

Public Accounts Committee

Oral evidence: Corporate tax deals, HC 788

Thursday 11 February 2016

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Members present: Meg Hillier (Chair), Mr Richard Bacon, Deidre Brock, Caroline Flint, Kevin Foster, Mr Stewart Jackson, David Mowat, John Pugh, Karin Smyth

Sir Amyas Morse, Comptroller and Auditor General, National Audit Office, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Rob Prideaux, Director, National Audit Office, Marius Gallaher, Alternate Treasury Officer of Accounts, and Richard Brown, Treasury Officer of Accounts, were in attendance.

Witnesses: Matt Brittin, Google Europe, Middle East and Africa (EMEA) and Tom Hutchinson, VP Finance, Google Inc., gave evidence.

Q1 Chair: Welcome to the Public Accounts Committee on Thursday 11 February 2016. We are here with our first witnesses today to talk about the recent tax settlements that Google UK announced a few weeks ago. We welcome back Mr Brittin, the president of Google Europe, Middle East and Africa. You have had a promotion since you appeared before us a couple of years ago. I also welcome Mr Tom Hutchinson, the vice-president for finance at Google Inc., which is the overarching Google corporation.

Mr Brittin, it might be helpful to start by setting out the facts. Can you confirm that your revenues in the UK in the last 18 months were £1.18 billion?

Matt Brittin: That's correct.

Q2 Chair: And your profit in the UK in the same period was £106 million?

Matt Brittin: That's correct.

Q3 Chair: I think I am right in saying that 11% of your global profit is generated in the United Kingdom.

Matt Brittin: No, that's incorrect. That is sales to customers in the UK.

Q4 Chair: Okay. Globally, Alphabet, the parent company of Google Inc., is the biggest-value company in the world.

Matt Brittin: It depends on the share price of any given day of the week.

Q5 Chair: But that has been the case in this last week or two?

Matt Brittin: At one point it was correct, yes.

Q6 Chair: You and Apple are up there vying for that. Can you confirm reports that your chief executive was paid £138 million—\$199 million—last year?

Matt Brittin: I don't have the exact figure in front of me. In the last few days, new stock-based compensation was announced by a recently appointed chief executive. That is an amount that is based on stock. The value of the stock depends on the performance in the future and it vests over multiple years.

Q7 Chair: Well, it is a lot of money.

Matt Brittin: That's true.

Q8 Chair: Your tax settlement with HMRC that you announced a couple of weeks ago, which covered a 10-year period, was £130 million.

Matt Brittin: That's correct.

Q9 Chair: We will get into what that involves later. Mr Brittin, we are here for the taxpayers in Britain. Do you hear the anger and frustration out there, because, with those huge figures, you settled for a figure of £130 million?

Matt Brittin: Absolutely, and I welcome the chance to come and talk to you about this. I understand the anger and—

Q10 Chair: Do you really understand the anger, Mr Brittin? What do you get paid, Mr Brittin?

Matt Brittin: If that is relevant, I will happily disclose that to the Committee. What I understand is—

Q11 Chair: I am asking you what you get paid.

Matt Brittin: I will happily disclose that, if that's a relevant matter for the Committee, in private.

Chair: I am asking you, so it is a relevant matter. Could you tell me what you get paid?

Matt Brittin: I don't have the figure, but I will happily provide it.

Q12 Chair: You don't know what you get paid, Mr Brittin?

Matt Brittin: Well, Chair, let me—

Q13 Chair: Perhaps you could give us a ballpark figure for what you get paid. Forget the share options, then; what's your basic salary?

Matt Brittin: I don't have the figure, but I'll provide a figure privately if it's relevant to the Committee to understand my salary. I would like to say—

Q14 Chair: Okay, you don't know what you get paid. My point is that out there: taxpayers—our constituents—are very angry.

Matt Brittin: I understand that.

Q15 Chair: They live in a different world, clearly, to the world that you live in if you can't even tell us what you are actually paid. I wonder if you've got tin ears and you can't hear this. You went out there publicly to parade this tax deal, and you can't—

Matt Brittin: I'd love to mention what I was trying to say earlier, which is that I understand the anger and I understand that people, when they see reported things like we're paying 3% tax, would be angry. We're not, we're paying 20% tax.

Q16 Chair: But Mr Brittin, you publicly went out with this tax deal. You announced it to the world—the £130 million—as a great deal.

Matt Brittin: Can I be clear? We announced the settlement of a process that HMRC began six years ago, where they addressed many of the questions that the Committee has raised with us previously about the substance of our operations and our tax affairs.

Q17 Chair: We're going to get into that. Can I just be clear? We do need questions and answers in this. You chose to publicly declare the outcome of the deal, yes?

Matt Brittin: Well, the outcome of the settlement of the process was going to be filed in our accounts and therefore was going to become public, and we alerted you, and we alerted the

Treasury and the Opposition, that this was going to become public, given the intense interest there had been in multinational affairs and in our affairs as well. Yes, that's true.

Q18 Chair: But you went out and told people, and told the media, that this was going to be coming. You did that before it was published information. You chose to—

Matt Brittin: At the time it was published, because of the interest and the scrutiny that we've had.

Q19 Chair: I have to say it seems a bit of a PR disaster, frankly, if you didn't have the nous to realise this. In the same week as taxpayers were filing their own tax returns, sweating over the little bit of bank interest and sweating about getting it in on time, you announce this as a good deal. Why did you do it that way?

