



Treasury Committee

Oral evidence: [Shifting Sands: An inquiry into UK tax policy and the tax base](#), HC 785

Tuesday 2 February 2016

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Members present: Andrew Tyrie (Chair); Mark Garnier, Helen Goodman, Stephen Hammond, George Kerevan, John Mann, Chris Philp, Mr Jacob Rees-Mogg, Rachel Reeves, Wes Streeting

Questions 1 - 152

Examination of Witnesses

Witnesses: **John Cullinane**, Tax Policy Director, Chartered Institute of Taxation, **Richard Murphy**, Director, Tax Research LLP, and **John Whiting**, Tax Director, Office of Tax Simplification, gave evidence.

Q1 Chair: Thank you very much for coming in to give evidence to us this morning. I know that it has been at relatively short notice and has been inconvenient for at least two of the witnesses, with the need to move or postpone other engagements. We are grateful. Could I just begin with a very simple question? Perhaps, John Whiting, I will begin with you, since I remember seeing you give evidence when I was a member of this Committee about 15 years ago, so you really are an old hand. Should we be concerned that the UK corporate tax base appears to be being eroded? Is it a dying tax and what should we be doing about it?

John Whiting: It is a good question to start with, Chairman. Any country has to be prepared for its tax base, and by that I mean all its taxes, to have to change and evolve over time. Let us get that into context; nothing is immutable. As regards corporation tax, the country does have to be prepared for it decaying. I certainly speculated many years ago that corporation tax was a decaying tax, because one could see, 15 to 20 years ago, that the way that the economy was developing meant that the tax base was changing. Of course, we are looking at a tax that essentially was invented and devised in the early part of the 20th century, and in many ways on principles based in the 19th century, and

therefore contemplating manufacturing. Well, 15 to 20 years ago we were clearly going into a service economy. Since then, we are very much into the e-economy. Inevitably, the base that we are seeking to tax is changing.

In one sense, it is eroding but, of course, just as the traditional UK base is possibly eroding, one can see that other countries are probably looking at it and saying that “Our base is eroding and it is eroding because more is moving to the UK”. The point I am trying to make is that things change and are fluid. We have to be prepared to change and contemplate changing the system or going into different directions.

Taxing profits is probably still convenient. Economists will tell you that taxing the company is a nothing, because it all flows through one way or another. It is clearly still a convenient thing to try to tax profits, but exactly how to measure that profit and what it is that should be taxed is a pretty challenging exercise, and I sense that that is really what the Committee is going to be focusing on.

Q2 Chair: My question is really, if this is a challenging exercise, whether that challenge is going to become tougher and tougher, and effectively an impossible one. If so what, in a nutshell, in a sentence or two to warm us up this morning, are you proposing as an alternative, because we need the lolly? The Chancellor is still running a sizable deficit.

John Whiting: We have to be prepared to look for alternatives. That would be my central point. We cannot rely on corporation tax continuing to deliver the money that it has done pretty successfully. If you look at the statistics, the UK has continued to bring in £40 million out of corporation tax.

Chair: It is about 7%.

John Whiting: It is a reducing proportion of our take. We are slipping down the international league, in terms of how much we take, so life is changing. We just have to look at how we raise this money and contemplate other ways, whether we change the system radically to go to a destination base or look at where sales are made. Whether we continue to perform surgery on it, as the BEPS project is doing, we have to fundamentally contemplate that we have to be prepared to change.

Q3 Chair: In a nutshell, do you largely agree with that, Mr Murphy, or not? Rather than focusing on anything you agree with, focus on what you disagree with.

Richard Murphy: I do not entirely agree. There is no evidence that profits are disappearing from the UK, as a proportion of UK GDP. If anything, profits are increasing while labour is decreasing. Therefore, we are in a situation in which we not losing the profits; what we are losing is the ability to capture those profits in corporation tax, which is something quite different. What we have to look at is why the current corporation tax design does not capture the tax. We do not need to worry that the profits are not here. What we have to look at is why accountancy, why the tax havens and why the mechanisms put in place by multinational companies to shift profits for recording processes are so

effective when, in practice, those profits are almost certainly arising in the UK economy. That is the real question we need to ask. As a consequence, the focus is not on whether we need to replace corporation tax; the actual question is how we make corporation tax work, which is a very different question indeed.

Chair: That was a very helpful, clear, brisk reply. We will be examining that in more detail in the course of the next couple of hours, I expect. Mr Cullinane.

John Cullinane: I see things a little differently again. There is no evidence at all that the corporation tax base is reducing; it is quite the contrary. The tax take increased from under £1 billion in the 1970s to £20 or £30 billion in the late 1980s and 1990s. Generally speaking, it has been over £40 billion for the last several years.

Q4 Chair: I am sorry to interrupt. I have a graph in front of me showing it as a proportion of the total tax take falling over the cycle, on every cycle. It used to be about 11% in the mid-1980s, then it dropped to 10% in the early 1990s and now it is about 7%. That looks to me like a cyclically adjusted fall in the long-term take.

John Cullinane: Over that period, the rate has come down very substantially. What has compensated for that, to a considerable extent, is the base.

Q5 Chair: Is that not generally held to be one of the main causes of the robustness of the revenue—that the allowances were cut back and the rate was reduced?

John Cullinane: Yes, that is an increase in the tax base.

Chair: It is not the rate that has reduced the take. On the contrary, it might have rescued it.

John Cullinane: Your original question was about the base, and the actual tax base has increased. You then naturally say, “Looking to the future, is this sustainable?” The Chancellor has published the road map, which shows the rate continuing to reduce, and he has not pencilled in planned increases in the base but, if you look at the historical record, he has increased the base. Under previous Administrations on both sides that policy was more overt; the base was broadening and the rate was coming down, and the take was quite respectable.

Philosophically, I agree with John; you have to keep these things under review. You cannot say that it will always be exactly the same proportion. I also do not think that the base is as vulnerable as is supposed. Yes, it is very largely driven by international factors, which are beyond our control, to a large extent. Yes, our whole strategy towards it has to reflect that, but that does not mean to say that we should contemplate getting nothing. Basically, the people who run multinationals are highly incentivised to maximise accounting profits, whatever issues there may be about what those are, and they successfully generate quite large chunks of them. Historically, the more that our corporate tax system has been aligned with accounting profits, the more successful we have been, in my view, in getting some of that for ourselves. There has been less scope for arbitrage by

multinationals when the accounting result is more aligned with the tax result and, as other countries learn the same lesson, it is aligned with what other countries try to do.

Q6 Chair: We are going to get into that in more detail, but I just want to pick up on one further tiny point that you made when you said that they are highly incentivised. I am sure they are, but is the counterpart to the incentivisation that they have a legal duty to minimise their tax liability for shareholders?

John Cullinane: That will depend on different countries' company law. Other things being completely equal, most of them would try to minimise their tax, although they are worried about reputation issues.

Q7 Chair: I did not ask that. I am asking whether they have a duty to minimise their tax.

John Cullinane: I do not believe that most countries have an absolute duty to minimise their tax, in a mathematical sense, no.

Q8 Chair: I am talking about the UK.

John Cullinane: They have to consider their stakeholders. There is a primacy of obligation to the shareholders, but I do not think that that translates into a mathematical maximisation.

Q9 Chair: I just need clarity on this. There is a lot of rather vague language going on in here, with talk of primacy, and stakeholders have come in, which I must say I often feel is the refuge of people—and I am not suggesting this of you—who are not quite sure who they mean. We just need to be clear here. Is there a legal duty on companies to try to pay the correct amount of tax, the correct amount of tax being that minimum amount that can enable shareholders to maximise their return from the corporate entities?

John Cullinane: The last time I looked at the company law position, it did not seem very clear to me, for the reasons that you gave. Clearly, there are legal obligations to pay the correct amount of tax. Clearly, there is scope for them to plan their affairs so that that number is lower than it would otherwise be. I do not believe that they have an obligation to maximise that as a mathematical exercise, because they are supposed to give weight to other factors.

Chair: I am going to give you an opportunity to come in, Mr Murphy, because your body language has been nothing if not the sort to attract attention.

Richard Murphy: Sorry, I am passionate about tax. I cannot help it. There is no legal obligation at all in UK company law to minimise tax. Let us be absolutely unambiguous about that: section 172 of the Companies Act 2006 makes it quite clear that the directors have a duty to run the company in the interests of all the members, having

taken into consideration a whole range of other factors, one of which is the long-term reputation of the company and its duty to society, among others. The directors are at liberty to make a decision as to how they interpret that, which would mean that they are quite entitled to therefore think it is within their scope to work within the spirit of the law, not within the letter of the law, and therefore there is no obligation to minimise. Equally, and I published this the other day, there is no obligation in Delaware law, which dominates most US companies, to do that either, so there is no obligation on this.

Chair: It is quite difficult to sort our own laws out, rather having a go at Delaware just now, although we may come back to it later.

Q10 Stephen Hammond: Good morning, gentlemen. Mr Murphy, thank you, you are clearly passionate about tax. I also found that you obviously have a sense of humour, as you wrote a book called *The Joy of Tax*, which we are grateful to you for sending to all members of this Committee. It landed on my desk yesterday, so I have not yet had a chance to read it.

I want to continue on this point about legality and morality. Anthony Hilton wrote an article earlier this week, which expressed the view of a lot of people as to their concerns in this area. One of the issues, he said, is that the “public have become aware of the many legal but morally doubtful tax avoidance strategies”. He also went on to say, “Part of the problem is Governments want it both ways—they want the tax but they also want to create the impression that this is a low-tax, business-friendly place”. Basically, they quite like to shame companies into doing something in the tax sphere, even if what those companies are actually doing is legal. It would be quite helpful to understand, following on from the Chairman, your view on morality and legality, and how much the Government have played a supine role across many years in allowing that discussion to take place, which has obscured many of the real issues.

John Cullinane: Obviously there is a sense in which ethics do not really change, but the fact of the matter is that public views of the moral issues have changed dramatically to some extent in most countries of the world, but very particularly in this country. In the US, there will be lots of people who will say quite openly, “If there is a legal way of reducing that bill, of course we will do that”. That is pretty much the end of the discussion. If you go back 15 years, most people in this country tended to think that, if they thought about it at all, because it was primarily regarded as a very boring and technical subject, in which hardly anybody paid any interest. That has completely changed here now. It was probably already the case in many continental countries, although some of them also had more evasion than we had here. It is a shifting sand, as the title says. Today, almost every large company would give great weight to its reputation.

Richard Murphy: There has been a significant change on this issue. I hoped I have helped create that, in my work with the Tax Justice Network. Over many years, we have campaigned to say that tax clearly should be paid in accordance with the spirit of the law and in accordance with the will of Parliament.

Q11 Stephen Hammond: The spirit of the law can be interpreted quite differently by quite different people. Should the fact of the matter not be that you pay the tax according to the law, and it is the Government's fault for not setting the law, if it wants to change it?

Richard Murphy: No, because quite clearly inside a modern economy we need to provide people with choice. If we provide people with choice and we need to, then there will always be the ability for someone to try to abuse it. That is a matter of fact. We are never going to eliminate that possibility. Therefore, there will be some people who will try to interpret laws in ways that were unanticipated by parliamentary draftsmen and clerks.

The point, though, is that that environment is changing. Actually, I think that Government are out of step here. If we look at the road map laid down for corporation tax just after the election of 2010, we saw a situation where it was quite clearly declared that we were open for business in the UK and low tax was considered as a way of indicating that. The reality is that businesses around the world are also incredibly grateful to receive all the benefits of what tax provides, be it infrastructure, trained people and so on. There was a message that went out that low tax was an indication of being open for business. I am not sure that that is true because, actually, higher-tax societies flourish better.

Q12 Stephen Hammond: It slightly depends on how you measure that.

Richard Murphy: Okay, if you wish to, but I think that there is no doubt that that is true. The point is that companies are realising that they cannot not pay, because they are going to lose out as a consequence if they do. The result is that we are seeing a major change in sentiment. Things like the Fair Tax Mark to which FTSE 100 companies have signed up—and I should declare an interest, as I am a director—are indicating a new temperament in taxation.

Q13 Stephen Hammond: What elements of the tax system that multinationals experience at the moment are they primarily exploiting to minimise their tax liabilities? Is it transfer pricing? Is it permanent establishment rules? If it is permanent establishment rules, you know them as well as I do but, if you read the permanent establishment rules, the fixed place of business is where or through which the business of the company is wholly or partially carried on. It seems to me that that is a pretty clear definition. I just want your views on this.

John Whiting: Can I make a quick comment, going back to your original question, Mr Hammond? Personally, I agree with you that we should be paying the tax that is due under the law. It is a bit of a slippery slope if we start having to pay tax in accordance with perhaps what the tax authority thinks is the answer. The result of that or what should follow is that we write clear and simple laws. Given that my main job is tax simplification, you would expect me to say that there is a lot to be said for having clearer and simpler laws.

Going on to your challenge as to which things are most exploited, we probably all have our own views as to which is most exploited. Personally I think it is the permanent establishment idea, which is something that is definitely a 1920s idea, still founded in rather traditional methods, that you have a factory. Of course, if you have a factory somewhere you have a permanent establishment there and you are taxed there. Given that interpretations of when you are selling things and providing services almost hark back to 19th-century tax cases involved in selling champagne, we are not really operating a modern system. I would nominate the permanent establishment as the most exploited.

John Cullinane: It depends on whether you look nationally or globally. If you look globally, it probably is the remaining material mismatches between tax codes in the way they go about this. Most countries will look primarily at where a company is managed and controlled from. The Americans look primarily at incorporation. If it was not for that difference, it is unlikely that the Bermuda arrangements that Google has could exist. That points to the lesson of continued international negotiation and the shared approach as being the right way for Governments to tackle this.

Richard Murphy: There are two differences about what is exploited. We should not forget the fact that half of corporation tax is paid by small companies and so far we have not mentioned them. The abuse with regard to small companies is simply not filing any tax returns with HMRC. 400,000 corporation tax returns requested by HMRC are not submitted each year. That is an area we should not ignore in the loss of tax revenue, because it is a major loss and may be bigger than international tax shifting. I think it probably is.

When it comes to large and multinational companies, we should stand back from whether it is permanent establishment, transfer pricing, interest or whatever, and just say that the international tax system is built on the basis of a fiction. The fiction is that there are independent companies that trade with each other, even when they are under common control. That is simply not true. They are not independent companies. In that case, what we are doing is building a tax system on the basis of a fiction. It is unsurprising, as a result, that we come up with a fantasy with regard to what should be subject to tax.

Q14 Stephen Hammond: Those multinational companies effectively control their own transfer pricing.

Richard Murphy: Precisely, and on that point we have the wrong tax system from the outset.

Q15 Stephen Hammond: This is my last question, because I know others want to come in. The Oxford University Centre for Business Taxation says, "From an international point of view, tax may resemble a zero sum game: the greater the share of profits claimed by one country, the smaller the share that can be claimed by another." The two questions that follow from that statement are: what is the best way of levying a business tax in any particular company, particularly following on from your initial remark, Mr Murphy, about how corporation tax works? What is the best way of levying a business tax? If we accept, as some of

you do, that corporation tax, as currently structured, particularly historically, is not the most effective way, what would you say is the best way or what is the alternative most likely to fulfil the requirements to maximise taxation?

John Cullinane: The best way is the one on which you can get international consensus. Ultimately, as I said before, the people who run these multinationals have every incentive to maximise their profits. The less difference there is between profit and taxable profit, the more they will generate tax revenue as a by-product of what they do and the fewer opportunities they will have for arbitraging that away. It is primarily a question of what we can agree with the Americans and with everybody else.

John Whiting: I would echo that. The analogy is that the chain is as strong as its weakest link. The difficulty we have here is that, if we have countries trying to steal a march on others, you cannot blame companies for wanting to push their profits in that direction, perhaps. If we broadly have an agreed system, with everybody policing and operating it in a similar manner, it is more likely to work for all concerned.

