

Funding the Future

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The economically far-right London based Institute for Economic Affairs think-tank, that refuses to disclose its funding and whose prescriptions appear to overly appeal to the current government, seems to be continuing its assault on the work of the UK charity sector that seeks to tackle poverty.

The latest iteration [is an assault on Oxfam](#) by Bournemouth University senior lecturer [Richard Teather](#). He makes four claims. These are, first, that Oxfam uses a trading subsidiary to raise funds which are then transferred tax free to the charity using completely legal, transparent and commonplace arrangements.

Second, that it uses a widely recognised arrangement to permit the donation of goods to the charity for onward sale that permits the claiming of gift aid by charity, which accords with the stated intention and will of successive governments.

Third, he claims that the openly declared commission rate Oxfam charges as a deduction in this process is artificially low.

His, rather odd, fourth claim is that Oxfam unreasonably promotes this scheme.

I am aware that these comments are attracting attention. I think a response is required at two levels. First I will look at the accuser, and second at the accusations.

Richard Teather has appeared on these pages before. Let's be clear about it. He is a [promoter of flat taxes](#), whose sole purpose is to increase inequality in a society. He is a promoter of [tax competition](#) - which is a war on the taxation of capital to increase inequality worldwide. And he is a [promoter of tax havens](#) : in his 2005 book for the Institute of Economic Affairs 'On the benefits of tax competition' he says (page 81) when commenting upon measures then proposed by the OECD to tackle tax haven abuse:

This is attacking a classic use of a tax haven, as explained in the previous chapter, in which a person resident in (or otherwise subject to the taxation system of) a highly taxed country places his capital in a tax haven where it can earn untaxed income. While there are many cases where the home country does not tax foreign source income (such as the UK's non-domicile exemption discussed above), most Western countries

have a worldwide taxation system that seeks to tax the worldwide income of its residents (or all of its citizens in the case of the USA). This tax haven income therefore does not cease (legally) to become liable to tax merely by being earned offshore: it is still liable to tax and the investor has a duty to report it to his home tax authority. In practice, however, if the investor does not report his income, then the home country can have great difficulties in discovering and taxing it, particularly if the haven country has strong banking secrecy laws.

While I am not seeking to condone dishonesty or criminal activity, from an economic perspective this is merely another example of tax competition: indeed, it is often necessary behaviour in order to take advantage of tax havens. Without the willingness of some to engage in this sort of activity, tax competition would be much less effective and therefore reduce the benefits that flow from it for the rest of us.

Teather did, I think, come as close as he could to endorsing tax haven usage, even when that might be illicit, and did so for what are very clearly ideological reasons, stating that if illegality was a necessary condition for using tax havens on occasion that that might be worth it for what he thought were the positive economic advantages that flowed from doing so. But what was that advantage? It was what he saw as the befit of tax competition of which he said (page 10):

Tax competition involves allowing sovereign nations, and dependencies with tax-setting powers, to set their own tax rates and rules. Impeding tax competition, through the operation of a cartel of governments that sets tax rates and/or rules, is an abuse of power by government, much more serious than any abuse by monopolies acting in private markets. It is more serious because governments have a monopoly of coercion and, if tax competition is prevented, individuals will be unable to choose the kind of governments under which they live or the kind of countries in which they invest on the basis of their preferences for different amounts of government provided services.

So what Teather is saying is that people should use tax havens to opt out of a system of government that supposedly denies them the level of government service they want. And what does he say of democracy's role in this process? (page 54):

[O]f course, democracy is a very inefficient check on government power; in the absence of a strong (and strongly defended) constitution there is no check on a majority, and there is a great temptation for politicians to use redistributive taxation to build a coalition of support funded by the minority.

Teather's position is, I hope, pretty clear. He wants to undermine the right of democratic government's to set tax rates in accordance with the wishes of those who live in those places. This is the man who is attacking Oxfam. I think it fair to ask what his motive for doing so might be.

Let me then turn to his argument with Oxfam. The fairest description of this is that it is

based on falsehoods. At its kindest it is a wholly straw man affair. This is because Teather is falsely representing what tax avoidance is. Tax avoidance is using the law in a way that no government or tax authority anticipated to achieve a result that neither could ever have intended. It is not, as Teather would wish to infer, any arrangement that means tax is not paid, such as putting money into an ISA or claiming a deduction for a legitimate and allowed expense. Those are tax compliant behaviour.

So the test for Oxfam is whether or not the government intended, or knowingly permits, the arrangements that Oxfam uses.

The use of trading subsidiaries by charities, with those subsidiaries then donating their profits to the owning charity tax free, has been an arrangement known about and unchallenged and clearly legally permitted for decades in the UK. That is not tax avoidance. It is a known, endorsed, encouraged and wholly acceptable arrangement. It's about as tax abusive as forming any company to run a trade. Teather's claim is absurd.

So what about the Gift Aid arrangement? Three things here, First, no one has ever hidden this. Day in day out HMRC can see and challenge this if they wish. I suspect countless HMRC staff have used it. And what we know is that when HMRC do see a Gift Aid abuse that they think is non-compliant they do challenge it. The government then, almost invariably, over-rules their challenge on public policy grounds.

It is the intention of government that gifts to charity - and not just of cash because other assets may be gifted - be tax free. HMRC have not challenged this scheme. I presume they have not challenged the commission charge in it either, but no one has hidden it from view to make it hard for them to do so. We must therefore presume the arrangement is both consistent with the law and public policy. In that case it cannot be tax avoidance: you cannot avoid tax that a government says is not due.

Which is why Oxfam can also advertise the arrangement. That accusation by Teather is akin to saying a bank is tax avoiding by advertising that it has an ISA available to anyone who qualifies to use it.

To put it another way, a man who loathes the state and democracy and who promotes tax systems that would increase inequality is raising wholly artificial questions about the tax practices of a charity committed to the relief of poverty that sees the ending of the type of offshore tax abuse that Teather promotes as harmful to the vast majority of the world's population, as a mass of evidence proves to be the case. And, in the process Teather hopes to capture the ear of a government that is inclined to his view and so bring an end to campaigns aimed at ending a cause of both poverty and inequality.

Oxfam is not a tax avoider.

Teather is an unreliable source of tax opinion.

His claims hide his true motives.

I rest my case.