Matt Brittin: Chair, we announced it because the settlement was being published in our accounts. It was the conclusion of a six-year rigorous independent tax audit, in which we were paying tax at 20%, like every other UK company. The questions that you have asked us in the past about the substance of our activities were answered in detail by a fully transparent process, which HMRC conducted, and we were required to pay more tax as a result of that process, in proportion to the economic activity of Google in the UK. Those are the rules being applied to the facts as they find them.

Q20 Chair: Let me go back to the figures. On £1.18 billion of revenues and £106 million of profit, you paid £130 million over 10 years.

Matt Brittin: We're paying tax at 20% on the activities in the UK. Can I remind you that the beginning of the 10-year period, which was 2005, Google had about 160 employees in the UK? We've invested heavily in recruiting; we now have over 4,000.

Q21 Chair: We're going to go into your establishment in the UK in a moment. Could you answer the questions? Of this £130 million, how much was tax and how much was interest on that tax?

Matt Brittin: Tom is our global head of tax affairs, so he can answer.

Chair: Mr Hutchinson, could you answer that question, please? Of that £130 million, how much was tax and how much was interest?

Tom Hutchinson: £18 million of that was interest; the rest was tax.

Q22 Chair: Which is great—most people would get a tough interest deal from HMRC. But let me just go back to your establishment in the UK. You have a big market in the UK, which you acknowledge.

Matt Brittin: As I said earlier, 10% of global sales come from sales to UK customers.

Q23 Chair: How many staff are currently based here? Lots of figures are being bandied around.

Matt Brittin: We have over 4,000 staff if you include directly employed and contracted staff working for our UK operation now.

Q24 Chair: You are building this new headquarters at King's Cross, which has had a bit of publicity. Can you tell us how much that is costing you?

Matt Brittin: When we announced it, I think the figure in total for acquisition of the site and the building is about £1 billion.

Q25 Chair: How many staff will be based there?

Matt Brittin: I don't remember the full capacity, but we hope to continue to grow. Just to give you an indication, since we first appeared in front of the Committee, we have hired about 1,000 more people in the UK. My hope is we will continue to hire more people, and that will obviously generate more profits and taxes in the UK.

Q26 Chair: Yet you maintain that Ireland is where your European operation is based, and—

Matt Brittin: That is true. We have well over 5,000 people working in Ireland. We have a data centre. We are building another data centre there as well. And people in Ireland serve not just customers and businesses in the UK, but across Europe, the middle east and Africa. We have people speaking 40 languages there. HMRC visited Ireland and understood their activities.

Chair: Which we know from previous hearings. Just to be clear, we have, obviously, gone through previous transcripts. Members of the Committee who weren't on it before are aware of that.

Matt Brittin: I'm just making sure that you're clear. We should be clear: the way we operate is to have a—

Q27 Chair: Mr Brittin, I know the way you operate. Can I just ask some questions, then we will get into more details about that? Your UK operation is 10% of your business.

Matt Brittin: 10% of sales are to UK customers. That is correct.

Q28 Chair: Right, and yet your UK profits generate a fraction of your overall tax bill.

Matt Brittin: Yes, it is important to understand this—and I think the Committee raised this last time. You wrote a Report after we appeared last time suggesting two things: first, we should look at our tax structures, which is what HMRC has done, and secondly, that we should pay tax proportionate to our UK sales. If those were the rules, that's what we would do, but those are not the rules. The rules are that you should pay taxes on the profit on the economic activity. This is at the heart of what HMRC looked at, and Tom can explain more. On the application of the complex tax rules, which are 17,000-plus pages long in the UK, they spent six years understanding exactly what we do. You asked me when I appeared previously what people do in the UK and what people do in Ireland. They interviewed our staff here and our staff in Ireland. They looked at the systems and processes and all the legal contracts and they applied the laws to the facts.

Q29 Chair: But Mr Brittin, you do remember, of course, that we called you back in 2013 because what you had told us in 2012 did not chime with what we then learned about how deals were sealed. I don't want to revisit all that right at this moment.

Matt Brittin: Can I just clarify this, because you are making an important point there about our consistency?

Chair: I will be generous on this one occasion and let you clarify that, then I will go to Mr Stewart Jackson.

Matt Brittin: Certainly. I explained to the Committee the details of how we operate based on our current operations. You asked us further questions based on how we were established in 2002-03, which is before I started at Google, so I was unaware. All the questions that you asked us and the evidence that was based on, as I understand it, was passed to HMRC, who considered it as part of their six-year tax audit. So all those questions have been looked at.

Chair: We are going to be talking to HMRC shortly, but frankly, you are already taxing my patience and the patience of the hard-working taxpayer out there.

Q30 Mr Jackson: Mr Brittin, you were a very convincing witness in 2012, but let's remember that the National Audit Office has told us that they were not able to demonstrably prove that the evidence you gave in 2012 was not materially inaccurate. I would draw your attention in particular to evidence that subsequently appeared after the 2012 hearing which showed that UK staff carried out the substance of work leading to contracts with major UK clients, and that there was evidence around payslips showing sales-related bonus payments. That is something that you did not admit in the course of very rigorous and robust questioning in 2012.

Matt Brittin: I am not sure what period you are referring to.

Mr Jackson: My point is that you will forgive us if we are slightly less than convinced by your evidence.

Matt Brittin: For HMRC in their six-year process, we provided full transparency so that they could see details of contracts, interview staff, interview customers, understand how our systems work and address all those questions that you raise, including the payment of commission and what exactly staff were doing in all aspects of the process. Tom can explain more about how

they looked at that detail, because it was extremely rigorous and we provided full transparency to them.