Richard Murphy: 97% of companies do not have a problem with profit-shifting because they only work in the UK. Let us remember that. We are talking about a small minority of companies where this problem arises. In those cases, clearly there is an opportunity to shift not only a tax profit, but an accounting profit, of course. Therefore, we are looking at more than just accounting here. We are looking at the whole structure of the way in which companies are allowed to organise themselves, how international accounting rules work and so on.

What we are quite clearly seeing is a mismatch between not just taxable profit, but accounting profit and what takes place within a country. Artificial legal structures are being used to misrecord income in the UK. In that case, we need to be looking at what the true drivers of economic activity are. I would argue that a unitary taxation system must be a better way for those companies going forward, where we look at where sales are, where people are, where assets are and apportion profits on the basis of those to states, which then get complete freedom to charge whatever rate of tax they wish. This is actually a way of reclaiming tax sovereignty. I cannot make that point more strongly.

John Whiting: Can I comment briefly on that? Basically, I agree with Richard's point that it would be far better if accounting and taxable profits came much closer together, whether you are talking of a small UK company or a multinational. The idea of apportionment in terms of some basis of salaries, assets, etc., I can see is attractive in theory. The difficulty is in getting agreement in practice between all the countries we have.

John Cullinane: It has become very popular because of the Google case and because Google has a lot of sales in the UK, by comparison to their real activity and where that is distributed. There are always swings and roundabouts, not only for the UK. If you consider developing countries and a Zambian copper mine, there are lots of issues at the moment in terms of pricing and who gets the profit for that. The idea that somebody could phone up from London or Dublin and buy the whole year's supply of copper, and all of a sudden all of the profits of that mine belong in the UK or Ireland instead of Zambia, is not particularly attractive. Even if it was more attractive than the status quo, getting from A to

B when we were the only ones trying to do it would provide endless arbitrage opportunities on the way.

Q16 Chair: When you said “compared to” where the activities are actually taking place with regard to Google, was that a reference to the fact that, in your view, the lion’s share of Google’s activities are taking place in California?

John Cullinane: Absolutely, yes.

Q17 Chair: I understand. We will come back to that point. I want to come back to you, Mr Murphy, on one thing you said. You said that we had the wrong tax system from the outset. This is because it is based on a fiction, when in fact these are connected parties that are busy finding ways of minimising their bill. I am therefore sitting here thinking, “Okay, what tax system would you prefer?” A little later on you said that it works for 97% of companies, so I was not sure which point you were making.

Richard Murphy: 97% of companies only trade in the UK. We are not seeing them shifting their profit outside.

Q18 Chair: We have the wrong tax system for only this very small group.

Richard Murphy: We have the wrong tax system for that small group of multinational companies, because they have been provided with an opportunity to move profits across borders, whereas, if a UK-based group decides to move profits between members, they all remain within the UK system; they all have the opportunity to swap profits and losses between them, which is entirely reasonable. In fact, within UK tax law, effectively, we recognise a UK-based group as being a single entity for these purposes. We are failing to do that internationally, so the opportunity for abuse arises internationally, which does not effectively exist inside UK law, when we get to the substance.

Q19 Chair: We will get into that in more detail. Perhaps other colleagues will want to take this forward. I just want to clarify this point. You are saying that the system works fine for the wholly UK-based companies.

Richard Murphy: It would only work if we could collect all the tax returns that are due.

Q20 Chair: You made that other point about medium-sized and large companies, as well. Basically the system functions. There may be some administration problems, but the system is functioning okay, broadly speaking. We are then left with the problem that we need a new system or a fundamentally reformed system for the remaining 3%, so you are proposing a two-tier corporate tax system of some type. Is that right?

Richard Murphy: No, it would actually be identical. It would make no difference. The small companies would be subject to the large system, except that they would see no impact from it, because they only operate in the UK. It would be one system, but only those operating internationally would see any consequence of the change.

Q21 Chair: Just for clarification of what it is you are after, as I understand it, we have a system based on taxation of profits on activity in the UK. That is the current system we have and, for the 97%, the fact that I have added “in the UK” makes no difference, but for the 3% it makes a huge difference. What would you alter there?

Richard Murphy: The point is that, when we have a multinational company, we have clearly seen that companies can artificially shift their profits between group and members.

Q22 Chair: I have understood that. I am just trying to say that we have a system now that is based on taxation of profits on activity in the UK.

Richard Murphy: That is what I want. We do not have that now, precisely because accountants and lawyers are very good at shifting the recording of profit that does arise in the UK to other places, whether that is by transfer pricing, the payment of interest or the payment of royalties and various other mechanisms that we have seen over the years. The point is that the economic activity that arises here is recorded elsewhere and that is why we cannot tax it.

Q23 Chair: I am just trying to clarify whether you want to keep a system based on taxation of profits on activity in the UK.

Richard Murphy: Yes, but I want to find out what those are. That is my point.

Q24 Chair: Do you want to alter that in some way? If you want to alter it, what is it that you want to alter that to? That is what I am asking you for clarity on now. Can you answer that point, please?

Richard Murphy: What we clearly want is a system that ensures that, in the UK, we can primarily tax the income that arises in the UK from economic activity that arises here. What we secondarily need is a system that captures to tax income remitted to the UK, if it would otherwise fall out of tax in the hands of the UK recipients.

Q25 Chair: I am sorry to interrupt, but what I am trying to get at is whether that is the system that we have now or if it is some other system.

Richard Murphy: The point I am making is that the current system does not do what you are saying. It does not tax economic activity in the UK. What we need to do is have a tax system that does capture economic activity in the UK.

Q26 Chair: You have used that same phrase again, “We need a tax system that does capture it”. I am trying to pinpoint what it is that you want to alter in that tax system because, when I ask you that question—I have asked you a couple of times already—you say that you want the current tax system.

Richard Murphy: No, I do not want the current tax system, because it entirely fails to capture that, because it is based upon the accounts of individual companies within a group. As we have seen and as I would argue, the accounts of Google, for example, do not reflect the economic activity that is undertaken in the UK, where it supplies a UK website, where UK salespeople sell advertising to UK-resident people, which is clicked on by UK-resident people to generate revenue. That is a UK activity that is not taxed here, so therefore the current system does not capture it. What I am saying is that we need to look at a formula based upon where sales really are, which is where customers are, where people are employed and where physical assets are, not artificial assets or intangible assets.

Q27 Chair: Just go through that—where sales are, where people are, and what was the next bit?

Richard Murphy: Tangible assets, real assets that create wealth, not intangible assets, which are legal fictions, are what we are looking for. That is the real substance of what drives the economic activity of a company. We use that to apportion the profits of a multinational company determined globally to a state, and then it can tax those profits as it will.

Q28 Chair: I am sorry that this is taking up a bit of time, but I think this is getting to the heart of it quicker than I had thought, because there is quite a wide difference of view on the panel on this, I sense. I just want the other two panellists to comment on that.

John Whiting: I will try to be brief. Richard talks about economic activity. I would challenge that slightly, because I prefer the term “value added”, which is a proxy for profit. It is not just everything that is going on. One thing that troubles me a little is looking at a proportion of everything that is done. In a sense, VAT tries to capture something of this, but I am still troubled by just looking at it in terms of pure economic activity. I understand Richard’s point about a formulary apportionment on salespeople, assets, etc. My main challenge to that is the sheer practicality of trying to get that agreed between all the countries around the world.

Q29 Chair: You are saying that that will not be possible.

John Whiting: In practical terms, I struggle to see how that would be possible.

John Cullinane: Actually, I agree with Richard that we should be trying to tax the activities that are going on in the UK and the profits deriving from those. I just do not philosophically agree that that equates to where the customer happens to be. It is not even a new point; it is nothing to do with IT. It goes back to the invention of internationally traded products. They could be largely made and constructed in one country, but they are very valuable in another, because they have not seen a product like that yet. It is older than corporation tax that you could have a valuable activity in one country and a customer in another. As in the Zambian copper example, it is probably fairer to stick with activities than with sales.

There is no doubt that the international tax system has lots of holes. The answer lies in mending those holes in the direction of getting closer to the activity principle. To unilaterally try to get to a formulary apportionment, even if the apportionment was right, would be very counterproductive. Where the employees are is probably much closer to where the valuable activities are, but is it numbers of employees? Is it prorated to their salaries? Are they full-time equivalents? Could people employ lots of part-timers in Dublin or Cayman? Anything you have with detailed rules is capable of arbitrage. Unless you agree every single one of those details internationally, you are leaving room for arbitrage.

Q30 Chair: You are saying that we might exchange one bucket with a lot of holes in it for another bucket with a lot of holes in it. Is that right?

John Cullinane: It could have more, I think.

Q31 Chair: That is your view. It sounds to me like you would not even get as far as agreeing on the bucket.

John Whiting: I think we are saying the same thing, Chairman.

Q32 Chair: I owe Mr Murphy a quick rejoinder to those two points.

Richard Murphy: What we have at the moment, for example on transfer pricing, is an OECD manual that runs to 500 pages, which clearly does not answer most of the questions that we wished to ask of it. It certainly does not produce a deliverable system. To say that we could not come up with something else is a bit difficult to understand.

We have a problem of whether we use headcount or salaries, for example, with regard to employees. Make it half and half if you wish. Do we have a problem with whether the sale is here, the point of origin or the point of direction? Make it half and half if you wish. Do we have a problem with regard to extractive industries? Clearly there is a problem with regard to the extractive industries, which are an exception to this. Actually, it does not take many people to get oil out of the ground, for example, so you might need

to add in a factor in the case of the extractive industries to add a weighting for the sheer taking of physical resources out of the ground. Now, these things are all possible.

Is that any more difficult than agreeing transfer pricing between vast numbers of separate entities around the world? No, it would be easier than doing that. The consequence would be that we would clearly not end up with profits in the Cayman Islands. There simply are not enough people in the Cayman Islands to allocate much profit there, nor Bermuda. Those places do not have customers, do not have physical assets and do not have lots of people. Therefore, they would not get profit.

Q33 Stephen Hammond: When Mr Murphy replied to you a moment ago and in what he has just said, there is a real problem. Surely Mr Whiting is right; it should be the value added. I do not necessarily agree that value added equates entirely to profit, in terms of economics. The problem with your example, Mr Murphy, is this: if you were a Google-type structure, you would have your sales and marketing based in Delhi and sell to me here. Where is that happening? You said it is where the bulk of the employees are or the bulk of the sales are, but those two things would potentially be in complete contradiction. Say the companies agree, as you said at the end, to half and half. Actually, the worry that I would have is that, under that particular mechanism, more and more of the multinational companies would be generating less and less activity in the UK for tax, under that structures you have just described. If you are actually looking at the Google method, why would you have a call centre in Peterborough when you can have it in Delhi, selling activity and advertising into the UK?

Chair: That was not an advertisement for a brief question, but I am going to press for a brief reply, Mr Murphy.

Richard Murphy: If a company decides that it is better to have a call centre in Delhi, then it should clearly be making a tax contribution to India, for the fact that India is supplying it with trained people. That is perfectly fair. Not to attribute any profit to that would be unreasonable, but remember that, in this situation, we are taking the global profit and applying it across every country where we have activity and apportioning it on that basis.

We are not just talking about the UK versus Delhi. We are talking about the UK versus everywhere and we are looking at UK customers. Google has a very large number of UK customers, as we well know; it has a large number of UK employees and it has some pretty big assets in this country, so a fair proportion of its profits, much bigger than now, would arise here. Very little would leave the UK, because remember that we already have a territorial taxation system in effect in the UK, which does not try to capture any activity outside this country. I suspect that the leakage would be very small, so we would probably end up with a net benefit, but we would also have a credible tax system, which is a prize in itself. This is at the pinnacle of the tax system, where everybody looks for credibility to be established. If we do not have a credible tax system at the top, everybody else says it does not work. That is why this issue is so important.

Q34 John Mann: For my question, I am not really interested in your views at all. I listened to other questions to hear your views. I am interested in

your expertise. The problem with this inquiry, it would seem to me, is that we could end up with something that is fairly general and therefore has no impact. We could do that very well or we could do it very badly. This Committee would probably do it very well, and we would be able to show that it is incredibly complex, there are lots of different views and they are worthy of consideration.

I would be interested in tapping into your expertise if we were to actually do something that had a precise impact. In what direction would you advise us to take this inquiry? For example, should we be looking at what we could call the Google-type problem? Should we be looking at the UK dependencies and tax havens? Should we be looking at different systems, as Nigel Lawson has suggested, so big sweeping changes? Should we be looking at international agreements? Should we be looking at accounting practices and changes there? Where do you think we are most likely to be able to make significant progress, if we really homed in? That may or may not be what you see as the biggest priority in terms of the whole gambit.

John Whiting: I certainly recognise the dilemma you are expressing here, Mr Mann. With my tax simplification hat on, it is one we have to tackle as well. Broadly, one is looking at the relatively short term, sometimes termed quick wins, where you can see some changes being made that have some effect, but signalling some longer-term, directional, structural shifts. My recommendation to the Committee would be to emphasise some relatively short-term things that need to be done. That would include really supporting the BEPS actions, because they offer a good framework for strengthening the international tax system. By all means look at other relatively short-term things that need to be done. Potentially, I guess this Committee could then monitor what they are doing.

At the same time, and I realise this might be a dilution of effort, although I do not think it is, you should be looking at and signalling a direction of travel for wider exploration—and I have mentioned one or two things—about how you see the system should be developed and what direction of travel there should be.

John Cullinane: The trouble is that where you are most likely to make more progress depends a little on your overall view of it. I would say that countries have been more successful in tapping this source of funds the more aligned they have been with each other and with the incentivisations on the management. I would look in detail at respects in which the UK system may still be a little more generous than the kind of pack of Western countries. Many of those come out of the BEPS project, because they looked in detail at where we are not really succeeding in taxing activities. Things like interest deductions are on the table. Are the reductions in the rate that are projected totally necessary to remain competitive? There is a balance, is there not? You want some revenue, but you want to be competitive. Those are questions worth looking at.

I also suspect that, if I just said, “Don’t even worry your heads about Google”, that is a hard thing to sustain politically. The fact is that, if you look at issues like this and some of the biggest issues of international tax, they are attributable to some of the dysfunctionality around the US code and the difficulty of ever getting that sorted out politically, because the President and Congress do not agree. Maybe that is too difficult to do anything about. Maybe as politicians outside the Government, there are influences that you can have that the Government cannot express easily themselves, because of diplomatic relations and so on.

That might bear looking into, but with a bit of a health warning that, at the end of the day, functional or not, the US is a big, powerful country with a mind of its own and you might not be able to do much about it.

Q35 Chair: Just to clarify, you seem to be implying that there is a heap of tax being avoided or evaded—and maybe I should use the word “avoided”—because Google is channelling its activities through Bermuda.

John Cullinane: There is a heap of US tax, yes.

Q36 Chair: The US’s tax authorities are losing a lot of revenue as a result. The UK would not gain, but the US would, if that was addressed. Is that what you are saying?

John Cullinane: If you were to design some technical way whereby the UK could get its hands on it, you are likely to upset the Americans big time, because it would be against the whole spirit of the way the carve-up works. Now, whether is reasonable of them to not want somebody else to get it, if they are leaving stuff fallow, who is to say? But that is the fundamental issue, in that case.

Richard Murphy: I came up with a list of six things I would look at. The first one is country-by-country reporting, which I am delighted to see the Chancellor has now committed to adopt, because that is incredibly important. If we do not have the data on where companies are actually recording their activities and paying their taxes, we cannot assess the scale of the problem. Again, I should declare an interest: this was something I created 13 years ago and I am delighted the Chancellor has now adopted it as a result, but it is the way in which we can have an idea of the scale of the problem. There is, at the moment, only one study that I know of, and the only live data we have so far, which is from banks in the European Union and I did it last July, shows that there is significant profit-shifting going on out of countries like the UK and mysteriously benefiting places like Jersey and Singapore. It does appear that low tax jurisdictions are winning.

