

Fisking Google's tax letter

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Google [has written a letter on its tax affairs to the FT](#). Unsurprisingly, they published it. But what is interesting about it is what it does not say, and what it reveals about the thinking of the company.

It starts well enough:

Sir,

A little respect always helps. It goes downhill from there.

In all the coverage of [Google's tax settlement](#), little has been said about the international tax rules and how they work.

It's an interesting claim. But I think the acres of ink and bytes of online data dedicated to BEPS, transfer pricing and OECD reforms might suggest otherwise.

It continues:

Corporation tax is paid on profits, not revenue

We know that: no one has argued otherwise.

Of which it is then said:

and is collected where the economic activity that generates those profits takes place.

Talk about digging a big hole and then jumping into it. What quite emphatically annoys everyone about Google's tax is that there is not a person on earth who could, when having been informed of the facts, conclude that its tax is due in Bermuda, which is where its UK profits end up. The last place on earth where Google has economic activity giving rise to profit may be Bermuda. This argument does not run.

Nor does this one:

So, if a British pharmaceuticals company sells medicine to Latin America, it is mostly taxed where those products are created, in the UK, rather than where they are consumed.

Hand on, 'created', or 'made'? Note this is 'sells to' which means 'exports from'. But, [as I have explained](#), the economic substance in the case of Google is that the value that I think should be taxed in the UK is made in the UK. That means that this pharmaceutical argument falls flat on its face. British ads sold by British sales people aimed at British customers on a UK website that get value by clicks on British computers are not exported to the UK: they are made here. In which case this is not true:

The same applies to Google.

Come to that, this is pushing boundaries of credibility

As a US company, we pay the bulk of our corporate tax in the US: \$3.3bn in the last reported year.

In itself that is factual, but that's on only half the profit. Which, if Google has not noticed is why the rest of us are irate. The fact that the rate seems high is because that is the way the US tax system is. And if you can pay at home Google on the domestic profits you make at home we think you can do the same here. Which is why this gets up our nose:

What should Google pay in the UK? We pay tax based on the value added by the economic activity of our staff here, at the current standard rate: 20 per cent.

Except, [as I have noted](#), that is way, way short of the total economic activity undertaken here, which is why we all think this claim is just wrong:

After a six-year audit we are paying the full amount of tax that HM Revenue & Customs agrees we should pay, including £130m in additional back tax. Governments make tax law, the tax authorities independently enforce the law, and Google complies with the law.

So thanks to

Peter Barron

VP Communications and Public Affairs,

Google

but respectfully, we beg to differ and you'll have to do a lot better than this to change

our minds.