I should mention at this point, just in the interest of being fully transparent, that HMRC asked us for permission to divulge more information than they would normally in respect of the hearing later today, and we have given them that permission. That does give rise to two further amounts of tax that we have paid outside the audit period, but I would like Tom to clarify that for you so you are aware of it.

Q31 Mr Jackson: Let me stick with you, because I am questioning you on this occasion. Your article that I read in *The Telegraph* is slightly cheeky to say the least. You pose as an enlightened helper to the public debate, facilitating this debate as if you are some kind of disinterested observer, and that the wicked, awful tax system across the world has somehow just happened to Google, whereas actually, you have made a choice to avoid tax and you have set up structures specifically so to do. I just think that there is an element here of, “We’re doing the UK taxpayer a favour by paying tax.” That is what it feels like in your article in *The Telegraph*.

Take this one paragraph, for instance: “Some have suggested the settlement which concluded the audit was a ‘sweetheart deal’, a cut-price tax rate. It was not. Google pays corporation tax on its UK profit at the standard rate”—nearly 20%, etc. But the fact is, quite frankly, that if I had not disclosed over the period of 2005 to 2015 all the circumstances of my income, I, as an individual, would be in a lot of trouble with HMRC. Why are you different?

Matt Brittin: Let me explain. At any one time I understand over two thirds of the large companies in the UK are going under some kind of a review from HMRC, so it is normal for large corporations to receive that kind of scrutiny. That for us began a process that lasted six years, of drilling into the detail of our operation. Part of that was to try to understand the nature of internet businesses. Many internet businesses have been scrutinised in terms of multinational taxes. Maybe I should explain a little bit more about the detail of your question.

Q32 Mr Jackson: No, let me come back to you. Why didn’t you mention Bermuda in this article? That seems to be an integral part of your business model vis-à-vis your tax obligation.

Matt Brittin: Bermuda has no impact on the tax that we pay in the UK. Having a tax expert here, it might be helpful to hear from him about that, because I know it sounds strange to UK ears, but it is actually a commonplace arrangement for American companies—

Mr Jackson: What happens in Bermuda, then?

Matt Brittin: It is a commonplace arrangement for American companies, and Tom can explain, because he is our global head of tax.

Mr Jackson: Okay, well before we get on to—

Matt Brittin: If you would like to hear the answer, he would be the person to answer it.

Q33 Mr Jackson: No, I will decide who I ask questions; thank you very much for the guidance.

Where is the value created in your business?

Matt Brittin: That is at the heart of how corporation tax works—the question of where value is created. If you are a company in the UK selling cosmetics you might go to an event that Google runs, saying “Here’s how to use our services”. You might speak to somebody in Dublin who can guide you in using our services; but the value for you is created when somebody in Japan searches on their phone for cosmetics and connects with you, and you sell cosmetics.

If you think about that, most of the value is created by the product search, which is developed and built in the US. Some of the value is created by the marketing person and the activity that has alerted you to this opportunity, some by the person in Dublin who guides you, but most of the value is created by the search, and that was something which was founded and created in the US—20,000 engineers-plus in the US and 1,000 in the UK. I would like that 1,000 to be bigger and bigger, and as that gets bigger the proportion of our profits that we earn in the UK will become bigger, but the rules require you to pay your taxes based on the economic value creation.

We paid £3.3 billion taxes last year—an average rate of around 20% over the last few years, the same as the rate of tax in the UK. So that’s how the corporation tax system works and we pay where the value is created.

Q34 Mr Jackson: I understand that.

A specific question, going forward, because I am not an unfair person. Incidentally, I have to say your press release was the dead cat strategy. You knew that releasing that press release about the £130 million would put the heat on the Treasury and the Chancellor and others, and take the heat off the substantive issue, which is your tax avoidance.

Matt Brittin: To be clear, I have appeared before this Committee twice and been as thorough as we can do in answering your questions. We spent six years being transparent, fully, with the Government’s independent tax authority asking detailed questions.

Q35 Chair: Mr Brittin, if you have released so much why won’t you release more information about this tax arrangement, so British taxpayers can see this—

Matt Brittin: We are here to answer all of your questions about the process, the questions and the issue.

Q36 Mr Jackson: Can I specifically come back to the diverted profits tax regime, which came in last year? I was going on to say, in fairness, you have intimated in your press release that things have changed now—that you have accepted a more robust tax regime. Does that mean you are fully cognisant of the diverted tax regime and that you will be caught by that, and therefore are willing to pay the proper amount in a timely way, going forward?

Tom Hutchinson: Can I answer that question? The diverted profit tax was a system that was set up—a separate tax system, basically. If you are not paying the right amount of tax under the normal tax system, that's when it kicks in. Because of our settlement, as Matt described—the settlement with HMRC—we are paying the right amount of taxes, so therefore we are not paying any additional taxes for DPT.

Q37 Mr Jackson: At least for back taxes. I am talking about going forward, not back taxes. This is a deal you have made because for whatever reason, which we may get to the bottom of by the conclusion of this Committee, you chose not to pay, in the period between 2005 and 2015, the proper amount of tax to the Treasury. I am talking about going forward. Are you going to be caught by the diverted tax regime going forward?