The second thing I would look at would be Companies House, which is utterly under-resourced to collect the accounts that are owing to it by UK companies. It does not pursue them. It is virtually a free for all. There has not been a case in Scottish law to prosecute somebody for not filing accounts since 2008. Therefore, we have a totally unregulated company accounting environment in the UK. Unsurprisingly, people are not paying corporation tax as a result. That is obviously part of the low corporation tax yield.

Thirdly, the Revenue needs more resources. They are simply under-resourced in this area. You will find that there are simply too few, unexperienced people in there and many of them are coming up to retirement. Investment here is critical.

I agree with John that we do have to push the BEPS process. We do not have an alternative tax system yet and, therefore, the base erosion and profit-shifting process is the best we have right now. I spent a lot of time in Paris on that issue, and in particular the new opportunities for establishing permanent establishment seem to be key in that. In combination, the UK should be committing to work with the European Union on the common

consolidated corporate tax base, which would be unitary taxation for Europe. The new EC Commissioner for Taxation is committed to reinvigorating that process. It is a potential solution to provide, quite literally, a common market within Europe, which I think is important.

Finally, the political narrative needs to change. We need to stop saying that low tax is necessarily good tax. The environment of politics that undermines the tax collection opportunity, by saying that low tax is necessarily virtuous, is wrong. Actually, paying tax is part of every company's corporate responsibility.

Q37 John Mann: My second question is that obviously we are British, so we have all the answers to everything, as ever. Is there another country that we might particularly want to examine that might have, lo and behold, something that they could teach us in terms of how they have handled this question of taxation of multinationals in particular?

John Cullinane: I do not think there is a single country that has done all this right.

Q38 John Mann: Is there one that would be interesting because they have done more right? That is my question.

John Cullinane: I see merit in getting into the pack, which I think would be learning a little bit, quite widely. The UK Revenue has worked very hard in the last few years to develop more international relationships among the tax authorities and work more effectively together, in all kinds of ways. Their relationships are closer with the Americans, the South Africans, the Australians, the New Zealanders and so on, and my impression is less so with the continental Europeans. Whatever your views on what the tax laws should be, they might be well advised to compare notes with the continentals a bit more. I think the teaching would probably go both ways, incidentally, but my hunch is that their relationships with those are less close.

John Whiting: I would largely echo that. I do not think there is any one country that has a perfect answer. There are countries that operate various aspects better than we do, whether you are talking about the Netherlands being better at giving rulings, and therefore greater certainty to companies, but you can criticise what they do, or other countries. Germany is more likely to tax accounting profits, rather than lots of adjustments. There are things we can all learn, but I would echo John's comment that they can probably learn from us.

There has been much better exchange of information, ideas and experiences among tax authorities. Coming back to your first question, Mr Mann, maybe that should also be on your list, encouraging more of that and of course encouraging other countries to properly staff and resource the tax authorities. If we go away from the OECD for a minute, I have always felt that one of the great problems is the expertise that is available to what can, in simple terms, be termed third-world countries. Very often their tax authorities are simply not properly staffed or do not have the proper expertise and resources.

Richard Murphy: I have to say that here I agree: there is no one country we can put up as a perfect example. It simply does not exist, because everybody is working within this OECD framework that is fundamentally flawed. As a result, at the moment, nobody is coming up with the perfect answer.

Some are better on transparency. Denmark, for example, has been willing to publish the payments made by large companies, which has removed some of the ambiguity about this issue, because we can tell for certain who is and is not paying. That seems to me to be of benefit. Norway is already pushing for full on-the-record country-by-country reporting by multinational companies. That seems to be important, because they are therefore seeing what is really going on ahead of us. I would welcome that. In terms of the actual tax system, I would echo the others. I do not think that, at the moment, there is one country that has got this right.

I would also like to stress that the developing country point is very important. For developing countries, unitary taxation would be easier by some way than the existing systems; it is a more straightforward and simple system to operate. This is also why many large companies have supported it inside Europe.

Q39 Mr Rees-Mogg: Good morning. Perhaps, Mr Cullinane, I can ask you one side question first. You mentioned accounting profit is opposed to taxable profit. Terry Smith, in the late 1980s, wrote a book called *Accounting for Growth*, which I thought was essential reading for aspiring investment managers, which has been my profession. One of the warning signs that a company was putting out accounts that were not reliable was that its corporation tax figure at the bottom of the page was much lower than you would expect against the accounting profit it was declaring. In your view, is it still a problem that companies are doing their absolute best to inflate profits to show to shareholders, while using every legitimate means they can to reduce their tax?

John Cullinane: When that happens, companies tend to go bust. There have been so many accounting scandals over the years that the rigour of the rules around company accounting has vastly increased. There are still all sorts of criticisms you could make. Sometimes it produces some strange results. Clearly every incentive on the company management, absent that framework and those pressures, is to exaggerate profits rather than to understate them. Therefore, it seems to me common sense that, with exceptions, the broad principle of alignment would make collecting profit-based tax easier.

John Whiting: If I could just add to that, it is particularly true coming back to Richard's small companies. It is easier for them if we broadly align accounts and taxable profits. Life is easier. Of course, that has the connotation that we have fewer reliefs and distortions brought in by the tax system.

Richard Murphy: Can I also make the comment that, when Terry Smith wrote, it was easier for him to work out who was not paying tax, because we were then accounting under UK GAAP, rather than under IFRS. Since 2005 with IFRS, the tax figure has been muddled to put it politely. That is a very fair term. Current tax and deferred tax have been joined together. It has frequently been very difficult to differentiate the two or to work out precisely what a company is actually going to pay, and so Terry Smith's rule is now harder

to apply, because deferred taxation, which is an accounting black art, if I can be kind about my own profession, is designed to make it look as though tax liabilities exist that may not be settled for many years to come. This is much the same as the thing that Terry Smith was looking for.

Q40 Mr Rees-Mogg: Broadly you are agreed that it would be better if corporation tax was levied on the profits declared to shareholders, rather than on a separate set of accounts that was sent into the Inland Revenue.

John Whiting: There is a very strong argument in that direction. Perhaps we should qualify it by saying that the adjustments should be minimised. If I can again refer back to my own work at the Office of Tax Simplification, we put out a report a couple of years ago on competitiveness and made the point very strongly. To align accounting and tax profits would certainly be simpler and obviously less easy to manipulate; it would just be much clearer all round. If a country, the UK or other, wants to introduce a particular incentive or alteration, then perhaps there should be scope for that, but it would be very clear what the adjustment was and why.

John Cullinane: I would just make one proviso. Some of these fair value movements under IFRS can have huge swings of profit with no underlying cash change, so there need to be some exceptions, but I would totally echo John: I would personally say the minimal number. Some of them could actually be quite large cash numbers and one adjustment might be very big but, as a general approach, I would go for more alignment. Historically, that is what has happened. It is one of the reasons why the base has not been eroded as much as people were constantly predicting it would be.

John Whiting: A key point is that, with the rate coming down as it has done, we have often been thinking about times when the corporate tax rate was certainly in the 30s, if not in the 50s. Actually, we are looking at a rate of 20% and coming down further. The value of these many adjustments is just much less. Is it really worth it?

Richard Murphy: There is an important point, if you are going to base taxable profits on accounting profits. That is that we have to get accounting profits right. At the moment, I do not think that is true. We would definitely need to differentiate, for example, realised and unrealised profits as, certainly on occasions, they are ambiguous in current accounting, potentially to prejudice creditors at the moment. There are some very big technical debates going on about that. I therefore think that is fine but, actually, we would really need to improve the quality of our accounts and reporting, and get the IFRS to get its act together, because it is not doing that for this purpose, in my opinion.

Q41 Mr Rees-Mogg: That is very helpful, because it leads me on to what I wanted to ask about the technical difficulties. The technical difficulties do relate to real issues. If companies are paying interest to their overseas parent, that is a perfectly reasonable thing to do. If they are paying royalties, that is a perfectly reasonable thing to do. Mr Murphy, do you agree with that?

Richard Murphy: I do not necessarily agree that those are perfectly reasonable things to do, no. If a company can manufacture a royalty to shift profits, it is entirely under the control of the same shareholders at the end of the day. One of the points many people will make is that, ultimately, companies do not pay tax; only individuals do. Therefore, this is something that is being done to reduce the tax burden upon the ultimate shareholders. Now, I do not entirely buy that argument, but there is some logic to it. If the company is literally manufacturing payments, whether they are interest or royalties, to reduce the overall tax bill, then we do not have to accept the fact that they legally exist as being the basis on which we give tax relief. That is why I would move to taxing global profits.

Q42 Mr Rees-Mogg: A lot of them are not manufactured. If a Hollywood studio has a film that is broadcast in the United Kingdom, the intellectual property—the intangible that you dismissed in an earlier answer—is very real. It is the major driver of the profit. If you are dismissing it when you are saying that it is a confection, who is deciding that? How do you determine it?

Richard Murphy: There is a very big difference between the payment of a royalty for the use of intellectual royalty when there are third parties who are negotiating this in a marketplace to when the company has decided to create an artificial asset. I would suggest that a great many intellectual property rights of multinational companies are artificially created to shift taxation liabilities between states. Those are fundamentally different things. You cannot consider related-party and third-party transactions as the same thing. This is the absolute core of the problem we are looking at. I am not saying that we should, in any way, deny tax relief to third parties but, when there is an artificial payment within a group, which clearly is designed and achieves the goal of shifting profit from one location to another, with an overall reduction in tax rate, then it is entirely within the right of the international tax system to say that this should be ignored. We have always been willing to do that, for all sorts of reasons.

Q43 Mr Rees-Mogg: You assume that it is always synthetic, but in a lot of cases it will not be. If you take the case of Google, it developed most of its intellectual property in the United States, which we now benefit from in the United Kingdom, through which it has a subsidiary. That is a perfectly obvious example, where it developed its intellectual property first, then it exported it to another country and then it set up a subsidiary. Why should you make the position of connected parties distinctly worse from those that are independent for genuine transactions?

Richard Murphy: No, I am not trying to make them distinctly worse. I am trying to make them fair and equal. I have looked at Google UK's accounts and the real cost that it has recorded as arising in the UK, compared to the level of profits or the level of turnover it has suggested has arisen on sales into the UK. I use the term carefully, because they do sell into the UK. If we compare those, Google's real margin in the UK is about 87%. Now, globally, quite clearly that is not the case. According to its press release last night, its real margin is 25%.

Q44 Mr Rees-Mogg: Hold on, because that is assuming that the intellectual property developed in the United States creates the margin in the United Kingdom, and that cannot be fair, because the intellectual property was unquestionably developed in the United States.

Richard Murphy: This is exactly why I agree we should reduce the UK margin to 25% to compensate Google in the US for the fact that it generated that intellectual property. I would entirely agree with you.

Mr Rees-Mogg: That is completely arbitrary.

Richard Murphy: But I do not know why we should reduce the margin to 5%.

Q45 Mr Rees-Mogg: You have decided that on something completely arbitrary, which is that you think it is right to be 25%, whereas detailed negotiation to look at the genuine attribution of costs, which has taken place between HMRC and Google, has come up with a different figure. Why should tax be decided on what you arbitrarily think is right?

Richard Murphy: I am not arbitrarily thinking it is right; it is actually what the market has decided. The market has decided that Google can make a 25% margin. In practice, I am arguing that the market should determine the fair margin to be earned, and it is.

Q46 Mr Rees-Mogg: How is the market determining this rate?

Richard Murphy: Google as a whole makes 25%.

Q47 Mr Rees-Mogg: That surely is not relevant when the intellectual property is developed elsewhere.

Richard Murphy: As I have just explained to you, the result of applying a 25% margin in the UK, compared to the marginal profits earned in the UK, at 87%, would be a massive transfer of value to the state.

Q48 Mr Rees-Mogg: You have invented this 25% for profits in the UK.

Richard Murphy: Why is there not a 25% for profit in the UK?

Q49 Mr Rees-Mogg: Why is there not a 50% profit in the UK? You have to look at the figures as they are.

Richard Murphy: The benchmark should be the market.

Q50 Mr Rees-Mogg: This is the real problem underlying what your basic argument is. You just want people to pay more tax because you think that is a nice thing to do, but actually people must pay tax on what the law says they must do, and not a penny more or a penny less. It is just as wrong for HMRC to collect more tax than the law requires than it is to collect less. Do you agree with that?

Richard Murphy: Actually, I find myself in the odd position that I am arguing that the market should actually be determining this, from a left-wing perspective. I accept that I am left wing, broadly speaking. You are, from a right-wing perspective, saying that apparently we should not be using the market to determine it.

Q51 Mr Rees-Mogg: The market has not determined this level at all.

Richard Murphy: It has, because Google makes 25% worldwide. There is a market determinant available to us. The principle of transfer pricing is that we should look for the best available market-based information to set the price. We have one; Google gives us the data.

Q52 Mr Rees-Mogg: There is absolutely no logic to do that. Just because somebody makes 25% over everything they do, it does not mean that, in any individual area, they make 25%. Some business units lose money; some business units make money. Some businesses are in development; some are very well developed. If a corporation, over its whole activities, makes one margin and then you apply it to every country, it would make it incredibly difficult for companies to invest in founding new businesses in foreign countries, because they would be immediately taxed at that margin before they had had a chance to make a penny, when they were still potentially in heavy losses.

Richard Murphy: If the company identifies different segments in its accounts, I can see an argument for using different apportionments for different segments. I do not believe that Google even identifies more than one profit segment in its accounts.

Q53 Mr Rees-Mogg: I will come to you in a moment, but just continuing with that, a moment ago you were saying that, if they are connected parties, you were not interested in how they are differentiated anyway, because you did not think that was proper. They had to be genuine third parties; otherwise it just became internal accounting and you should apply a broad rule to it. But now you want them to have internal accounts.

Richard Murphy: You are saying that there could be very different markets that the company was involved with. Let us make up a multinational that does retailing, oil extraction and pig farming. You might argue that, actually, it could have a different basis for apportioning those clearly differentiated segments in the business, if they are reported as such. In practice, unless it could be clearly established that that could be driven right down to the bottom line, it is better to apportion the whole. We will always end up with a compromise. Any tax system is a compromise. We have a compromise now; it is not

working. What we are seeking to find is a compromise that works better than the one we have. I would put it to you that what I am suggesting is a better compromise than the one we have.

John Cullinane: I agree with the thrust of your comments on the example of Google. There is a lot of stuff we do not know as outsiders. Broadly speaking, the IP is a real thing. It represents all the efforts that were put in, in California, over a number of years, probably long before it was very profitable. I do not think it would be an equitable result to say that we will make no allowance for that at all, in terms of how much profit you attribute to the UK once its global product is going.

I do think, however, that part of the problem you are pinning on Richard is a problem we all have, regardless of how high we think tax should be. It is that, when you are talking about connected parties or companies within a group, while costs can obviously be perfectly genuine, they are also open to manipulation. Structures can be created. You can put all your capital into Luxembourg and then lend it to everybody else. There must be a limit to how much you are prepared to say that that interest is a legitimate cost. The UK and other tax systems have a plethora of rules around that. Whether we are getting exactly the right target is an area worth investigation. Indeed, that is one of the directions in which the BEPS proposals point.

As a point of interest, when I first became involved in tax in the late 1980s, before Silicon Valley existed, California was trying to push this unitary tax concept. It was pretty bankrupt at the time and was just saying, “Anybody who sells stuff into California has to pay a big slice of tax to us”. There was retaliatory legislation on our statute book for some years, which was almost invoked, but ultimately the federal Government twisted their arm and they backed down. I would be very wary of one bound and we are free. The dilemma of manipulability that Richard points us to is very real and very there but, to my mind, it is a global issue, rather than doing something dramatic just to make it all go away.

