

Tesco, tax compliance and the non-maximisation of profi...

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Tesco [has announced](#) that it will be returning the business rates relief that it was entitled to as a consequence of government support for retailers during the course of the coronavirus crisis. The payment, which can only be described as voluntary, will amount to something like £585 million.

The press release that Tesco has issued on this voluntary payment is confused, to put it politely. It says that initially taking the relief was vital to it, because it was claimed that it could not have continued to invest in its business without it. At the same time, it makes very clear that its profit expectations for the current year, after making the repayment, will be consistent with the previous year. And, of course, it continued to make payment of dividends to shareholders during 2020, and by approximate coincidence, that payment was broadly equivalent to the business rates rebate when the anticipated final dividend is taken into account.

Cutting through the waffle (whether own brand, or not), what is apparent is that this rebate would have flowed straight through to an increased bottom-line profit if Tesco had kept it. And what Tesco obviously sensed was that this would have given rise to significant customer backlash, which they presumably think a price not worth paying. It is notable that Morrison's have already suggested that they too will be making voluntary business rates payments, totalling £274 million, as a consequence. There will be considerable pressure on Sainsbury's, Asda, Lidl and Waitrose / John Lewis as a result.

Tesco's justification for the payment is that they 'remain absolutely committed to doing the right thing by our customers, colleagues and all our stakeholders.' Three thoughts follow.

First, it is good to see stakeholder responsibility acknowledged. It would be welcome if it was more explicit in other areas as well.

Second, this somewhat blows the concept of profit maximisation above all else. Milton Friedman will be turning in his grave.

Third, a voluntary payment of tax also upsets the myth that businesses have an obligation to minimise the tax liabilities on behalf of their shareholders: Tesco clearly does not agree any more. It is only a decade or so ago when the company's behaviour was interpreted as suggesting otherwise. It is now apparent that tax compliance is seen as a price worth paying. The tax justice moment can take some considerable credit for that.

Tesco has done the right thing. The implications are, however, much bigger, and it sets a precedent that it must follow. Others would do well to follow in its footsteps.