Tom Hutchinson: Again, let me just explain some of the details. It was only for one quarter of that settlement—so a very small part of that settlement—where the DPT came into effect, and the conclusion was it did not apply to us. Going forward, if we are paying the right amount of tax according to the normal rules in the UK then DPT would not apply, again. The DPT is making sure you are paying the right amount of taxes based on the existing system.

Q38 Mr Jackson: But what has changed about your business model? What has changed since 2012? You are still using this model—this interaction between creation of value, and a debate about creation of value between the UK, Ireland and Bermuda, which is commonplace, as you say, among big companies. What has changed that will make you pay more tax, effectively, and go to the heart of the Chair's point that there is a massive discrepancy between your sales and your profit that's declared, and what you're actually paying in tax?

Tom Hutchinson: That's right. As Matt described, the way the tax system works—the corporate tax system, the income tax system—is that it taxes you based on the value of your activities. So, a lot of the value that is attributable to the profits from UK customers is value created outside of the UK. It's relating to the technology that's been developed outside the UK.

You look at the value of the substance or the services provided in the UK, and you look at comparables. What would you pay a third party to provide those same services? And that's what we did in doing our tax returns. We were audited, as you know, by HMRC. They came back and argued that it should be a higher amount, and that's the amount we ended up paying and settling for at the end.

Q39 Mr Jackson: Okay. The Comptroller and Auditor General will come in in a minute, but I will ask a final question. It has been reported that you've had some pretty involved discussions with the tax regimes of Italy and France. Can you tell us a bit about that?

Tom Hutchinson: As a large company—Google is obviously a very large company—tax audits are very commonplace. All large companies are going through audits. I'm not going to comment on some of the press reports; there are a lot of rumours out there in those articles. We will wait and see how those turn out; it's just hard to say.

Q40 Mr Jackson: Will you confirm that the sales and profits in those jurisdictions—France and Italy—are substantially lower than they are in the United Kingdom?

Tom Hutchinson: Again, I will say that we look at those activities just like we do—

Q41 Mr Jackson: Answer the question: are they smaller as a proportion of Google's worldwide income, sales and profits in France and Italy than they are in the UK?

Matt Brittin: Sales to customers in the UK are 10% of Google's sales, and that's the highest percentage of sales for any country outside the US. Obviously, taxes are paid on profits on economic activity and not in proportion to sales in each country, so that's a different matter, because that's how corporation tax works.

Q42 Mr Jackson: I understand that, but then why are you being asked to pay substantially more—hundreds of millions of euros or dollars—

Matt Brittin: Just like in the UK, there have been a whole range of statements that are based on what people—politicians and others—might like to see large companies pay, but they are not related to a tax demand or an audit. They are just statements by politicians asking us to pay more money—politicians in many cases who, like the Committee, would like to see a system where taxes are paid in proportion to sales, and that's not the system that we have to deal with.

Q43 Mr Jackson: Just for the benefit of the Committee, are you specifically refuting the quoted figures that those tax jurisdictions say they are going to ask you to pay? My final, final question is: what stage are you at in terms of your negotiation with the French and Italian tax authorities then?

Tom Hutchinson: What I am saying is that we're not confirming those rumours of what's happening. Those are articles that are not based on facts. But I can say, the information that I can provide is that we have never paid, as part of an audit settlement outside the US, a larger settlement than the one we just agreed to.

Q44 Chair: Mr Brittin, you were just very rude about politicians, if I may say so.

Matt Brittin: I do apologise.

Q45 Chair: Let me be really clear why we are here: we're here representing our constituents—taxpayers. Okay? You're a British citizen; you're a British taxpayer. So don't you feel a bit embarrassed by the fact that you don't even know what you're paid? You're living on a different planet to most of our constituents, frankly.

Matt Brittin: I am proud to be British. I appear here because I believe in the process of democracy, and the concerns of your constituents. As I said earlier, I understand why constituents

are concerned when they see reports that we are paying 3% tax. It's just not true. We are paying 20% tax on every business—

Q46 Chair: It's not so much the percentage, actually; it's the £130 million. As one Minister said, it isn't an awful lot of money.

Matt Brittin: Chair, just to come back on that, I think that one of the key topics here—in the past and today—is, shouldn't we pay taxes proportionate to our sales in the UK? And I understand that. But that's not the system as we find it.

Q47 Chair: But Google Inc.—Alphabet—chooses to set up your tax affairs in a particular way. You don't have to have—You came here the first time and said, "Well, I can have a tax haven in Bermuda, so we do." My point is that you don't have to set up your tax affairs this way; you choose to do that. That is your choice, as well as what the law says.

I will bring in Sir Amyas Morse, the Comptroller and Auditor General, who's been waiting.

Sir Amyas Morse: Just a factual point. Comparing your geographic accounts, admittedly between 2013 and your 18-month period of 2015, your total charges applied against UK profits going into the group have gone from £642 million to £1.178 billion. That is your charges reducing your declared profit in the UK. Now, even when I adjust for the fact that is an 18-month period—even when I adjust downwards for that, which of course in fairness I must do, it is still an increase in rated charge of about 50%. Now, I don't doubt that there are some business reasons that go behind that; otherwise, you wouldn't have got it past HMRC, but none the less, effectively the money shot is how much you charge against your UK turnover, because that is the amount of money that is going off into your international group—right? So while we are having all this discussion, what's actually happening is that the rate of offtake from UK-declared tax is going up and up. Isn't that right?