John Whiting: Can I just add that essentially I agree with your thrust? There should be deductions for things like royalties and interest, if they are genuine. The point I would just add is simply that, in this day and age, many multinationals broadly do not recognise borders. They are manufacturing around the world. They are doing their intellectual property around the world. What we are trying to impose on them is national accounting, which they often do not do. Inevitably, we are putting some artificiality on to their structure. Of course, it rather depends on your point of view as to whether what we are creating or asking them to do is encouraging artificiality or recognising it. One way or another, and John said it, there is no perfect answer here.

Richard Murphy: Can I raise an issue with what John has just said? I do not accept the point that multinationals do not recognise international borders. I think they very much do. They can make a great deal of money deciding precisely where they want to place assets, profits and people and pay tax. I just do not accept that premise at all.

Q54 Mr Rees-Mogg: Let me get Lord Clyde in, because it is very important that we should have his view on the record. I think, Mr Murphy, you disagree with this: “No man in the country is under the smallest obligation, moral or other, so to arrange his legal relations to his business or property as to enable the

Inland Revenue to put the largest possible shovel in his stores. The Inland Revenue is not slow, and quite rightly, to take every advantage which is open to it under the taxing statutes for the purposes of depleting the taxpayer's pocket. And the taxpayer is in like manner entitled to be astute to prevent, so far as he honestly can, the depletion of his means by the Inland Revenue." Is this not all companies are doing? They are ensuring that the shovel of HMRC or other tax authorities around the world is not unduly put into their affairs, when the legislators, which are people like us, have made provision for him to pay tax at a rate passed into law.

Richard Murphy: Let me come back to you and suggest that you read the introduction to the notes on the general anti-abuse rule passed in 2013, which I was involved in drafting. It kicks Lord Clyde well and truly into touch, if I can be totally honest, and says that that is an attitude from a past era that is no longer acceptable and is certainly unacceptable now, under the terms of the UK general anti-abuse rule, for that reason. I welcome the OECD's moves in recommending general anti-abuse rules and the EU's move in that way. We have to stop that attitude that is clearly designed to undermine the legitimate right of Governments to collect tax.

Q55 Mr Rees-Mogg: Surely it is completely right that, if Governments cannot pass laws that demand the collection of tax, nobody in their right mind pays more tax than the law requires.

Richard Murphy: That is why we have a general anti-abuse rule: to make sure that that is the case.

Q56 Mr Rees-Mogg: That is to stop people trying to use avoidance techniques that the law has not provided for. The law provides for people to minimise their tax, in all sorts of ways, as a matter of policy.

Richard Murphy: In that case, they should use those reliefs. That is entirely legitimate.

Q57 Mr Rees-Mogg: Then it is a matter of judgment, is it not? It is a matter of judgment whether, ex post facto, you look at it or not. That is not a satisfactory way of running a tax system. It has to be clear. Mr Whiting's tax simplification may well be what we need to make that clearer, but to expect companies to think that they should follow your conscience in how they pay tax cannot be right.

Richard Murphy: The GAAR is designed to make sure we have that backstop so that, when people do abuse the law, in the way that you are suggesting companies have a right to, they should not be allowed to do so. Lord Clyde is quite specifically referred to, along with a number of other cases, in that introduction, which was actually subject to approval by the House of Lords.

Chair: We can have one very quick further negotiation and then a rejoinder, and then we are going to move on.

Q58 Mr Rees-Mogg: Introduction is not law. Preamble is not law.

Richard Murphy: It actually is, in this case.

Q59 Mr Rees-Mogg: Most crucially, Lord Clyde says “honestly”. That is it.

John Whiting: It is how you use the shovel.

Mr Rees-Mogg: That is right.

John Whiting: I think Lord Clyde was of his time. He was concerned with a partnership and a bus proprietor or something bringing his son into partnership. Life has moved on a little from then and we have to recognise that. The core point is that it is a foolish businessman who chooses the route, when faced with two, that would give the greater tax bill. That is entirely valid. We can keep coming back to the shovel analogy, because we have to recognise that you have to use the shovel that the legislation gives you and use it in a way that the legislation says, rather than going out and fashioning your own shovel and using it in an entirely artificial manner to shovel something that should not be there.

Mr Rees-Mogg: I agree with that entirely. Thank you very much.

Q60 Chair: I just want to clarify one point that Mr Murphy made on intellectual property early on in that exchange, and then I think we moved into the stratosphere of Lord Clyde and the GAAR. Many of us have our doubts about whether it will actually get any money in and so on, and have raised those concerns over many years. Let us get back to the brass tacks. Mr Murphy, do you think that profits on activity derived from intellectual property should be taxed in the country where the intellectual property is based?

Richard Murphy: In principle, the obvious answer to that question is yes. The reality is that, of course, vast amounts of the world’s intellectual property is now owned in places like Bermuda, Cayman and Jersey. The world’s intellectual property is not created in Bermuda, Cayman and Jersey. I have to tell you that they have not got a university between them. Therefore, that is not where these things are actually generated. We have a difficulty between the substance and the form.

Q61 Chair: I am sorry to interrupt, but it is based in California, is it not? It is the American tax law that allows it to be taxed in Bermuda. It is not actually based in Bermuda. No one is suggesting that it is in Bermuda or should be taxed in Bermuda. That is what the Americans are permitting. I am just trying to clarify. There is a large amount of intellectual property in California. Do you accept the principle that the value added by that intellectual property should be taxed in California?

Richard Murphy: Actually, I do not think that Google's intellectual property that is used in this country is taxed in the USA. It is quite clearly taxed in Bermuda, where there is no corporation tax.

Q62 Chair: That is what is happening. I am asking you what you think should happen.

Richard Murphy: It should not be taxed in Bermuda. It could be taxed in the States. Let me go back to the basic principle that underpinned our tax system for a very long time.

Chair: I am asking one very simple question.

Richard Murphy: I am trying to answer your question, if I might.

Chair: I do not think I am getting an answer so far.

Richard Murphy: Royalties were always considered and described as a charge of income in UK tax law. The basis of the charge on income was that it would be paid to a person who was overseas, but tax would be withheld at source in this country. By and large, we do not do that anymore, because of international tax treaties. This has been a change over years but, in practice, I see a strong argument for saying that we should be withholding tax at source on the payment of royalties, interest and other payments to places, particularly where they end up in a low-tax jurisdiction. Then credit should be given for the tax paid in the country of origin when taxed in the country of destination. This is a long-established legal principle. I do not see any reason why we could not apply it in this case.

Q63 Chair: When you say particularly in a low-tax jurisdiction, do you mean to say that, where the intellectual property is based in a country that has a robust tax law that enables that value added to be collected, we should not have an interest in it; but where we see that that firm has allowed its intellectual property to be taxed in a tax haven, we should take an interest? Was that what you were saying?

Richard Murphy: If you wish to compromise, at the moment we cannot have tax withholding within the EU. I would have tax withholding to anywhere else in the world, to be totally honest. That would be my compromise. Should other countries wish to make sure that the receipt of these payments was properly managed in the country where the benefit really arose, we might be able to reconsider it. Right now, this is one of the things that is giving rise to the risk of tax war, and we need to resolve that by changing from this assumption that we may pay wherever we wish in the world to one where, on such matters where there is substantial tax risk, withholding takes place at source.

Q64 Chair: When I have raised this concern, and I share your concern about under-taxation—we are all agreed that we are trying to protect the yield, but the question is how we should go about it—it has been put to me by many people who are specialists in this field that we are very strong as a creative country. We

have a high degree of intellectual property creation and we have strong brands. If we were to go down the road of an approach that involved apportionment and some form of compromise, and I think you mean the same thing by those two terms, we might find ourselves losing out, not gaining, because we have all those companies whose intellectual company might find itself vulnerable to the predations of other countries' tax systems.

Richard Murphy: Over the last few years, from 2009 onwards, we have moved to a position whereby, basically, the UK has a territorial taxation system. We only try to tax profits arising in the UK, in this country. Those arising outside are, broadly speaking, outside the scope of UK tax. Therefore, we could not possibly lose out, because those profits are already not within our scope to charge.

Chair: We will move on. We have had a very long tour around that subject.

Q65 George Kerevan: Gentlemen, I am interested in your evaluation of the diverted profits tax. Perhaps we could start with Mr Cullinane. Is it functioning or is just window dressing?

John Cullinane: These are very early days for it. I interpreted the tax as broadly a kind of longstop. When you are in the grey area of these discussions as to whether you have a permanent establishment or not, and how much value should be attributed to this, if you pursue those too aggressively and too successfully, you would find yourselves caught by this longstop. It is a little bit of speculation from outside, the Government initially having claimed this Google settlement was a big success, whether that new tax had that influence on those discussions. That would be speculation. We have not had many cases settled yet on which to form a view.

John Whiting: I can only echo that. There is an element here of it being a tax that, in some ways, is not designed to raise any money, simply because it is supposed to encourage better behaviour. Therefore, it is a bit like the anti-abuse rule; the idea is that it is not used because people conform. You will have to ask me that question again in two or three years' time, when we perhaps have a bit of a track record on it.

Richard Murphy: I would agree with those comments, by and large. The diverted profits tax is, in effect, a targeted anti-abuse rule. You do not wish to use targeted anti-abuse rules, because then you discover their limitations. In this case, you have to ask why it was introduced. Why did we have 89 pages of legislation to achieve that result? Was that wise and did it actually help the OECD BEPS process? Those would be questions we would also have to ask.

Q66 George Kerevan: If it is presented as a tax that would capture revenue being diverted, it is not really functioning in that way. It is a kind of incentive.

John Whiting: It may actually raise some money or it may raise it indirectly through corporation tax. In a sense, it would be very difficult to tell how much it raises absolutely, but it is part of the UK's armoury in making its tax system work.

Q67 George Kerevan: Does that mean that it would be very difficult to evaluate it? If it is successful as an incentive not to offshore profits in some way, if those profits are ultimately captured by HMRC, we will not be able to determine just how much the effect of that has been.

John Whiting: It is like a lot of anti-avoidance rules, in that, in a curious way, one measure of success is that they are never used.

Richard Murphy: However, there is an aspect to the diverted profits tax that could be tested by the Committee, which is the self-assessment element in it. If somebody believes that they are subject to the tax, they have to disclose that fact to the Revenue. It would perhaps be pertinent to ask the Revenue how many people have actually suggested that they could be subject to the tax and whether any potential revenue might arise as a result, in the Revenue's expectation. That is something they could answer, at the moment.

Q68 George Kerevan: Do other countries have something similar?

John Cullinane: I do not think there are any direct comparisons.

Q69 George Kerevan: Do you think that the 25% marginal rate is the right one or do you not know?

John Cullinane: It is part of this disincentive. It is meant to be more reasonable early on, before you ever get to that. That is the kind of message that is given out.

John Whiting: It has to be higher than the basic corporation tax rate, because it has to be seen as an anti-avoidance measure.

Q70 George Kerevan: In the sense that you do not actually want people to pay it, that you would rather the company organised its affairs so that it was paid in the normal tax regime, is the 25% marginal rate rather low?

John Whiting: You can argue it all the way around.

John Cullinane: The basic problem with it is that it was popularly billed as the Google tax. When you look at the facts about Google, so far as you can tell from the outside, it did not and was not really intended to apply. While no doubt a lot of people were offended by seeing profits go untaxed, under international principles they were always US profits in the first place, so it was never really designed to get those profits.

Q71 George Kerevan: Why I am pursuing this is because we are a way off the perfect taxation system, so marginal reforms always appeal to me. Would your advice be that we should stick with the perfect model of a diverted profits tax and see whether it has worked after a few years or, if you were designing it from scratch, would you approach it in a different way?

Richard Murphy: I would undoubtedly be looking at how we change the rules on permanent establishment as the solution to this problem. That would be a better way of dealing with the issue of the diverted profits tax. If most of the companies that were supposedly diverting profit could be shown to have a permanent establishment here, I suspect that less profit would be disappearing. That is not a complete solution, but is certainly a direction of travel I would be taking rather than doing the diverted profits tax, which I do not think is very helpful.

George Kerevan: How would we do that?

Richard Murphy: We have the basis at the moment of what is called the chapter 13 solution inside the OECD BEPS process. There are still negotiations going on to take forward this dimension of transfer pricing. We should be dedicating resources to that, as I have already said, in parallel with other solutions like the EU CCCTB. While we have the existing system we have to resolve the permanent establishment rule as well. That would be a better direction of travel than the DPT, which I frankly do not think is ever going to raise very much money.

John Whiting: I would stick with what we have because we have it. Changing it again only adds complexity and confusion, which is not good. Were we starting again, then I have already nominated permanent establishment as possibly the most urgent thing to tackle in this whole area, so I might also have gone down that route. We are where we are, so I would try to make the system that we have work.

Q72 George Kerevan: Coming back to the overall movement towards tax reform at international level, where do you evaluate where that is? We are clearly interested in what is happening in the UK, but my impression would be that, if there are to be any fundamental reforms, they would have to be agreed at a global level. Where do you evaluate the process of debate within the OECD is?

John Cullinane: I am sure that what comes out of the BEPS project will not lead to perfection, but it gives countries a menu of things they can do to protect and probably increase their tax base a little. As they are able to say that this is an OECD BEPS reform, they are a little immune from the criticism of being anti-business or hiking taxes. “That is very unfair and counterproductive”. You say, “No, no, no this is the international consensus”. That is the value of the OECD BEPS project; it gives a halo to particular measures that you take to increase the tax base. While I do not agree that all intercompany interest and royalties are inherently to be ignored, I do think that those sorts of areas merit a close and balanced look.

Richard Murphy: If you had asked me in 2010 if I would have been pleased by where we have got to in 2016, I would have been both pleased and very surprised that we have gone as far as we have. In many ways, the OECD BEPS process has been quicker and more effective than one could have imagined. There are real developments in there. The country-by-country reporting template is a risk assessment tool to tackle national companies. That is one of the big outcomes that is hard not to welcome, but you still have to see it as a sticking plaster on a system that is fundamentally on its last legs. Land Rover has had the wisdom to actually get rid of the Defender. Well, I think our international tax system is rather similar. We cannot keep on sticking on a new exhaust and hoping it will work. Eventually, we have to redesign the whole thing from scratch.

Q73 George Kerevan: Is there any real impetus, anywhere within OECD, to make that fundamental shift in mindset? Looking at the Treasury and HMRC's response to the Select Committee from the House of Lords, I notice they say, "We do not need to overhaul the whole international system and replace it with, for instance, a destination-based cash flow tax. Alternative approaches to tax have been discussed in the course of the BEPS project, both with other countries and with businesses, and there is a clear consensus that we should stick to the current approach as the basis for international tax rules". That worried me in the sense that, underlying the BEPS process, there is actually a conservatism about change. Is there any sense in which any radical ideas in terms of overall reform are being considered anywhere?

John Cullinane: The EU proposals are the biggest example, but it is just a fact that, where you have a lot of independent parties that all have to agree to move things along, you will tend to get less radical change than you would if it was just the British constitution. There is a greater tendency for somebody to be clearly in charge. It just is a fact.

John Whiting: The fact that you have basically have all the OECD countries signing up to this is, in one sense, very radical. You actually have them saying, "Yes, we are all going to follow this agenda". The achievement of that should not be underestimated. I agree that it is not contemplating a completely radical new system, but the fact that they are all saying, "Yes, this is a good programme and we will go down this together", is quite an achievement.

Q74 Rachel Reeves: I want to come back to the issue of Google. What do you think the basis of Google's £130 million deal was and how much do you think it reflects discussions with HMRC around transfer pricing, permanent establishment or perhaps something more opaque? What do you think was the basis of the deal, any of you?

