Funding the Future

A little accounting for tax

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My long-term critic, Tim Worstall, had a go at me on the Adam Smith Institute blog yesterday for comments I made that were published in the Sunday Times on Sunday (unsurprisingly) concerning the tax disclosures made by Apple's UK retail arm in accounts that they published recently. As ever, Tim gets everything he has to say wrong, so it's worth setting the record straight.

The Sunday Times rang me about these accounts. They had noticed the very low tax charge, here:

Apple Retail UK Limited

Statement of comprehensive income
for the year ended 25 September 2021

	Note	2021 £'000	2020 £'000
Turnover	2	971,504	1,104,239
Cost of sales		(648,838)	(766,275)
Gross profit		**322,666**	**337,964**
Administrative expenses		(342,530)	(336,069)
Other operating income	3	57,490	27,239
Operating profit	4	**37,626**	**29,134**
Other interest receivable and similar income	6	874	2,035
Interest payable and similar charges	7	(311)	(291)
Profit before taxation		**38,189**	**30,878**
Tax on profit	8	(796)	(2,656)
Profit for the financial year		**37,393**	**28,222**
Other comprehensive income		-	-
Total comprehensive income for the year		**37,393**	**28,222**

That is a tax charge of 2.1% when the headline rate is 19%.

So I directed them to the tax note:

8. Taxes on profit

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2021 £'000	2020 £'000
Current tax:		
UK corporation tax at 19% (2020: 19%)	868	3,802
Adjustment in respect of prior years (under provision)	202	665
Total current tax charge	**1,070**	**4,467**
Deferred tax:		
Depreciation / capital allowances	223	(1,504)
Share based payments timing differences	(22)	(307)
Impact of previously enacted future tax rate	(475)	-
Deferred tax charge/ (credit)	**(274)**	**(1,811)**
Tax on profit on ordinary activities	**796**	**2,656**

(b) Reconciliation of the total tax charge

The tax charge for the year is different to the standard rate of corporation tax in the UK of 19% (2020:19%). The differences are explained below:

The key number is that which refers to the difference between UK GAAP and UK tax treatment of share-based compensation, totalling £9,171,000 of tax saving in note 8(b).

What this suggests is that when grossed up £48 million of payments have been made in shares to Apple Retail managers in the UK on which tax relief has been claimed without the costs in question going through these accounts but with tax relief being claimed.

We know they could not have gone through these accounts as note 5 says shared-based payments were only £30 million and there is no noted timing difference on these. The deferred tax note also provides no hint of a movement of anything like this size, and there is no indication of any accounting for a sum of this size in movements in equity either. So, the number in question is effectively missing from the accounts as far as I can see.

So, what happened was that this company claimed a deduction for a cost that has not gone through its income statement. That's what I told the Sunday Times. They checked the story and printed it.

No one has said Apple has done anything wrong. Nothing has been claimed for tax that was wrong. No one has suggested otherwise. But, the question I raised is a simple one, and is how can a set of accounts be true and fair if they reveal a profit of £38 million by excluding a cost of £48 million which was, nonetheless, claimed for tax purposes? In my opinion that is not a true and fair set of accounts and the company and auditors should have used the powers available to them to offer a true and fair over-ride of GAAP and make a disclosure that revealed the proper performance of the company. They decided otherwise, which is their right. I disagree with them.

Unsurprisingly, Worstall and the Adam Smith Institute failed to spot any of this, but then Worstall has long proved himself to be little good at anything but writing a blog laden with abuse. But there is a real issue here, which is why we have accounting rules that allow this to happen. And that was worthwhile drawing attention to.