Tom Hutchinson: You mentioned a few figures there; I'm not sure I followed them. The figure that you mentioned, the £1.178 billion, that is the amount of revenue to our UK entity. So it is not a charge; it's the amount of revenue—it's the commission that was paid from Google Ireland to Google UK for providing services. I just want to make that clarification. Again, I'm not sure I understand your question exactly, but they are not charges that are being made from other companies into the UK; it's the other way around. It's revenue that's coming from Ireland to the UK. That's because our sales to UK customers are being invoiced by our Irish entity. So I just wanted to clarify that, but I wasn't sure what your question was after I had made that clarification.

Q48 David Mowat: Mr Brittin, you have said four or five times in the last 20 minutes that we think you should be taxed on sales. None of us, to my knowledge, believe you should be taxed on sales.

Matt Brittin: I apologise. I was referring to the Report.

David Mowat: In order to make progress in this hearing, I think it would be good if you didn't repeat that. Our concerns are, not that you should be taxed on sales, just that you have come up with a number of contrived mechanisms, such as the double Irish, the Dutch sandwich, and the use of Bermuda, which is not completely pervasive amongst US technology companies, just to tell

the gentleman on your right about that. But just in terms of making progress, can we not keep repeating that we think you should be taxed on sales. We don't, and that is not the issue here.

Matt Brittin: I do apologise. Can I answer that point, and then I won't mention it again? The reason I referred to that is, after I appeared at the Committee last time, the Committee wrote a Report with two key suggestions for Google—one that we review our structures and tax affairs, and the HMRC was in the process of doing that and has concluded; and secondly, in the Report you wrote—I appreciate that the Committee was differently constituted—that we should be paying tax in proportion to our sales and where our customers are, and that is why I referred to that. I accept the Committee's composition has changed, but that is what the Committee said last time we appeared. So that is why I referred to it.

Q49 Chair: You haven't changed the composition of your tax—

Matt Brittin: Well, the HMRC did exactly what the Committee suggested, and as you know, when we appeared before the HM—

Chair: Let's be clear: Google has not changed its tax arrangements since then.

Matt Brittin: You recommended we looked at our structures in order to make them simpler and clearer, and that's what the HMRC did, and Tom can explain exactly how that process works.

Chair: Mr Hutchinson, just to be clear, before I ask Caroline Flint to come in, you have not changed your tax structures since you came before the Committee in 2013.

Tom Hutchinson: What I can say is, we haven't, so the operations in the UK are substantially the same. We have made some changes from a business perspective. We haven't changed in the sense—

Chair: To be absolutely clear, you haven't.

Tom Hutchinson: I want to make sure it is very clear that, you know, of course we make little changes here and there on things, but the overall substance of Google Ireland invoicing customers in the UK has not changed.

Q50 Caroline Flint: Good morning, Mr Brittin and Mr Hutchinson. Very helpfully, you said that of the £130 million, £18 million represented interest. For the remaining £112 million, were there any penalty charges involved in that—any fines for that remaining amount?

Tom Hutchinson: No; 18 interest and the rest is taxes.

Q51 Caroline Flint: And you think that the £130 million is a fair settlement in terms of what you should have been paying in taxes for the period between 2005 and 2015?

Tom Hutchinson: I do. Again, it went to an extensive audit. HMRC looked at all of our facts, talked to our customers, talked to our engineers, and they determined, "This is the amount to pay,"

and it was higher than we paid on returns, so we had to think about whether it was a fair amount. We decided that it was.

Q52 Caroline Flint: Thank you, Mr Hutchinson. “Yes” would have sufficed for the answer there. So, if it is a fair amount, why weren’t you paying it—the proportion—in each of the tax years during that period?

Tom Hutchinson: That’s a good question. The tax rates are complicated. Oftentimes, there are a range.

Q53 Caroline Flint: What is a range?

Tom Hutchinson: I would love to explain how transfer pricing works and what was done in the audit just to give you some background.

Q54 Caroline Flint: Can I just stop you there? What have you discovered about how you pay tax in the UK that you did not know before the six-year investigation started?

Tom Hutchinson: It is very common practice when you are getting audited by a tax authority that they will take a different view on some of the complicated issues in terms of figuring out what are the right comparables and benchmarks to use in determining what is the right amount of profit associated with the substance of what has been done in the UK. If you look at comparable companies, there is usually a range of companies that make sense as far as the profit amount to show, so HMRC had a different view in that range, and it was within the same range.

Q55 Caroline Flint: Who is at fault here? Is it Google, Mr Brittin, or is it HMRC?

Matt Brittin: I think in this context what HMRC was looking at was whether Google in the UK was earning the right profit on the economic activities in the UK. We had filed accounts that showed a level of profit that they believed was lower than it should be. Their process looks, as the Committee asked last time, in detail at the activities of our people and then looks at what is the right benchmark to apply if we were to go outside Google and hire those services in. So somebody doing marketing.

Q56 Caroline Flint: Look, I understand all this, but you can understand that the public may be tuning into this or seeing it on the television later or reading it in tomorrow’s newspapers, and will be asking themselves how a massive company like Google, with all the expertise that it hires in the form of Mr Hutchinson and many others—how could HMRC not in real time tackle the problems of how you should pay your tax.

Let me ask you another question. Interestingly, my colleague Mr Mowat made the point that we are not saying on this Committee that your tax should be based on your sales, but I have a quote here from Google at the time when you announced your payment of £130 million: “We are paying £130 million in respect of previous years when the rules were to pay in respect of profits you make

in a country and then going forward we will also be paying in respect of sales to UK customers.” How’s that?

