. But part of the underlying social contract is, you take a hunk of that and pay forward for *the next kid* who comes along."

Substitute coffee shop for factory and you get my point: Caffe Nero has to celebrate its achievement by honouring the social contract. And let me, for the sake of those in doubt, make clear that honouring the social contract is not the same as complying with the letter of the law, however it may be interpreted by technical advisers. If it was we would not need the term ' social contract'.

So, having debunked this point, let's then consider the other claims Caffe Nero makes. First it says 'The figure quoted in the media regarding our profit is before we pay the interest on debt owed to British banks'. This claim is simply not true: the figure of £21 million quoted in the press is the profit reported in the accounts of Caffe Nero Group Limited. There is no interest charge in those accounts: that charge is included in other accounts of the various parent companies that own Caffe Nero before sight of its activities is lost in parent companies in Luxembourg and the Isle of Man. In other words, figures quoted in the press are precise, accurate, and appropriate.

Second, as I have noted in the report I have prepared, interest paid to third parties (which may, or may not, include British banks) does indeed turn the group's profits into losses, but that is not all the interest paid. Almost half the UK group's debt is owed to parent companies outside the UK and more than £12 million of interest was due to them in 2013. It is misleading to suggest that all debt is owing to UK banks: first the accounts do not make clear who third party debt is due to and secondly it is very obviously not true.

But, there is also a third point, and the question in that case is why this is permitted. This is a question of equity. If I decided to buy some shares in a coffee shop chain I would not get tax relief on the interest paid on money borrowed to do so, and I think that's right. But if I instead acquired the whole chain I would get that relief. Now, I know, it's also true that loans to acquire stakes in small businesses also attract tax relief, so I won't mislead on that point (but I happen to think that relief appropriate to overcome the disadvantage small business suffers when it comes to raising equity capital because it cannot access stock exchanges), but in Caffe Nero's case this was the acquisition of a quoted company that we are talking about. In that situation firstly, the private equity group acquiring the quoted company had an unfair advantage over private investors because it could get tax relief on its borrowing to acquire shares and they could not - meaning that the Caffe Nero acquirers had a lower cost of capital as a result and so could afford to pay more for the company than others would, and second, Caffe Nero clearly did not need that funding for its business: it was already quoted on the stock exchange so had access to the capital it needed already. In other words, there was no social need for this relief to be given. In that case I argue that loading the company with debt may have been legal, but still exploited tax loopholes that I very strongly suspect were never intended to be used in this way when first granted. Call that tax avoidance if you like.

And then let's deal with the point Caffe Nero fails to mention, which is the offshore aspect of this. It has not sought to explain the use of Luxembourg or Isle of Man holding companies, or offer their accounts. If you're trying to be transparent Caffe Nero that's called an outright fail. You cannot say you're paying the right amount of tax when you're hiding your affairs from view. That's just not possible.

So yes, it's true that you have no profit left on which to pay corporation tax, but it's how you get to that point that troubles us.