Funding the Future

# It is vital that companies are accountable for their ta...

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I have published a report this morning that reviews tax disclosures in the accounts of Tesco plc. The question I asked is 'do the accounts add up when it comes to tax?' As I showed, without the assistance of Tesco plc, they did not.

Tesco say they do not agree with my findings, and that is their right, but the simple fact was that I needed their assistance in each of the years that I reviewed to show that the accounting identity with regard to tax inherent in any set of accounts worked in their case. That identity requires that the opening corporation tax liability, plus the corporation tax liability for the year (wherever it is scattered in the accounts, which is an issue I will come to), less the corporation tax paid, must equal the closing corporation tax liability. This is a simple statement of fact that must be true.

I can confirm that work is being done on more companies. None of those looked at so far add up either. Unlike Tesco, some involved have not responded to my request for explanation. When I publish information on their accounts all I will be able to say is that their accounts do not add up. That, I have to say, will be a shame. I am not sure why any company would want that.

This being noted, ideally I would not have published any of this work until a bigger sample of companies had been available, although I can say already that I suspect that none of the accounts of the companies I will look at will add up: only one out of 250 sets of accounts that I looked at in 2006, when I last did this work, did.

So, why publish this particular report early? Because right now tax matters more than ever when it comes to accounts. Over the last two decades I have, with many others in the tax justice movement, worked to show that it is vital that we hold companies to account for the tax that they pay, and where they pay it. That is the whole essence of what country-by-country reporting is all about. People have been persuaded. When the public are asked questions about big business and its faults, one of the most commonplace demands that they make is that businesses pay their tax.

What this new work is intended to show is that taking figures for tax paid from either the income statement (or profit and loss account, as many still call it) or the cash flow statement is not a reliable indicator of the tax charge for a company for a year right now. The Tesco plc case shows that. In 2021 its income statement suggests that it has a current tax liability for that year of £178 million. Adjustments elsewhere in the accounts changed that into a refund of £10 million. Which figure is right in that case? And what is the appropriate tax rate to suggest that the company was paying in proportion to profit? Was it the 21.6% that the income statement suggested, or was it the negative 1.2% that the overall refund suggested? Just to confuse matters, the company paid £255 million in the year: that provides no reliable alternative in that case.

The question is important. First, establishing the facts is important. I can comment on Tesco plc's accounts because they helped me establish what the true figures are: they confirmed that the data I am using is correct.

Second, knowing the data does not resolve he conundrum as to the true tax rate. What is it? I think this needs to be identified.

Third, when it comes to country-by-country reporting (which Tesco plc must do for tax purposes, but which it is not obliged by law to publish, which it does not do) to what figure is tax paid reconciled, and why? For regulatory purposes this clearly matters.

Fourth, this also very clearly matters to investors. When tax paid is increasingly used as an investment selection criteria by those seeking out ethical companies a reliable figure for tax paid is an essential component in investment decision making. If tax can be split across three different statements in the accounts (the income statement, the statement of comprehensive income and the statement of changes in equity) and all can be current tax charges how is a reliable figure possible?

Fifth, this most definitely matters for international tax now. When the new OECD tax deal relies on there being a reported 10% profit margin before there is reapportionment of profits above that sum, with there being a minimum 15% tax rate applying, with all those calculations being based on accounting data, then that accounting data is very important. However, when there is no guarantee that the companies subject to this charge will have accounts that either add up, or that necessarily disclose expenditure and tax on a consistent basis in terms of the split between the locations where it may be reported in the accounts, how reliable is this OECD requirement going to be as a basis for tax assessment? I would suggest that if there was ever reason for a tax reporting accounting standard then this was it.

And, sixth, why does this only matter in large companies? Why don't all accounts accounts include this basic test of credibility, which is that the accounts add up when it comes to tax - which is primary reason why most of them are prepared by many companies when truth is told? In most accounts this data cannot be proven because cash flow data is not required from the vast majority of companies. In that case this most basic test of whether or not the tax figures in most accounts are reliable or not cannot be undertaken. I suggest that is simply wrong,

It is these obvious issues - which no one seems to have taken on, despite the obvious importance of the issue - that motivates my research, which will be continuing this summer and autumn.

My focus will be on UK retailers and banks, simply because they are sectors with which many investors will be familiar, and that makes them important in their own right. If the companies in question want to send me their tax reconciliations now that would be of enormous benefit.

But the bigger issue will not, in the end, be the data, but what the accounts themselves do and do not say. If they do not add up it matters. If they show large elements of the tax charge spread outside the statements usually used to determine the reported tax position of a company that also matters. And we need to know what is happening in those cases.

The simple fact is that tax is too important to not add up. It’s time accountancy stepped up to the mark and made sure companies were accountable for their contribution to society in a way that we can be sure to be right. And that’s not the case right now.