Matt Brittin: The headline I will explain and Tom can explain the application of the tax rules. The direction of travel, the OECD process and others are supportive of trying to simplify taxes and align more with some of the things that your constituents and others are concerned about with multinationals and tax, and we are supportive of that simplification process. One of the things—

Q57 Caroline Flint: Hang on—stop, stop, stop. This is a very bold statement that Google has made here. Presumably, you have been looking at, probably as part of this six-year discussion that you have had, what you should have paid in the past, and you state in this quote, “We will also be paying in respect of sales to UK customers.” When is that going to start? Will it start in the next financial year?

Matt Brittin: The settlement includes a proportion that is in respect of sales to UK customers, so every single year in the past covers that as well.

Q58 Caroline Flint: So is it fair, therefore—in a previous Committee there has been discussion about the value of what you do, and there was your article this morning in which you talk about how much is done in America in terms of R&D and everything else, helpfully leaving out Ireland and Bermuda in that discussion—to say that you are now acknowledging in this quote, “We will also be paying in respect of sales to UK customers”, that you have not really estimated the profitability within that activity in the UK so far, and you have to get a better handle on that in the future?

Matt Brittin: The settlement includes an element of the size of sales to UK customers in each of the 10 years between 2005 and 2015, and we will continue to pay on that basis now going forward. I would like Tom to be more transparent with you about a couple of amounts outside the audit period as well, so that you can understand those, too, because that is also something that we want to be transparent with you about.

Tom Hutchinson: There are two other payments that we made in connection with this, because we are talking about the amounts and focusing on the £130 million. There are actually two other amounts that were not directly related to the audit period. One relates to stock-based compensation issues. You mentioned before about how HMRC took a very long time to get to this point to collect this money from us. Stock-based compensation is an issue that was brought up as part of the audit—the discussions we were having with HMRC. In 2012, we changed our approach from including stock-based compensation in the calculus of how you determine your profits. There is another amount that we paid in additional taxes that relates to that stock-based compensation issue, which I just want to mention. We didn’t include it in our statement about the £130 million because it wasn’t part of the settlement, but it was a change in our actions and behaviour in filing our tax returns.

There is one other issue, which relates to 2004. The audit period was 2005 to 2015. As you know, we agreed with HMRC about the methodology for calculating the profits for the UK entity for each of those years. 2004 was not part of the audit, but some of the questions they were asking in the interviews that we talked about related to the 2004 period. 2004 is when we first set up our Irish structure, where Ireland was invoicing into the UK. Before that, it was the US. So it was an additional

amount that we paid. Rather than open up an audit for that period, they came to us and said, "Here's the amount that you would pay under the same methodology," and we agreed to that amount. That is an additional amount that went into the settlement.

Q59 Caroline Flint: Thank you, Mr Hutchinson. Arriving at the £130 million settlement is an acknowledgment that you weren't paying your due tax during this period. You confirmed to us today that the £130 million doesn't include any fine by HMRC for non-payment of tax, so thank you for that.

Tom Hutchinson: I just want to explain why that's true. When you are looking at penalties, you are looking at whether the taxpayer had a reasonable argument for the amount of profit they were showing. HMRC looks to see whether we were just ignoring the rules or whether we interpreted the rules in a reasonable way. They determined that we did, which is why there was no penalty.

Q60 Caroline Flint: Maybe we'll have some questions for HMRC on that a little later. Can I just move on to another matter? The other thing you confirmed, which is very helpful, is that there is something about sales in countries that you are going to be reflecting on, in terms of how you pay your tax in the UK in the future. I just want to move on to something else. The Financial Secretary to the Treasury, Mr Gauke, told the House of Commons, "I cannot talk about the Google case beyond information that is in the public domain". He didn't say, "I'm not privy to details of the Google case," or, "I have no knowledge of the Google case." Mr Brittin, something like 20-odd meetings have taken place between Google and Government Ministers over the past five years. Was the Google tax case discussed in any of those meetings?

Matt Brittin: I want to be very clear with the Committee that there is no involvement of politicians in HMRC's process. It is an independent process, and we have not sought—

Chair: We know how HMRC works.

Q61 Caroline Flint: I am just asking you the question. In any of those 20-something meetings—

Matt Brittin: I will happily answer. We have never sought or had a meeting about the tax audit with any Government Minister.

Q62 Caroline Flint: No, no, not seeking a meeting with a Government Minister to talk about tax. At any of those meetings that you had with Government Ministers over this period of time, has the issue of your tax, what you should pay and the situation of your tax arrangements come up?

Matt Brittin: First thing, why are we having meetings with Ministers? Typically they are on issues of policy around the internet—child safety online, the application of copyright rules, how to stop child sexual abuse imagery online, dealing with counter-terrorism and security—

Q63 Caroline Flint: Anything about tax come up?

Matt Brittin: Just to be clear, that is the substance of most of the meetings that Ministers request to have with us.

Q64 Caroline Flint: Fair enough. And about tax?

Matt Brittin: I am sure, given the scrutiny we've had, that tax will have come up from time to time as a question. The main thing we would be saying in any conversation about tax is that we would support a simplification. We want to be paying the right amount of tax and be seen to be paying that.

Q65 Caroline Flint: That's really helpful, Mr Brittin, because I presume that if any of the Google representatives were at a meeting, in conversation over a cup of tea, and tax came up, a written note would have come back into the company from your representatives at that meeting, with a read-out from what was discussed at the meeting. Wouldn't that be the case?