John Cullinane: I am only speculating from seeing what has been put out by the company, what has appeared on the website and seeing other people's back-of-envelope calculations. The best estimate I could see was that there seemed to be an assumption that 15% of the profit on sales to UK customers would be reflective of the kind of activity in the UK from sales and marketing, and so on. If you accept the 15% as a valid estimate, it stacks up, but you may think it should be vastly more.

Q75 Rachel Reeves: What is it 15% of?

John Cullinane: If you take Richard's approach of just taking the UK sales and the overall profit margin of the group, if you apply that profit margin to those sales, it is that figure. If you then take 15% of that as what is really attributable to the UK, it stacks up. If you think 15% is not enough, then it is not enough.

Richard Murphy: There appear to be some conflicting statements from the company even about what the basis of this settlement is, so it is rather hard to know. What we know was that they appear to have been working on what might be called a cost-plus basis. The costs in the UK had a margin added to them; that margin was the profit attributable to the UK company. That was 15%.

It appears from the comments I have seen that that may have gone up. I have seen one comment that suggests it has gone up to 20% and another comment that suggests that a small proportion of UK sales revenue is somehow being attributed to UK taxation. I do not understand quite how that works. It would be an unusual basis for transfer pricing if it was used, but everything is possible in a transfer pricing negotiation. All that has happened is a transfer pricing negotiation. It does not appear as though the diverted profits tax has been part of this equation at all. It does not look as though permanent establishment has been on the table. It is merely an adjustment to past pricing.

John Whiting: I should say, as the Committee may be aware, that I am a non-executive director of HMRC, but I am clearly not here in that capacity and nor do I have any knowledge of the settlement. I have little to add other than that is, I assume, a settlement in accordance with the law. Would there be an element of negotiation? Yes, in the sense that some things, as we have abundantly brought out over the last hour and a half, are just not completely black and white and clear.

Q76 Rachel Reeves: Given the confusion, even among experts, as to what the basis of the deal is, do you think that there is perhaps a case for large businesses to end the principle of taxpayer confidentiality?

John Cullinane: That is something that will have to be considered. It is not only the case that we have a very strong tradition, but it is also reflected in criminal law that the Revenue is not supposed to, and does not, as far as I know, divulge details of individual taxpayers' affairs. That is everybody, literally from individuals to the largest companies. It is just a fact that, in the last 15 years, the amount of public interest and concern in tax issues has developed out of all proportion. The position of a large multinational is not totally comparable to that of an individual.

There would be issues. If you end up conducting these negotiations in public, you could end up with a disincentive on HMRC to raise issues that have a degree of uncertainty, but a very big price tag. If you look at the criticisms that have been made where they settled with other multinationals for a small fraction of what they originally put on the table, there are areas of tax law that are uncertain and that could be completely legitimate. You would need to think about that.

There are also issues, assuming we do not want to go to what happens in some Nordic countries, where every individual's tax return can be got hold of by anybody else and is completely public. I guess that people currently would not accept that in this country. Unless you went to that, you would have to say where we draw the line, what the effect of that is on competition and so on. I do not think it is going to wash, given the amount of public concern that there is about tax now, to sit and say that that is completely unthinkable.

Q77 Rachel Reeves: Do you think that is a route we should go down then, John Cullinane?

John Cullinane: It is worth looking into, because of public concern and because there are some issues about it.

John Whiting: Yes, I think there needs to be a proper debate about this. It is not something to do from an immediate kneejerk reaction, because we need to understand the implications. Would this mean disclosure of commercially sensitive information, for example, saying that tax returns should be made public? What would that actually say? In many ways, the interest is in the reconciliation, if I can term it that way, between the accounting profit as disclosed and the taxable profit on which 20% or whatever is charged. We need to understand what it is that is being disclosed, why and to what advantage that is needed. It is a legitimate source of debate and, yes, I agree, it is possibly something that this Committee might care to think about.

Q78 Rachel Reeves: Before I come to Richard Murphy, John Whiting, does this happen in any other country?

John Whiting: Some of the Nordic countries do that, to a certain extent. Certainly as you were saying, John, in countries such as Sweden all tax returns are either open or, my recollection was, if you pay a krona, it gets you somebody's tax return. Countries go down that track, but to what extent they find it useful would be an interesting point to test, and what use is made of this, before we impose something of a burden.

Richard Murphy: I know people who argue for putting all company tax returns on public record or all large company tax returns on public record. My only problem with putting tax returns on public record is, first of all, there are potentially commercially sensitive items in tax returns. I am not quite sure that that should necessarily always be on public record. The second one is much more practical: that, actually, the tax return of a very large company is very big and most people would have great difficulty in extracting anything very useful from it. Just dumping a pile of information in front of people from which they cannot extract anything useful is not necessarily a solution.

What we really have got wrong is our accounting for taxation in a whole range of company law. Large companies quite clearly are not accounting appropriately for the tax liabilities that they owe. They are not providing country-by-country data at the present point in time. They should be. We hopefully will move that way, but we are not there yet, so we are missing a gaping hole in our understanding of how large companies behave in this way; nor are we getting proper tax reconciliations in published accounts of why they are not paying the expected tax rate. There are far too many of those reconciliations that just say "other items", which covers a multitude of sins and explains nothing. There are almost no explanatory notes to most of them.

I have been trying, in the Fair Tax Mark, to encourage companies to be more open about this, but we fundamentally need to go back to company law and say that the rules we have on tax accounting and disclosure are way out of date. We do not know why

companies do not pay the right rate of tax, at a point in time, and the right rate can be zero, after all. It is possible for the right rate to be zero. A company can make a loss or have a perfectly allowable deduction, but they need to be able to explain why. We have almost complete opacity about why deferred tax liabilities arise and when they might ever crystallise, which is an absolute loss to shareholders, who have no way of appraising, as a result, the future cash flows of the company, which they need to know. We are ultimately very deficient in accounting and my first preferred course of action would be to get that information there, rather than dumping vast amounts of corporation tax returns on the public record, at present.

Q79 Rachel Reeves: Since the Google settlement, Google has suggested that they will pay more in future, which I have to say I find one of the most confusing or baffling statements that I have heard, because tax is not a charity box donation. It is something that you are obliged to pay. You do not decide that, one week, you want to put in £130 million and £140 million 10 years later. What does it mean when they say they will pay more in future?

Richard Murphy: The statement that was put out by Google when this was announced was somewhat confusing, because they said, “We have complied with the rules as they were, and we will now comply with the rules as they are”, but they made a settlement relating back 10 years. The obvious implication is that they were not complying with the rules as they were. They made an estimate. They got that estimate wrong and, as a result, they have had a new settlement imposed on them, not by choice but imposed. I do not think it was a large enough settlement. That is a judgment, but what is quite clear is that they were not paying the tax that was required at the time. The way in which they represented this was a little misleading, to be kind.

Q80 Rachel Reeves: I will just ask briefly about Bermuda, which has been touched on a little bit before. £30 billion of profits from non-US sales have been amassed in Bermuda, where the corporation tax is 0%. While havens exist, this type of arbitrage will always exist, I have no doubt. We have 10 British overseas territories and crown dependencies on the EU’s blacklist of 30, so what further action should the UK be taking to crack down on tax havens and this sort of arbitrage? If Britain is not taking action, what should the EU be doing?

Richard Murphy: I would draw your attention to the programme that was broadcast on the BBC about 10 days ago, about the Cayman Islands. There was a very interesting contrast between comments made by the Premier and the Governor. They were both asked whether the UK could take action over what Cayman did, with regard to tax. The Premier said that the UK could close Cayman and its tax activities down whenever it wished, and the Governor said that it could not. One of those has to be right and one of those has to be wrong.

I would say that, actually, the Governor was wrong. The UK has the complete right to intervene with regard to tax haven activity in these places, simply because we are entirely responsible for their foreign affairs. The entire logic of a tax haven is to supply low tax rates to people who are not resident in that place. In other words, this is an issue about foreign affairs, as far as they are concerned. Tax haven activity never relates to your

domestic economy, only to your external affairs. We could therefore intervene quite legitimately. The Kilbrandon report indicates that this Parliament has the right to intervene in these places. We could close down those tax havens if we wished, but we clearly do not have the will to do so.

Rachel Reeves: What should the EU do?

Richard Murphy: What could the EU do? The EU can actually bring pressure to bear upon the UK. It has done so quite successfully in the past, in particular through the 1997 code of conduct for business taxation. As a result of that, pressure was brought to bear on Jersey, Guernsey and the Isle of Man in particular to transform their tax systems. John and I will remember it well; we were both engaged in debate in Jersey on that, at the time. The outcome was not the one that was anticipated, but the EU does have the right to bring pressure to bear on the UK to change behaviour in its own tax havens.

Q81 Rachel Reeves: What does “pressure to bear” mean?

Richard Murphy: The code of conduct was actually what is called soft law. In other words, it was not legislation; it was literally a code of conduct. Pressure to bear meant that, basically, the UK was told to get its act together, but a whole load of other states were told to get their act together on the other issues. The Netherlands was told it was abusing in certain ways. Belgium was told and everybody was told, basically, in the common interest, to reform their taxation. We need to go back to that and review whether an update on the code of conduct is now necessary.

John Cullinane: As a broad generalisation, most of these places play a very big role, in the extreme, on tax evasion by individuals and tax planning by individuals. As long as we have some element of our non-domiciled regime, you have a class of people who are taxed partly by reference to how much they bring into the UK. To have banking and other facilities in UK-like places that are not in the UK obviously plays a huge role for that population, but an entirely legal one.

By and large, those places do not feature very largely in the activities of UK multinationals, because the laws about corporate tax avoidance effectively counteract them. They are a feature of US corporate tax planning, largely because the US system tends to look rather blindly at where something is incorporated, rather than where it is managed. You can arbitrage the two bases and have a company that is Bermudan in one sense and Irish in another. It is an issue for the US tax code and the reality is, because of the political deadlock there, it is hard to see whether that will ever get sorted out. It is a little because they are strong enough to ignore the tendency of everybody else to move in the same direction, even when you would think it might be in their interests to do so.

Rachel Reeves: Before I come to John Whiting, Richard Murphy seems to strongly disagree with you.

Richard Murphy: I think that comment is factually inaccurate, based upon what I have seen, based upon the disclosures by banks under the Capital Requirements Directive IV of the EU, where we now have country-by-country reporting. For example, Barclays has reported its profits worldwide under that directive, and Jersey was its second-largest profit centre, Luxembourg being its biggest. It seems rather odd to claim, in that case, that

our tax havens are not being used by major corporations, when Barclays certainly is and others have shown the same trend, based upon the work that I have seen.

John Whiting: I would simply add that, whether we are talking tax havens, lower tax areas or whatever we want to term them, the best thing that the UK can do, in many ways, is to pressure or force them, with whatever powers we have, into having a similar level of regulation and general supervision as we do here. They may choose, and we would have to accept that they choose, not to have the same rates of tax, but we should expect similar levels of behaviour, control and management.

Q82 Rachel Reeves: If we have a role, as Richard Murphy has suggested, in the Cayman Islands and elsewhere, and we could close down tax havens, do you not think that we have that responsibility, John Whiting, if it is depriving us of tax that should rightfully be paid?

John Whiting: If it is depriving us of tax, then of course it is a very valid issue. We certainly have a responsibility to look at such places. I am just slightly troubled by the idea of immediately closing them down, to use that phrase, because what then happens to the local economy and the people there? They may be small. To prevent Richard having a stroke or whatever, undoubtedly we know that they are not doing the sorts of things that they purport to be doing, but we cannot just arbitrarily close something down. I come back to it; our main stance should be to try to make them a properly regulated and properly managed economy, in the same way as we would expect any part of the UK to be.

Q83 Rachel Reeves: That would suggest that multinationals move profits there because of low regulation, rather than because of low tax. I would have thought that it was probably the latter.

John Whiting: I think it is a bit of both.

Richard Murphy: Some years ago I wrote a book on tax havens. Actually, it is very difficult to define a tax haven. What is very clear is that we can define secrecy. These places create veils of secrecy that hide their use for those seeking low tax. A secrecy jurisdiction is actually using opacity to make sure that those who are not paying tax cannot be identified. It is a combination of both; it is regulation and low tax but, without the opacity, they would not be as attractive to most of the companies that are using them.

John Whiting: That is particularly true if we are looking at individuals who are using them to evade tax.

Q84 Chair: I am surprised that all three of you have come to the conclusion that all tax havens should be closed down unless it is very harmful for the local economy, and that our only concern should be with the locals. When I was in project finance, it was essential that, in order to get capital from a wide variety of tax jurisdictions, you needed to locate a company in an environment in

which an excessive tax would not be imposed. Otherwise, the complexity of bringing those deals to market would have been prohibitive.

John Whiting: I do not think I am saying that I would close them down, because I would want to establish what they were there for. Some of the tax havens have validly established themselves as centres for the reinsurance industry, for example. If they have the genuine expertise to operate there, then that is absolutely fine. This is where I am troubled by the simple thing of just closing them down, because all countries make choices as to how they raise their revenue. Many see the UK as a tax haven; let us be clear.

Chair: I do not want to prolong this discussion. I was just surprised by the apparent black and white nature of the replies on it. Mr Murphy.

Richard Murphy: Jersey is a place that I know well and have a long relationship with and, in 2010, I suggested to them that, if they were so sure that they had a valuable role to play in the world's finance system, because they prevented double taxation—which I agree is unacceptable—then by all means become a location that prevents double taxation, but do it with every single card face up on the table. Require companies that use the place to put all their accounts on public record. Show who is using it for that reason. Be completely transparent.

Chair: That is much closer to Mr Whiting's point about regulation, practice and standards.

Richard Murphy: If that is what they think they are achieving in the world, then they do not need the opacity that all these places still rely upon. Therefore, I have to say that I am troubled by their claim that they are necessary for that reason.

John Cullinane: Broadly, I still believe that they are not much used by UK corporates for tax purposes. I entirely accept that they could be, but the UK anti-avoidance shifting of company profits, as far as those sorts of places are concerned, is much more effective.

Q85 Mark Garnier: Mr Murphy, can I just pick up on a question that Rachel Reeves was asking you, which is about tax transparency? You were making the point, and I agree with you, that actually it would not necessarily be much use publishing tax returns. You would also question whether that is the right way to present that sort of information and whether HMRC would do it, for example. Would you agree on this particular point? I would also be interested in comments from your colleagues. Would you agree that probably the best way of approaching this tax transparency would be to have a look at the international accounting standards and possibly even the international listing rules of some of these companies, so that there would be better transparency of this type of tax through those international standards?

Richard Murphy: I do agree with you. I do not think it is only in national accounting standards. I believe we have a problem domestically. I would go back to that. I have a real problem with some small companies not publishing full accounts. Therefore, we do not know why some small companies are not paying tax in the UK. This history of opacity within the UK should disappear.

For example as a researcher, and I am now a professor at City University, if I was given the job of wading through or, as is perhaps more likely, putting somebody else to wade through vast numbers of international tax returns, it would be a mammoth task and I would not necessarily find what I want. I agree with you that a reform to international accounting standards is essential. They have so far missed the mark with regard to what is required now on behalf of stakeholders that they really do need to be reformed.

Unfortunately, the International Financial Reporting Standards Foundation says that the general public, tax authorities and others are not interested parties in financial reporting. Only providers of capital are. They claim that providers of capital do not need information on taxation, and so refuse to address this issue. If they are not willing to address this issue, it is time to say whether they are fit for purpose and discuss who should now be doing international accounting standards. It is notable that the EU is promoting country-by-country reporting going around them, because they have quite simply refused to address it over many years. We do have a real problem and the IFRS Foundation is at the heart of it.

