Funding the Future

# Fisking the Telegraph's claims on corporation tax

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The Telegraph has an article out that is deeply misleading this morning. Written by Ian McVeigh of Jupiter Asset Management it begins:

*It has become fashionable of late to accuse companies of not paying their fair share of tax.*

Richard Murphy, the political economist credited with creating Corbynomics, is very much at the forefront of this movement. In his book The Joy of Tax* he calls for a fairer contribution from the corporate sector.

Often, though, it pays to listen to those whose day job is running large companies, and Tim Martin, the founder of pub group JD Wetherspoon, delivers a powerful broadside against this notion of the company as a tax shirker in his company's 2015 annual report.

In any case, whenever you hear a call for fairer contributions, savers should feel nervous. Fairer usually means higher, and it is the saver who often ends up footing the bill.

*We are told that the likes of Facebook, Google and Starbucks are denying the state its rightful dues. Whatever may or may not be true for them,* it certainly does not apply to Wetherspoon's.

I think it's important to consider the detail of the claim. This is that:

*In the 2015 financial year, the accounts record £632m of tax paid on sales of £1.5bn. This enormous figure represents 42pc of sales. Profits after tax make up a mere 3.8pc of sales.*

*Each pub pays on average tax of £673,000.*

*The breakdown shows that the £632m was made up of £294m in VAT, £161m in alcohol duty, £85m in pay-as-you-earn (PAYE) and national insurance contributions (NIC) , £49m in business rates and £15m in corporation tax. Other items include machine duty, climate levy, carbon tax and fuel: in other words, the full range of the modern tax take.*

Now let's be clear about this. Wetherspoon's did not pay the VAT and alcohol duty: their customers did. So that's £455 million of the claim that is not true.

Nor did Wetherspoon's pay any of the PAYE: their staff did. And before you say some was employer's national insurance in economic terms that works by simply reducing the gross pay staff are paid: the tax payment is always picked up by the employee in that case, simply be getting a lower apparent pay rate as a result. So that's another £85 million the business did not pay. Or a total of £540 million now with £92 million left. Some of that is also paid by customers, such as machine duty (which, I suspect is quite significant). So even that number is overstated.

And as for the rest? Well, why should Wetherspoon's not pay for the roads that are used to supply its products, and get its customers to its door? And why should it have free landfill? And what is wrong with it paying the full cost, including climate degradation, of the fuel it uses? The rest of us do, Why should Wetherspoon's want an opt out?

I could go on. But the fact is that the only tax we can be sure is really paid by Wetherspoon's without a service being supplied in exchange is corporation tax. And when we get to this level the article goes in for another pile of misrepresentation when saying:

*Shareholders own a company’s profit stream and it is taxed not once, not twice, but three times.*

*First comes corporation tax, usually at just over 20pc. Savers should note that this applies to shares held in “tax free” Isas. Second comes income tax on dividends paid according to the marginal tax rate and soon to be 32.5pc for higher rate taxpayers after the changes in the 2015 Budget.*

*Third comes capital gains tax (CGT). The amount available after corporation tax and distributed dividends is called the company’s retained earnings. Over a period of time, this money that stays in the business equates to the growth in the value of the business.*

*When the investor is ready to sell his shares in the business, he is then usually taxed again at 28pc for the higher rate payer, 18pc for the basic rate tax payer.*

*These three different tranches of tax add up to a composite rate on company profits of 30pc for the basic rate tax payer, 44pc for higher rate tax payers and 46pc for top rate payers.*

First, many companies do not pay full rate corporation tax, but I accept some do. And we collect it from companies for all the reasons I note here. It would be, in many cases, administratively and technically nigh on impossible not to tax companies if we wanted a fair tax system.

And let's also be clear, basic rate taxpayers and ISA holders pay no more income tax on top of that: that's a pretty good deal. Higher rate taxpayers do. That's for one good reason: they are higher rate taxpayers. So they pay an additional sum calculated in a pretty bizarre way that approximates to the tax due if this was interest. There is no discrimination here. And it is not a second tax: it is a tax top up.

And capital gains tax? That charges something else altogether: this is the increase in value of the shares. This may, of course, be the consequence of undistributed profits that contribute to the corporate savings glut: it could be because the right to future earnings are being sold. In either case the person making the gain has not been already charged to tax on this sum. So it is not the case that this is a third tax, it is an entirely new and different tax on a transaction that would otherwise be wholly untaxed.

So what to conclude? Ian McVeigh says:

*The Joy of Tax is a sometimes overt, but mostly covert, call for higher taxes.*

Not at all! It is just what Mr McVeigh suggests it says it is, which is a call for fair taxes.

And asking companies need to pay the right amount of tax in the right place, at the right rate and at the right time, and expecting their shareholders to do the same is just a part of that. I think Mr McVeigh doth protest too much and mostly about the wrong things, using the wrong data. That's not confidence inducing in him, his company or the Telegraph. I treat Wetherspoon's as an innocent party.