Matt Brittin: No, because we have been through a six-year audit by the Government's appointed independent tax experts.

Caroline Flint: No, no. I understand the six-year audit, Mr Brittin—

Chair: Ms Flint is asking about a different thing. She is asking about the informal conversations that may arise in those meetings, about tax—not about the actual audit. It is pretty clear.

Q66 Caroline Flint: I'm not trying to trap you here, Mr Brittin. You said in your own words—we've got it on the record—that possibly in some of those meetings a question about tax may have come up.

Matt Brittin: I'd be surprised if it didn't, given the scrutiny.

Q67 Caroline Flint: Absolutely. I totally agree with you. As a former Minister and from working in the Opposition, when we meet with people, no doubt the representatives of organisations go back and do a read-out to the company they represent of what happened in that meeting. Have you had any briefings from those meetings that you are prepared to put in the public domain?

Matt Brittin: No, I've had no briefings about any meetings around tax conversations with Ministers.

Q68 Caroline Flint: No—about your meetings with Government Ministers and what came up with them over the past five years.

Matt Brittin: The briefings I have had on any of these meetings are typically around the policy issues associated with the areas I talked about.

Q69 Caroline Flint: But you cannot deny today that a conversation about tax may have come up in one of those meetings.

Matt Brittin: I would be surprised if tax had not come up from time to time, as you would understand.

Q70 Caroline Flint: Let me move on to something else. When you publicly announced the settlement of £130 million, the Chancellor tweeted from Davos about how wonderful it was. He also said in a speech: “This is a major success of our tax policy. We’ve got Google to pay taxes and I think that is a huge step forward and addresses that perfectly legitimate public anger that large corporations have not been paying tax. I think it’s a really positive step. I hope to see more firms follow suit and of course I’ve introduced a diverted profits tax which will require this going forward. So I think it’s a big step forward and a victory for the Government”. We have already heard in previous answers that the diverted profits tax is probably not going to apply to Google anyway. Can I just ask what co-ordination there was among Google, HMRC and staff working for the Chancellor on the press announcement that happened?

Matt Brittin: There was no co-ordination. We contacted the Chair to alert her to the fact that this matter was going to become public when we filed our accounts. We did the same—we had a short meeting with the Treasury team and the shadow Treasury team to alert them, as they had given the scrutiny. So far as we were concerned, it was important to be clear that we were paying more tax following this audit. At the end of the audit, we are paying the amount of tax that HMRC believes is the highest amount of tax. They cannot settle unless we are paying the tax fully based on the facts, and we cannot pay more than we are required to under the tax system because there is no legal mechanism to do that. We are in the spotlight, and I understand why, but we are paying the amount of tax that we have been asked to pay by the Government’s tax authority.

Q71 Caroline Flint: Really the question was about any sort of co-ordination around the press announcement. Perhaps I did not hear correctly, but why was it that weekend that you decided to make the announcement, with the Chancellor in Davos making a speech in which he could laud the tax settlement? Are you saying that there was no co-ordination whatever on the timing of the announcement?

Matt Brittin: The reason why we talked about the settlement was because we were filing our UK accounts and the settlement amount would become public.

Q72 Caroline Flint: What date were you filing?

Matt Brittin: I do not have the exact date, but it was around that time period.

Q73 Caroline Flint: Could you let us know exactly when you were filing the dates?

Matt Brittin: Yes, it is a matter of public record, because the accounts were filed on that day.

Caroline Flint: I have not got that information, and you have not got the information, so if you could let us know.

Matt Brittin: Yes.

Q74 Caroline Flint: Do you think it was unhelpful for the Chancellor to make that speech in such a way? It did sort of seem to indicate, given that there is meant to be separation between Government Ministers and HMRC, that he was maybe upping the ante on how much he as the Chancellor and other Ministers may have played a role in this settlement.

Matt Brittin: Some of the characterisation in the time since has suggested some kind of a deal. I want to be very clear: it is a result of the independent process, and it is the amount of tax that we are required to pay. It is not a deal, and there has been no political involvement in the HMRC process. That is the way it is designed to be, and it is one of the things that allows us to be completely transparent with HMRC so that it can reach the right amount of tax for us to pay.

Q75 Caroline Flint: My final question on this is: has at any time Google given permission to HMRC to brief Ministers on the details of your tax returns?

Matt Brittin: No. HMRC asked for permission to disclose more than they would normally under taxpayer confidentiality for this Committee—I think that is the session immediately following us. We gave them permission to disclose more about this, so that they could answer your questions. That is all that we have done in terms of—

Q76 Caroline Flint: Did that answer my question? Did you give permission at any time for them to brief Ministers? That was my point. It was not about this Committee. Did you give permission to brief Ministers on the details of the discussions, the settlement and your tax return?

Matt Brittin: No, I think I am right in that we have only agreed permission for them to give more details to you in the hearing subsequent to this, again with the aim of helping you understand their process, the questions they asked and the conclusions they reached.

Q77 Chair: Can I be clear, picking up on what Ms Flint has been asking? You say that you came to this arrangement and announced it as you did proactively, but this tells us that you were not paying the right tax for that period of time. Mr Hutchinson, you talk about HMRC having to be convinced that you have taken a reasonable interpretation of the rules. Are you not embarrassed as a top tax professional that you got that wrong for nine of the past 10 years?