Q86 Mark Garnier: I just want to quickly use the 2013 Google statements. I am sure you cannot remember it off by heart, but just to give you the quick thing: turnover was £642 million; administrative expenses, £570 million, giving an operating profit of £72.5 million; interest receivable, interest receivable, etc., gives a profit on ordinary activities before taxation of about £71 million. The provision for income tax is £21.5 million. That is an effective income tax rate of 30%, but your argument is that that £570 million of administrative expenses is where the lack of clarity happens.

Richard Murphy: Actually, my argument is that that is the wrong turnover. The real turnover should be £4.5 billion, which is actually the income that I think is generated in the UK. To go back to what Mr Rees-Mogg said earlier, should we be paying the States? Yes, there should be a much bigger payment from the UK to the States, which at the moment is being disguised through Ireland. I am quite happy to pay more, so long as we end up with the right profit.

Q87 Mark Garnier: How would you get from £4.5 billion turnover to £642 million?

Richard Murphy: That is because, if you look at the worldwide accounts of Google, the one market for which they provide information for turnover outside the USA is the UK and, in 2014, the figure was £6.4 billion.

Mark Garnier: That is because it is more than 10% of the global turnover.

Richard Murphy: No, that is just the sales they made into the UK market.

Mark Garnier: This is the only country they disclose.

Richard Murphy: Unfortunately, it is the only one at the moment that we get data for. Of course, if in due course we had country-by-country reporting, we would know it for every single country, but we do not yet. We happen to know that and, therefore, we know that there is a massive difference between the roughly £4.5 billion that represents

and the £642 million-odd that is declared in the UK accounts. This is where we have a disparity between accounting form and actual economic substance. In my opinion, we are not recording in the UK accounts of Google the economic substance of the activities of that company in the UK, reflected by selling, purchasing and people clicking on the websites, which is of course what actually generates the revenue. That is here.

Q88 Mark Garnier: That is notwithstanding Jacob Rees-Mogg's incredibly important point that they are clicking on something that has intellectual property based overseas and, therefore, there is a legitimate transfer of that.

Can I just turn to John Cullinane? You started talking about a subject that I think is quite important, which is this whole business of the view of the IRS, in America for example, about what happens with this taxation. There seems to be an element of this that I am not quite sure about. Perhaps you would be able to clarify this. There are all these machinations of the double-Irish, the Dutch sandwich and God knows what else people have come up with but, eventually, you end up parking a huge amount of money in Bermuda. Is that where this gets to? The net result is that this money is then parked in Bermuda, where there is no tax on it. What good is it there? What do you do with that money once it is there?

John Cullinane: That is a very interesting question, because one of the political debates that happens in the States is whether you have a period of tax holiday or lower tax of dividends. They did that at one time to encourage the multinationals to bring this back. Richard was alluding to deferred tax. They have to persuade their auditors that they are not going to need to bring that money back because, ultimately, if they did, they would then have to provide for the US tax on it.

Q89 Mark Garnier: It is an interesting point. How does it benefit the company by just having this great lump of money?

John Cullinane: As long as they do not feel the need to distribute it out to their stockholders or, for some other physical purpose, they need it in the States, it might as well be there as anywhere else, I suppose. They could make an international acquisition out of there without ever bringing it back to the States.

Q90 Mark Garnier: The reason I am asking is that I am trying to find out what eventually happens. Eventually, you come to some point when the money has to be used for something. There is this supposition, for example, that you could lend this money back to other parts of the organisation, but presumably that just creates a liability on the balance sheet, which then has to be repaid. It is presumably repaid by earnings at some point, on which you pay tax. Effectively you have now found a way by which tax is paid on this by a secondary route. If you disagree, I will give you an opportunity to come back on that one in a minute, if I may, Mr Murphy.

Ultimately, you can distribute it to the shareholders, because it is their money and you may decide you want to do that, in which case it has to go through some tax jurisdiction, presumably being where the listing is, in order to pay tax there, so you find a way of paying tax there. Eventually you could wind the company up and decide it is no good anymore, for whatever reasons, and again you have a distribution, so again tax is paid there, or an acquisition. You can make an acquisition on something, so you are now turning it into a dollar-earning asset, because you are not necessarily buying something to lose money. At that point, that starts creating money and you get an income in wherever the jurisdiction is, and you are paying tax on it.

The point I am trying to make is that, ultimately, while I get the idea that, if you want to do this, you are trying to find a way of almost determining when you pay the tax, is it not the case that, at the end of the whole cycle, tax is paid on this money somewhere, because you cannot end up with a huge great pool of tax doing nothing?

John Cullinane: We do not really know the end yet, because this particular structure has not been the case forever. It has grown up particularly in the last decade or so, which is also a decade in which the political divide in Washington has been pretty acute, by and large. I do not really know how it will end. As of now, they are probably persuading their auditors that they will not need to bring it back and, therefore, they do not need to provide taxes.

Q91 Mark Garnier: As a shareholder, would you be happy if your company was now sitting on huge amounts of unused cash? Go on, Richard Murphy, you have been chomping at the bit.

Richard Murphy: Does the shareholder know, first of all? That is the first question; does the shareholder know how much money is in Bermuda?

Q92 Mark Garnier: Does anybody know? Is this a published amount?

Richard Murphy: By ferreting around, this information has come out. Before 2010, I do not think anybody was talking about this issue. The first company that was really addressed in this way was Google, by Jesse Drucker by Bloomberg at that time, although we had done a little work earlier as well. The fact was that it was not known that this was a phenomenon. Most of the accounts do not make this very clear in the US. There is a low tax rate in Google as a result of this; let us be clear. Google worldwide appears to pay a tax rate of around 20%. Most of that is in the US. There is very little outside the US. As long as there is a low tax rate, the Google shareholder in the US says, "Great, my earnings are going up". That translates into a capital gain. Therefore, they think that they are getting the benefit and that is what the transmission mechanism is towards the shareholder. It is not by way of a dividend. Remember that dividend payments by most multinational companies are relatively low in proportion to earnings.

Q93 Mark Garnier: Hang on; let me just stop you there, because you are now talking about share price appreciation based on growing earnings. Surely you are parking huge amounts of cash revenue into Bermuda, and now you are saying that they are not even disclosing that to the shareholders.

Richard Murphy: They are, but very obliquely.

Q94 Mark Garnier: Even so, the company that is not using its assets is the last thing you want. I look to the investment management world there. The last thing you want is a company that is just sitting on a huge amount of cash; it is a completely pointless asset.

Richard Murphy: I would agree with you entirely. This is distorting international markets, undermining the efficiency of the allocation of resources in the world, almost certainly increasing the cost of capital, reducing the rate of worldwide investment, increasing unemployment as a consequence, reducing global GDP growth, resulting in market failure around the world. This is what happens when you create market imperfections of this sort called tax havens. The result is that we all bear the price. I am sorry, but that is exactly what it is.

John Cullinane: It is a very interesting discussion, because your comment that Richard agreed with is absolutely right: that, from an economic perspective, it is not rational for a company to be piling up loads of cash, wherever, that it does not have an immediate, sensible plan to use. Going back to the incentivisation that exists of top management in large multinationals, there is this incentive to maximise accounting profits, whatever they are, because they tend to believe that the market reads those into the stock price. Culturally, Americans seem to have that deterministic approach. It is an example of very important behaviour not being rational in an economist's sense, but, actually, it is off the back of that that we have one of the stable elements of our corporate tax system. While they are focusing on generating these profits, there is something there to tax if we align with it. What you really have here is a spectacular failure by the US system to make that alignment.

Q95 Chair: I am sorry to interrupt but, when you talk about alignment, can you say what you mean? I think you know what you mean.

John Cullinane: The people in charge of these companies are looking at earnings, and looking at that overriding this economic analysis: that getting higher earnings involves keeping this cash here, but what is it really doing, and how much value is that to the shareholders or anybody else? The fact that they are so motivated suggests that, if you align your profit tax with the profit they are after, together with a number of countries, you will maybe succeed in maintaining your tax revenue a bit longer than economic theory suggests this tax should be viable for.

Q96 Mark Garnier: Can I come in on that one? Clearly the shareholders have a conflict of their own interest. They cannot work out what they want. Do they want the earnings to go up, and have large pools of unused cash, or do they want to invest in businesses that are maxing out their opportunities by using that cash they have available? This seems to be a fundamental problem with shareholders. At the end of the day, it is all very nice looking over your shoulder and seeing what the company has done in terms of taking the highest amount of

earnings it can get, but surely the whole basis of fund management—it certainly was when I was an investment banker and a fund manager—is about seeing what the company is going to do in the future, and you need to know that they are going to be using that money.

Chair: We are going to have to make that the last question. I have three more colleagues who want to come in, and some of us also want some lunch, but do fire away, Mr Murphy.

Richard Murphy: There is very clearly a massive market failure here, because shareholders—most of whom are people like pension fund members and insurance company beneficiaries—are unaware that the funds that they are putting in the care of others are being invested in companies like this, which could face a potentially very large tax bill at some time in the future, at cost to them. It is not therefore true that these arrangements may, in the end, be victimless. We may see ordinary people in this country seeing prejudice to their pension rights, or something else, as a consequence of these arrangements, which at the moment look as though they are robust but may not be in the future. That is the real risk we are facing here. We cannot pretend this is just an issue for these companies; it really impacts people in this country. That is, I am sure, why people are instinctively so angry about it.

Q97 Chair: We have to be careful that we do not turn this into the Richard Murphy show. John wants to get in very quickly.

John Whiting: Let us not lose sight of the fact that at least some of this money sitting in Bermuda, or wherever, is being used for other investment, or whatever. I do not dispute that there is a lot sitting there, and you do question whether US shareholders—let us stress again that this is mainly US shareholders—really understand what is going on.

Q98 Mark Garnier: But if some of that money has been used for investment, it creates another circular argument.

John Whiting: Then more money is going into Bermuda.

Q99 Helen Goodman: Mr Whiting, you said earlier that you are a non-executive director of HMRC. Is that right?

John Whiting: Yes, it is.

Q100 Helen Goodman: Are you satisfied that the Revenue has adequate resources for dealing with these complex issues at the moment?

John Whiting: If you will forgive me, I am not appearing here as a non-executive director, but my general stance is that I do worry about the resources that HMRC has. I do worry about the pressure on the staff, because these are people. I am worried about whether there has been enough investment over the years in HMRC's systems, as well as the people. It is a constant area on which I try to keep pressure. It is something that HMRC is

looking at; the age profile of HMRC staff has been well-documented as an issue. Good investment is taking place in people. It is a very open question as to whether they have enough resources but, ever since HMRC was formed in 2005, they have been under pressure to cut headcount and costs.

Q101 Chair: In John's defence, I should say that you did appear on the understanding that you were talking primarily about the tax system, and not about HMRC.

John Whiting: Indeed. I do not really want to go any further than that.

Chair: You have given us answers to those questions, but you are not here in your capacity as a non-executive director. I do apologise.

Q102 Helen Goodman: The next question I was going to ask was about the R and D service fee to the United States, which we understand is running at about £100 million a year. Do you have any notion as to whether or not that is reasonable?

John Whiting: Are we talking about Google specifically?

Helen Goodman: I am going back to Google.

John Whiting: I can honestly say that I have no knowledge of that, so I am afraid that I cannot really offer an opinion.

Q103 Helen Goodman: The Oxford mathematics faculty spends £24 million a year, and their costs for the 90 mathematicians that they employ are £9 million a year. If this company is claiming that their R and D fees to the United States are £100 million, does that not rather support the contention that the transfer prices on some of these royalties are somewhat arbitrary?

John Whiting: I am sorry, but I do not think I can really help you on this, because I have not studied it properly. I understand the very good analogy that you are making, but I cannot really comment directly without knowledge that I simply do not have about Google or any other company.

Q104 Helen Goodman: Mr Cullinane, what do you think?

John Cullinane: Because Google has been so much in the news, I did try to look at other people's back-of-envelope calculations, but I really do not have anything with any kind of expertise or particular validity to say. When I went through the numbers, I thought that I would stick to what I said earlier: if you think that 15% of the profits made in respect of UK sales really relates to activity in the UK, and the rest is somewhere else, then the new settlement, so far as one can tell, comes out about right. I do not find those orders of magnitude particularly surprising.

You can argue these things legitimately, but it seems to me that most of the value will have been created in California, a lot of it a long time ago, which presents a bit of a problem when tax is on a year-by-year basis, but there was real activity that created real value, and that is where it took place, to my mind. I do not think that anybody could say that 15%, or whatever it happens to be, is exactly the right figure. There is at least a perception problem there, because the comment has often been made that, when ordinary people pay their tax, they are not allowed to say, “Well, it could be this or it could be that”, but the fact of the matter is that we are talking about something here that is inherently subject to a margin of tolerance as to what a legitimate view is.

There is a real problem here, but the fundamental issue in terms of very large numbers that are undoubtedly moved around for tax advantage is, straightforwardly, in the US tax system. If these royalties were paid directly to the US—as would have been the case if they carried on with the structure they had when they started, and did not set up sub-regional centres in Ireland and so on—we might still think it would be nice to have more money, but we probably would not have this kind of annoyance about it, because they probably would be paying tax of over 40% between US and California state tax.

Q105 Helen Goodman: I was going to come back to the Irish point, because they are saying that some of their costs and turnover are attributed to the United States, some in Ireland, and none in the UK. How can it be that when they employ dozens of people, who are constantly coming to see us and lobby us on all sorts of things, and who are prepared to travel around the country and promote themselves to our constituents, unlike the French, we were not able to find that they had a permanent establishment here?

John Cullinane: I am not sure we actually know whether the French inquiry, or whatever it is, has concluded yet. We are told that they are asking for more, or pushing for more, but I do not know that we know what has been concluded. I absolutely think that, irrespective of how much should be divulged publicly in general, in these sorts of situations, the UK, French and Italian revenues should be able to compare notes. That would be common sense, to me. But I do not think that is what is annoying people. What is annoying them is that there is a big hole on what is, to my mind, the US side of the fence. That is the much bigger number, and it is really a completely different issue.

Helen Goodman: Mr Murphy, do you have anything to add?

Richard Murphy: The answer is that we do not know. That is the problem: we do not know. Google is publishing accounts in the UK that do not appear to reflect, to any common-sense standard, what actually happens here. That is the difficulty we are facing. When somebody appears to be selling an advert using UK salespeople to UK customers on a UK website, using an algorithm that guarantees they are only seen in this country, where a UK-resident person is the only person who can create the value on that by clicking on the advert, it frankly offends people to see that the company says it makes no sales in this country. I can understand that; that is right.

I do not think the accounts affect the economic substance of what is going on, which is right where we started. The Chair asked me whether I think we should have a system where economic activity in the UK is taxed here. I

answered, “Yes, I do”, but Google is producing accounts that do not, to me, appear to reflect the economic activity that is happening here. Once we come to that point, then arguing whether we are paying the right amount for R and D or not is a bit like a sideshow, because we are talking about the wrong top line, and all the other costs after that are inevitably wrong.

But I make the point that if the top line was £4.5 billion—as I think it should be, based upon the last data we have seen—then the amount of royalty paid to the US from the UK would be vastly higher than it is now, precisely because there would be much more to pay to bring it down to a margin of 25%, which is what we should end up with. It appears that Google consistently makes a 25% profit margin on its activities worldwide, and therefore, we have the commercial benchmark, which is exactly what the OECD transfer pricing rules—including those on profit split, which do exist—suggest would be appropriate. The profit split basis of transfer pricing here would seem, in the light of all the available evidence, the best way to go. We could answer this within the existing rules and come up with my suggestion.

Q106 Helen Goodman: I would like to ask a question about the definition of IP that is used in the tax code; this follows up from the points that Jacob Rees-Mogg was making. I wanted to ask you whether you do not think that this definition has become too broad and all-encompassing. To give two different examples, on the one hand, we have the big pharmaceutical companies, which do lots of R and D and biochemistry. Everybody can understand that that takes a lot of time, money and highly-skilled people, and that has real intellectual property content.

But do you not think that there is something wrong with the situation that happened a couple of years ago with Starbucks, where they were registering their brand name in Luxembourg, calling that IP, and charging a fat fee to their English subsidiary to pay for this massive IP, and all it was for was the name “Starbucks”? Do you not think that what is incredible about this definition of IP? One thing is genuinely IP; the other is really just branding, and cannot really count as IP in a true sense.

John Whiting: It is a good challenge. Yes, we all recognise the new wonder-drug in the pharmaceutical sense. It is one of those continua. I am afraid I do think that the Starbucks name, or logo, has some value. I remember this coming up probably 10 or 20 years ago, when companies suddenly realised that their logos had value, and there was a value to be charged to overseas companies and overseas subordinates for the right to use that logo. We are probably into the price: again, going back to the pharmaceutical example, the new wonder-drug that is licensed is clearly enormously valuable. A logo that we all instantly recognise, I would say, does have a value. If the question is “How much is that value?”, we are probably back to the question of how on earth you value these things that you would not ever allow somebody outside your group to use.

Helen Goodman: Mr Cullinane?

John Cullinane: I agree with that, but one of the things coming out of the BEPS project is some commentary on what is meant by IP. The value of the name of a company is not just generated by something that was done in the past, or something that can be bought or sold with bits of paper, but is to do with the ongoing behaviour of the company and whether it is doing new things. A name is earned.

Q107 Helen Goodman: A cup of coffee is a cup of coffee. What can be new about a cup of coffee?

John Cullinane: If you say it has no value, there is no issue, but most businesses try to innovate and have approaches to their customers that contribute to their reputation. There is a way of looking at things that says that it is the ongoing efforts of the people in the business, and their interface with customers and innovation and so on, that are preserving and enhancing the IP. You cannot just look at it as something that exists all at once and can be sold from one country to another.

In this case, you have an almost perfect storm of the US tax system being much more legalistic and at the more conservative end of this kind of debate; a glaring loophole, in allowing you, in effect, to move it to a company that is in Bermuda but they think is in Ireland, and can be charged to Ireland without any consequences; and, in the case of an IP project, a situation where a lot of work done by California in the past is still creating a huge amount of value now, because the value in IT has this explosive quality. Those three things together are creating a perfect storm, and I do not know that it is completely soluble, but I do not think you can read across from that that the whole tax system is very vulnerable to that type of planning. I do not think that IP in most businesses has that explosive quality. Even if you try to sell it from one country to another, you typically have a capital gains charge.

Q108 Helen Goodman: I do not think I was trying to read across to the tax system as a whole. I was trying to ask, based on your expertise, whether you think we might come to a definition of IP that would be more commensurate with what the person in the street—the average taxpayer—would accept was IP, and whether any thought had been put into that.

John Cullinane: I think BEPS will empower the Revenue authorities to have a more substance-based and a less legalistic view of where the IP really lies, and, as I was saying before, to do so without the companies being able to say, “We are being picked on because your tax authority is particularly aggressive and anti-business”. They will be able to say, “No, this is in the OECD commentary”. They are being armed, but it will be clear from this discussion that it is not the sort of thing where one day you are in a bad situation, and the next day you are in a good one.

Q109 Helen Goodman: It is true that different brands have different value; for example, the BBC brand is extremely valuable to the UK, much more than, say, ITV. If we are selling BBC programmes, we can get more for them than we can get for ITV programmes. But, if we had a stronger definition, do you think

we would be able to make some progress in preventing the companies from arbitrarily choosing the price that is convenient to them to minimise their tax bill?

John Cullinane: It is one of those things where we all know what it is, but it is very hard to define. The danger of rushing to a precise definition is that sometimes you can then make that more manipulable. The tax authorities have to keep plugging away.

Chair: I have two more colleagues who very much want to get in.

Helen Goodman: This is not fair. Chair, some people were allowed to ask questions for an hour, and I have been asking questions for about 10 minutes.

Chair: Since you have pressed the point, you have actually been asking them for 16 minutes. I have in front of me the average of others' questions, so please do not press me too hard on that, but please ask one quick question, with one further reply. I have two more colleagues who want to come in, and the reason the room is de-populating is because some of us have noticed an urgent question on the EU which, of course, particularly interests the Conservative members. As you will notice, a number of them have moved on.

Q110 Helen Goodman: Perhaps you would like to answer the question.

Richard Murphy: Very briefly, the answer is that IP has no value at all unless you can sell it, and the only person who can give it value is a customer. That is precisely why I say we should be apportioning profits on the basis of where customers are. Anything else is artificial. You can allocate the value of IP to Bermuda but, if there are no customers in Bermuda, that is an artificial transaction. The value is created by selling that intellectual property to a customer, and, in the case of Google, £6.4 billion worth in the last accounts they published was in the UK. That is what created the value; that is why the profits should be apportioned here; that is why unitary taxation makes sense, and eliminates all these discussions on the arbitrary allocation of IP within groups, because it makes no sense after that.

John Cullinane: But there are commercial transactions in which IP has been sold independently.

Richard Murphy: Of course, but that is a third-party transaction, and if it is a third-party transaction, I entirely accept that that is taxable in a different way. I am talking about the intra-group transactions here.

Q111 Chris Philp: Just continuing on this dissection of the Google case study, I would like to come back to Mr Murphy's original suggestion that a fair way of approaching the entire thing would be an apportionment approach, where you look at the company's activities in the round, accounting for staff, assets, and sales, and broadly apportion them to the various jurisdictions in which they operate where activity might occur. Mr Murphy, taking the Google example, how would you apportion Google's UK sales between the various places it claims to do business—so, the UK, Ireland, Bermuda, and the US?

Richard Murphy: I would do exactly what it says: what is the value of sales in the UK? What sales does Google make to a UK customer?

Q112 Chris Philp: But your criteria were broader. They were sales, assets and staff.

Richard Murphy: Yes, but Google will know how many people it employs in the UK. It was roughly 1,800 in the last headcount they published, so that is that figure, but assets is the accounting figure.

Q113 Chris Philp: So you would not attribute any of it to the US, even though the algorithm was originally derived from the US.

Richard Murphy: The US would get the 50% sales weighting that is due to it, because 50% of all Google sales were wider than the US. If Google has 30,000 employees in the US—I stress that I have made that number up—then it will get a weighting, in terms of total employees, of 30,000 proportionate to the rest of the world.

You take the profit of Google as a whole; for convenience's sake, let us call that £20 billion. It is not quite right, but it is a nice round number, which will make it easier to do the maths. You split it into three equal parts: one-third, one-third, one-third. Each is allocated according to a formula. One-third of profits is allocated on the basis of where the sales are; one-third of profits is £7 billion. If half the sales are in the US, £3.5 billion goes to the US on that basis, and then if 10% goes to the UK, £350 million of the profit will come to the UK. If we are talking about people, you do the same thing. If 75% of all the employees were in the US, then 75% of the people pool of profit—which would be another £7 billion—would go the US. I am afraid I cannot do 75% times £7 billion.

Q114 Chris Philp: Why not do it the other way around, and look at the UK profit, which is, let us say, £1 billion per year in very round terms? I think that is right, roughly.

Richard Murphy: That is what I suggested, on the basis of a sales formula alone, because we do not really have enough information to do the rest.

Q115 Chris Philp: That is taking a straight-line figure, is it not? If you weight that at third, a third, a third, all of that—by definition—is sales profit.

Richard Murphy: No, that £1 billion is the UK profit. That is based upon a weighted figure; that is a little less than one-quarter of the £4.5 billion of sales. It is a little less than one quarter, but I always round down.

Q116 Chris Philp: But is that just using the global margin of 25%

Richard Murphy: Yes.

Q117 Chris Philp: But that global margin of 25% does not account for the fact that the US would be overweight IP, relative to the UK, and it would be overweight personnel relative to the UK.

Richard Murphy: It may be, but I do not have the data to work that one out. I used the sales formula alone to do this figure at this stage.

Q118 Chris Philp: But given that there are proportionately more staff in the US than the UK, you would downgrade it a little bit.

Richard Murphy: Yes, I accept that.

Q119 Chris Philp: And would you accept that there should be some kind of adjustment for the fact that all of the IP was originally created in California?

Richard Murphy: No, none at all.

Chris Philp: You would give that no credit at all.

Richard Murphy: I would give that no credit at all, because IP, as I have just said, only has value in economic terms if you sell it. If the sale is here, that is where the value of that IP arises. If you cannot sell IP, it is irrelevant, so you allocate it on the basis of the sale, not on the IP. The people created the IP; you have done overweighting of the people to the States, because that is where they are, and therefore you have given the apportionment on that basis.

Q120 Chris Philp: That is a little unfair on the IP side. Imagine if Google said to you, “We would like to sell you our algorithm for your exclusive use in perpetuity.”

Richard Murphy: That is irrelevant.

Q121 Chris Philp: It is not irrelevant, because it clearly has a value. You would pay money every year to rent that IP, or you would pay a larger sum to buy it.

Richard Murphy: That is a third-party transaction, and therefore is therefore subject to tax as a third-party transaction. Within the group, all that IP does is try to reallocate which place in the world profit is paid in, when the value is actually created by the sale. I would only IP as a third party if I thought I could sell it. I would not buy it for the sake of looking at a Google logo; I would buy it if I thought I could make a sale of that.

Q122 Chris Philp: Is there not a third-party, arm’s length reasonableness test that HMRC, or indeed any other international tax authority, should apply? The example Helen Goodman gave earlier about the Starbucks Coffee brand sounds like the value might have been artificially inflated to extinguish UK profit, and I would have thought that in that example, HMRC should have looked at that and

said, “That is an unreasonably high charge, because you would not get that on a commercial, arms-length basis. Why would you pay such a high royalty if you ended up making no profit?” Clearly, for something like a pharmaceutical patent, an engineering IP, or Google’s algorithm, there must be a reasonable third-party, arms-length commercial basis on which that IP could be reasonably transfer-priced, although I am sure that it is lower than the one they are using.

Richard Murphy: But you are assuming that Google is made up of lots of separate companies in separate countries. Google is not lots of separate companies. I will call John Whiting in evidence; he said earlier that multinational companies only think about their global operations, and do not think about the countries. To some extent, I agree with that.

John Whiting: You disagreed at the time.

Richard Murphy: Sometimes they do only think that way, and in this situation, there is only one Google, so the internal charges do not count. All Google can do on behalf of its shareholders is make money by selling to customers, and therefore the profit arises from the sale to the customer, not from the artificial relocation. There is but one Google; everything else is an artifice. That is the basis of unitary taxation.

Q123 Chris Philp: Would the US tax authorities not get very angry if we suddenly give no credit to all of this IP that had been created in California circa 10 or 15 years ago?

Richard Murphy: They have already given it away; it is all in Bermuda. They have already given it up. They have no claim on that already, so they have no right to get angry. It is gone, as far as they are concerned.

Q124 Chris Philp: Let us take a German example; Germany does tax their companies more reasonably than the US does. Would the German Government not get angry if we suddenly ascribe no value to anything that Siemens have ever developed in Germany?

Richard Murphy: On the other hand, Germany would win a lot more out of Google. This is a quid pro quo. The drive of this is to find a credible, viable taxation system that is—as I said earlier—at the top of the taxation pile, to make clear to people that if the largest companies are paying the right amount of tax, then everybody else should as well.

Q125 Chair: But we are back where we were before. It is not the tax system that we have now that you are talking about; it is quite a different one, which is what I have been trying to clarify for much of the morning.

Q126 Richard Murphy: I am suggesting that we need to go in a new direction. The existing system is completely broken; let us accept that. This is the direction of travel we should be going in.

Q127 Chair: You are not suggesting that the existing tax system can, with a few tweaks, be made fit for purpose. You are saying you want a completely different tax system.

Richard Murphy: As does the EU, for example, with the Common Consolidated Corporate Tax Base. I am hardly alone.

Chair: Sorry to interrupt, Chris. I have been trying to establish that for some time.

Chris Philp: I understand. I just want to push this. Could you briefly comment on that most recent exchange—

Chair: I think that you deserve a proper go, since you have been by far the most reticent of the three witnesses.

John Cullinane: There was a quote from a senior US tax official commenting on the various efforts of the EU to get more tax out of the American multinationals. The quote was that the EU executive seemed to be singling out US companies and had no right to go after foreign profits held overseas by the firms. There is evidence that the Americans already consider it a bit offensive that people are fishing after their profits. If we were paying these royalties, if Google in Europe was paying these royalties directly to California, where the intellectual property was created, there would be no problem. Before California had this dotcom boom, they were pretty bankrupt; they toyed with the idea of doing the same thing in reverse: “Come and sell anything in California and we will tax you on the profit that you have made from creating that in the first place.” We introduced retaliatory legislation and got Washington to get them to back down.

This is a completely counterproductive way of going. On average, the Americans get 20%. The reasons they got there are accidental and a little bit dysfunctional, but they are getting 20%—

Q128 Chris Philp: Is that not because they get 40% of their US profits and zero of their non-US profits?

John Cullinane: Ballpark, yes. It is a little bit dysfunctional. It operates perhaps as an export subsidy, so, on top of some of Richard’s criticisms earlier on the economic result of this, it is not a great situation. The dysfunctionality lies in the US tax system, and I do not think they would necessarily welcome us coming in for more when we already have 20%, which the international rules tend to suggest is the right sort of figure, and they are getting 20%, admittedly by a rather bizarre route.

Q129 Chris Philp: On the question of transfer pricing and reasonableness of transfer pricing more generally, I am going to ask all of the panel whether they think HMRC is applying these rules sensibly. It strikes me that, given you have situations where pretty much all of a company’s UK profits are somehow spirited away, whether it is coffee beans going to Switzerland or Costa’s IP going to Luxembourg or Bermuda, there must be some unreasonableness somewhere. If you set the transfer prices for this IP, or interest payment or brand payment, so

high that it pretty much totally extinguishes UK profits, that would suggest to me that even if you accept the concept that you should have a transfer price for IP—I know you do not, but if you did—would you not agree that, as a matter of application, these transfer prices must be too high, because nobody, on an arm's-length basis, will accept a transfer price so high that they make no profit in the UK? Who would like to comment?

John Cullinane: In terms of these individual companies, looking from the outside, I would stress that, overall, with all these problems, the corporate tax take has remained high and better, probably, than most people predicted when decisions were made to reduce the rate. The answer would depend on individual companies. When I was first involved in tax, the IRS in the States was all over this transfer-pricing issue and the attitude of most other authorities was a bit more haphazard. Over the years, the UK Revenue has got a lot more aggressive about it. The requirements that people have to do analyses and documentation to support their prices is greater. Could they learn more? I am sure they could, but they have moved to being much more in and indeed ahead of the pack. They are not ahead of the US, I would say, but ahead of the pack. However, that is impressionistic, because obviously what goes on in these individual cases is currently confidential.

John Whiting: I would simply say that if you get the situation you have described, Mr Philp, where suddenly profits disappear, that is an obvious thing that any tax authority, whether it is HMRC, the French or anyone else, would challenge and challenge vigorously.

Q130 Chris Philp: There should be a red flag, because it seems to happen rather a lot.

John Whiting: Exactly so.

Q131 Chris Philp: Will you be asking your colleagues on the board of HMRC to look more closely at transfer pricing for large companies who claim to make no UK profits?

John Whiting: I am not here to comment on my HMRC role, I am afraid, but I can assure you that challenging these things is something that is very definitely on HMRC's agenda.

Richard Murphy: In an hour and 25 minutes, I will be explaining to students the difference between macro and micro decision making in economics, and that is exactly what you are trying to do here. You are saying that in a macro sense these micro decisions on transfer pricing make no sense, but we have a system that is designed around micro thinking, and the macro decision makes no sense at all. That is the problem we are facing.

Q132 Chris Philp: On the corporation tax gap, Richard Murphy, you wrote a blog a little while ago estimating that the tax gap—the amount of corporation tax that should be collected but is not—is around £10 billion. Is that a figure that you recognise?

Richard Murphy: The last firm figure that I wrote for the UK was £12 billion, but I think that has probably been coming down a bit. There has been some behavioural change. However, when we get country-by-country reporting, we will know.

Q133 Chair: I think the question was what number you think it is now.

Richard Murphy: I would say £12 billion, probably on a downward trend.

Q134 Chris Philp: Are you counting allowances, so things like capital allowances, as part of the tax gap?

Richard Murphy: No.

Q135 Chris Philp: Some people have mentioned a figure of £100 billion. That is not a figure you would endorse or recognise?

Richard Murphy: Yes, I would. That is a figure that I also—

Q136 Chris Philp: Hang on; so is it £12 billion or £100 billion?

Richard Murphy: Let us talk about the differences. The £100 billion is made up of the total tax avoidance, not just corporate tax avoidance, and of total tax evasion, as well as unpaid tax, which is what those three elements make up—the total tax gap—so the total figure is vastly bigger than the corporate tax figure. We should bear in mind that we are talking this morning about a relatively small part of the total tax gap.

Q137 Chris Philp: Some people talk about £100 billion as being so called corporate welfare. That is not accurate. That £100 billion is everything, so that is wrong.

Richard Murphy: There is a separate estimate of £93 billion, which I was not involved with, of what corporate welfare is, but that includes things like capital allowances and so on. I would question whether that £93 billion is entirely correct.

Chris Philp: I would certainly question it as well.

Q138 Chair: Just before we move off that, just to clarify, do you consider allowances, for example—capital allowances or R and D as part of what you define as a tax gap?

Richard Murphy: No.

Q139 Chair: I thought a moment ago you said that the total tax gap, including everything and including uncollected tax, was £100 billion.

Richard Murphy: Uncollected tax is bad debt, not anything else. It is people who have not made when they acknowledge a liability. The Revenue is not very good at collecting debt. PAC says that regularly. There is also tax evasion, which may be £70 billion, and then there is—

Q140 Chair: I tell you what; perhaps you can put on a paper how you define these various items.

Richard Murphy: I will happily send it to you.

Chair: So we can compare those definitions with what other people currently use.

John Whiting: For the record, I subscribe to the HMRC tax gap analysis, not just because I am on the board there but because I think—

Q141 Chris Philp: What is your figure on corporation tax?

John Whiting: I cannot remember off the top of my head, but the total tax gap is £34 billion or £35 billion.

Q142 Chris Philp: And so you think it is about £4 billion—

Richard Murphy: I think about £4 billion is corporation tax within that.

John Whiting: Within that, £4 billion or £5 billion is avoidance from all sources.

Q143 Chris Philp: I was also interested in some of the ideas we heard from Mr Murphy earlier about some form of withholding tax. We used to have dividend withholding tax, did we not, and interest withholding tax?

Richard Murphy: We called it an advanced corporation tax, but yes.

Q144 Chris Philp: I think you were saying it for sales made in the UK by companies that were ultimately incorporated in zero-tax or very low tax jurisdictions. It sounds an interesting idea. Would that fall foul of any World Trade Organisation tariff rules?

Richard Murphy: I was not talking about applying it to sales, as such. I was talking about applying it to interest, royalties and dividends. It would not fall foul of any tariff that I can think of. We do have provisions to make tax withholding still; let us be clear. They do exist. We do not always use them, because we have double tax treaties that then exempt many countries from their application, but there are rules for tax withholding.

John Whiting: One of the reasons not to do it is obviously the risk of retaliation the other way, although if we are talking about a tax haven, in general you still do apply withholding in many cases to interest and royalties to tax havens.

Q145 Chris Philp: Given that we charge corporation tax of 20%, soon to be 18%, I do not think that would count as tax haven, so I am not sure that we would get retaliated against on that basis. I think “low tax” is defined as below 10% or something. Could you apply that concept to sales that have been booked in the UK from a jurisdiction that is a zero-tax jurisdiction, or would it be difficult legally to apply the concept to sales as well?

Richard Murphy: That would put an undue pressure upon the purchaser in the UK to then pay the invoice less tax. I do not think that would be reasonable. That could not be done.

Q146 Chris Philp: You could not say, let us say, to a company in the Cayman Islands making a sale to the UK, “As a condition of doing business in the UK, there is an obligation on the Cayman Islands vendor to move it back to the UK”.

Richard Murphy: A Cayman Island vendor that sells into the UK does have an obligation to register for VAT here in many cases, and to account for that on that sale. It depends, because VAT law is a complex area, but there are occasions when that happens. We do create obligations on distant sellers, but I do not think anybody that I know of is doing that on sales, and it would be exceptionally difficult to do.

Chris Philp: If you think that, then it must be. Chair, I will end there. Thank you very much. That was very interesting.

Q147 Wes Streeting: Good afternoon. I would like to begin with a brief follow-up on the question of HMRC and some of the questions that Helen Goodman was asking a short while ago. Mr Whiting, if you do not wish to answer, feel free to exclude yourself. Undoubtedly, during the course of this inquiry, we will be talking to HMRC. I wondered if you had a particular perspective on what the nature of the recruitment and retention challenge would be for HMRC, in terms of having staff with the necessary expertise to do the sorts of things that we expect them to do. Is it not being able to pay experts enough? Is it that people get tempted away at middling levels, or is it a senior-level problem? What do you think the recruitment and retention challenges are for HMRC?

John Whiting: I will comment briefly, if I may, and the answer is yes to all of that. There is the demographic of the workforce and the need to train everybody. It is a very demanding area to recruit, train and retain the right staff. To that extent, that is something that would be echoed by many organisations within this country, not just HMRC.

John Cullinane: This is a gut feeling from the outside. Obviously those challenges exist. In recent years, they have been pulled too many different ways by political masters. On the one hand, they are expected to be efficient and compared with commercial organisations in that respect. On the other hand, you can see that part of the problem with the Google situation is that hopefully they apply the same law to everybody, but at the same time, in terms of facetime, they obviously prioritise the large customers, as they term taxpayers. Customer service is a good ideal to have, but the fact of the matter is that

ordinary people and ordinary tax advisers, if I can say such a thing, who are working for small businesses and so on, struggle to get facetime to discuss genuine issues and uncertainties they have. I do not think that is, generally speaking, because of the sort of incompetence or lack of training of the staff. I do think there is a resource issue there, because we are increasingly gearing up to the idea that the service they provide should be like that which your utility provider provides to you. If you want human contact, you will be lucky with a call centre. They much prefer you to do everything online.

They have to move in a digitalised direction and be with the modern world, but there is a real issue there, particularly with the huge complexity of the tax system. It is impossible for them to provide the level of service that we are expecting of them. They are coming under understandable criticism, but from too many directions at once. That is not a new thing; it has just been building up. Even before the credit crunch, they seemed to be singled out among Government Departments for scrutiny and suspicion, almost, of their performance. That must have damaged the morale. The two former Departments used to have very high standing as institutions, and there was a lot of pride from their staff. Hopefully that is still the case, but we have to watch what we are doing to them.

Richard Murphy: I should declare I have worked with PCS, which is the union for about 80% of the Revenue staff, which does give you some insight as well. The Revenue staff are being put under enormous pressure. There are not enough of them. Most of them expect to face redundancy at some time in the future. Almost all of them are now facing the prospect of being relocated. That creates uncertainty, because they are being told that almost all the offices are shutting. People towards the end of their careers are questioning why they would want to stay, in that case. They are the most valuable resource we have; they are the best-trained people. The pressure upon them, because of too few resources, is very great. The management culture in HMRC has not been appropriate, in my opinion. It has been modelled upon a large corporation; it is not a large corporation. It is a social service, in that sense, because tax is fundamental to the equation that is the relationship between people and Government in this country, but we are withdrawing from that particular equation in HMRC's case.

Those people who are left have suffered enormous strain. The result is, on occasions, we all get decision that are not optimal. That is understandable, but the answer must be that we should be investing more money in HMRC; the rate of return on that would be very high indeed. Estimates vary, but it is not less than £10 for every £1 of investment at the moment. HMRC's own estimates in the Office for Budget Responsibility forecasts in Budgets of late have been up to £18 of return for every £1 invested. Therefore, it really is time that we said, "Let's get on with it, let's spend the money, and let's provide the resources we need to collect the tax that is earned."

Q148 Wes Streeting: There is plenty to pick up there further down the track. I want to turn to the European Commission's proposals, not the proposals dominating the headlines today but nonetheless the important anti-tax-avoidance package that was published towards the end of January by the Commission. What is your view on those proposals? Do you think they are ones that the Government should embrace?

John Cullinane: There is a tendency from the EU to try to get in on the act. The OECD is the prevailing international forum for a lot of this, and the EU had an ambition to become more important itself. With that particular package, a lot of it is really based on the OECD BEPS project, and it is probably trying to be very prescriptive to the countries. I suspect it will get resisted, not because the underlying direction is bad but because not just us but many countries do not want to see tax sovereignty going there.

One of the powers that they already have is the state aid power, which precisely exists to look at whether multinationals or anybody else are getting a deal that nobody else could get. Even though the public cannot look at the Google-type situation, that is a situation that they absolutely have the power to investigate. I think the Commission has said they will wait to see whether there are complaints, and there have now been some. You might think, with a wide-ranging power like that, they would focus on a more proactive and systematic use of it, rather than just waiting for complaints.

Just to flag up, somewhat against myself, that that line of thinking has also been commented on adversely by the US Treasury spokesperson I was referring to earlier, so I do not want to make out it is a risk-free approach, but it is absolutely a power that the EU have that they have only begun to exercise in this field recently, and that they could perhaps make more of.

Q149 Wes Streeting: I am curious about this notion of tax sovereignty and countries wanting to protect it. In some ways, it overlaps with the EU inquiry we are currently doing. It is only a notional sovereignty, is it not, if companies are able to effectively just move money and profit around and nation states cannot get a hold on it? Surely the better way to assert authority as nation states is to pool that sovereignty and work with other countries to make sure that companies do not get away with squirreling funds away in other places.

John Cullinane: Many of my earlier comments were effectively along that line. The OECD is the established forum with the established principles. The particular directive you have mentioned piggybacks off those. They have other proposals that are more along the lines of the apportionment, and I think it is best to not muddy the waters, and to stick with the international forum we have up and running, where we have made the most progress in that area. As I say, I do not mean by that that the EU has no possible role, but to set up competition between the EU and OECD does not really help either.

Q150 Wes Streeting: Your worries are about turf war and you are on the side of the OECD, effectively.

John Cullinane: Partly because it is already there, but yes.

John Whiting: I would just second that.

Richard Murphy: Briefly, the EU package is, in a sense, disappointing. It is only, in many cases, a replication of what is in the OECD package. There are one or two minor points that we might look at, but in some cases adopting the EU package would weaken the UK's position, so I do not think it is a great innovation, if I am completely honest.

The point of tax sovereignty is an important one. You can only control so many variables at a point of time. We are trying to control too many variables in this case. We have the base, which is effectively the profit; we have the allowances we might want to give; and we have the rate. We cannot control all of those. We would just end up in a hopeless competitive environment where we have lost control of all of them if we try to do those three. Instead, I suggest that a unitary taxation situation would allocate us a profit. We could then decide the allowances, which are peculiar to the UK; we could then decide the rate. Actually, unitary taxation would let us reclaim sovereignty and create considerable certainty in some areas where at the moment we have almost no control at all and are losing as a consequence.

Q151 Wes Streeting: Thinking about the possible impact of the directive, do you think there is a risk—I am sure lots of its critics would flag this—of driving multinationals away from Europe, if we were to embark on it, or do you think the impact will be negligible?

Richard Murphy: No company will ever leave a country where it can make a profit; it is as simple and straightforward as that. That would definitely not be in the company's interests. If there is a profit to be made, even if there is tax due, no company will leave, unless we provide them with an artificial mechanism to record their profits in another place, which is what we are doing now. The substance is that nobody would leave; the form might be that people will try to. What we have to stop is that opportunity—the legal form of leaving—and that is why I suggest unitary taxation, because in that the legal form option of leaving does not exist.

John Whiting: I do not think they would leave, because the EU is a major market. When all is said and done, there are clearly checks and balances as to where the investment might go, or whether they might put a bit less here. There is clearly a risk if the EU or a country within the EU sends signals that we are not friendly to business. That is well recognised by policymakers: that they have to at least make sure their system is balanced.

In terms of this package from the EU, I come back to John Cullinane's point. It is far better to put the weight behind the OECD, partly because, as John said, they were there first. Let us push that package and try to put our weight there.

John Cullinane: I agree with Richard's comment that people will not leave while they can still make money in a place. That is the reality. The issue of tax competition is a bit stronger than that implies, because it is not always a question of totally leaving or totally staying. They are going to make fresh investments; where will be at the centre of those? As a commercial matter, they do not operate anymore with each operation in each country being a microcosm of the whole. They will do one bit here and one bit there and put it together in some way. That is for many sectors, not just IT. You have to balance your revenue-raising with setting out your stall for new decisions and so on. Obviously, if a number of countries act together, their perception of what they are confronted with will be, "We may or may not like this, but this is pretty normal."

Q152 Wes Streeting: You covered off some of my other questions earlier, about learning from other countries, so finally I just wanted to ask what you think of the idea for an EU-wide Common Consolidated Corporate Tax Base.

John Cullinane: In all honesty, that is a little similar to what Richard has been putting forward. My difficulties with it would be partly that it would then set up two competing notions of how you go about this in the world. There is the old OECD one and this new one; that is if everybody suddenly agreed to it. Secondly, there are elements of it that just are not fair. To go back to the Zambian copper mine, I do not think, if suddenly it makes a new customer out there in a western country, all the profits of the copper mine are suddenly taxable there just because it has a customer. It is incredibly open to manipulation, because, in today's world, you can arrange, at the customer end, where the order comes from. I do not think it is inherently a better system in terms of what we want.

I am not sure whether that is my bigger objection, or if the objection is that moving from A to B would be incredibly chaotic and create a lot of arbitrage opportunities along the way, and might not ultimately be successful, as we effectively let the world damp down the Californians' doing, when the boot is on the other foot.

Richard Murphy: I find it hard to defend the existing system when we so clearly know it is not working, and Google is the definition of the fact that it is not working. We cannot say the existing system works; that is my point. Is the CCTB better? Yes. Is it perfect as yet? No. Could it be improved? Yes, and undoubtedly it would be before it was implemented. However, it is the right direction of travel, without a doubt. It is clear, it is certain, it protects tax sovereignty, it removes the problems of tax havens, it taxes profit once and once only—that is very important—and, as a consequence, it is the direction in which we wish to go.

John Whiting: I am largely in John's camp as being rather uncertain about it. It is, though, something worth looking at. I come back to my opening comments: that I feel that the corporation tax system is creaking and decaying. It behoves us to look at alternatives. I am not convinced that the formulas within the CCTB are sensible or would operate, partly because of the manipulation, but I would certainly be looking at that and other routes to possibly reforming our way of taxing businesses.

Chair: Thank you very much for coming to give evidence in what was this morning and has gone on over three quarters of an hour longer than we had planned. That is a reflection of the Committee's interest—until you were finally trumped by the UQ, certainly as far as the Conservative Members are concerned, at half past 12—in what you were saying, from which we have learnt a very great deal. We are at the first stage of this inquiry. We shall be delving into something that is one of the more complex things a Committee can look at. We are very grateful to you and we may need to come back to you for further evidence. Thank you very much indeed.