Tom Hutchinson: Really when you are doing tax audits—we talked about how all large companies are going through tax audits, as we are throughout the world—it is very common to end up after that audit paying more taxes. These are interpretations of very complicated rules, so no I am not embarrassed by it.

Q78 Chair: So you would agree that it is a matter of interpretation between you and the tax authorities.

Tom Hutchinson: The tax rules are complicated, there's no doubt about that.

Q79 John Pugh: Mr Brittin, I think it is fair, and possibly an understatement, to say that Google are a cutting-edge, innovative company—probably the most innovative in the world. Fair?

Matt Brittin: We try to innovate. We try to build products that work for everyone and help bring the internet into the hands of everybody.

Q80 John Pugh: It is also entirely fair to say that your product is absolutely brilliant at retrieving and displaying data—information.

Matt Brittin: We try to organise the world's information and make it accessible to everyone.

Q81 John Pugh: Okay. Following on from that, as a lifeline, why don't you extricate yourself from this current and repeated embarrassment by voluntarily publishing your accounts on a country-by-country basis before the OECD or the EU make you do that? Would you consider that?

Matt Brittin: We do publish our accounts in every country in which we operate, as we are required to do under law. I think you are referring, though, to the OECD's process of becoming more transparent about tax affairs; and Tom should comment, because it is a matter of tax policy.

Q82 John Pugh: Well, do you personally welcome it?

Matt Brittin: I think I agree with the whole of the Committee that tax rules being simpler, clearer and more transparent would be a big step forward, and I wrote about that today.

Q83 John Pugh: What I am really suggesting is, why do you not get ahead of the game, in an innovative way, and subscribe to the new framework before you are obliged to?

Matt Brittin: I think that is one of the things we want to look at, and Tom can comment, because it is his responsibility.

Q84 John Pugh: You have said in your own press release—you have admitted international tax laws should be rewritten. What did you have in mind then yourself?

Matt Brittin: Well, I think many of the questions the Committee has asked are on behalf of constituents who pay tax as income tax and pay tax as VAT, and would see that the tax affairs of companies that operate across more than one country are complicated. I understand that, and that's why I understand why people are angry when they see headlines reporting single-digit tax rates when we pay 20%; so anything that makes the system simpler allows companies to get on with

doing what they should be doing, which is hiring people and creating economic value. That is what we want to do as well. We want to pay the right amount and to be seen to pay the right amount.

Q85 John Pugh: So, speaking from the corporate point of view, you actually welcome the EU-OECD initiatives here, and Google themselves would not have a problem with the framework as developed so far.

Matt Brittin: We really support the process of trying to simplify the tax system. Tom is the person who would make the decisions on how we would apply that.

Tom Hutchinson: I think you are referring to the OECD final reports in October last year. A lot of what's in those reports are not final guidelines that all countries have agreed to, so it's very hard to say we agree with everything that's in those reports, but we definitely agree with, again as Matt pointed out, the process of trying to get countries all to agree on the same rules and be consistent and be simple.

Q86 John Pugh: But you can see what the problem is, can't you? Politicians are often accused of saying different things in different places. You are being accused of saying different things to different tax authorities to suit your purposes.

Tom Hutchinson: I wouldn't agree with that. I am not sure why you are saying that.

John Pugh: Sorry?

Tom Hutchinson: Why do you think that's true? I am not sure I understand that comment.

Q87 John Pugh: Well, that is what the EU-OECD process is trying to clear up—to make clear what tax is paid in what place on what gains.

Tom Hutchinson: As I pointed out before, our overall effective tax rate for Google as a whole across the world, for the last five years, is 19%, so I would say, since that is very close to the UK tax rate, we are paying a fair amount of tax worldwide. It is up to Governments to decide where we should be paying that tax. I would love to see the system be more simple, so Matt won't have to come to hearings like this and explain it, but we need the Governments to actually work together and develop an overall worldwide system to take that 19% and split it among the countries in a simple way.

Q88 Chair: Mr Hutchinson, it is your choice to have part of your company based in Bermuda, a tax haven. That is a choice you have made.

Tom Hutchinson: As Matt mentioned, Bermuda has no impact at all on the amount of taxes we are paying in the UK. That is because of the US system; it's very common—

Chair: You use the rules to good advantage.

Matt Brittin: Can we just deal with that question, Chair, because—

Q89 Chair: Can I just go back to Mr Pugh's point about country by country reporting. There are companies that do it better than you. You pride yourself on being a forward-thrusting company. Why don't you lead by example and make, like Statoil or Barclays, a better fist of telling the taxpayers of the jurisdictions in which you work how you operate, what you earn and what tax you pay? Why don't you voluntarily be more open?

Tom Hutchinson: As was mentioned, these rules—the country by country reporting rules—are coming into effect in 2016 this year, so those rules are already going to be out there and we support those rules, and we will provide that transparency according to those rules.

Q90 Chair: Yes, but only when you have to because of the rules. You did not choose to do it before, as some companies do. That is my point.

Matt Brittin: We would like to be recognised for paying the right amount of tax where we operate, but also for us to be clearer on the value we create in each country we operate in. Obviously, part of the value is paying corporation taxes and we pay the right amount exactly to the penny that the tax authority here has asked us to do, but we also create value through the use of products and services, through hiring people—we have 1,000 more people in the UK since the last time I appeared. So companies create value far in excess of the tax that they pay. We want to pay the right amount of tax but we also want products and services that help hundreds of thousands of British companies to grow, export and create jobs. The UK has been successful at that and we want to continue to invest here and to do more of that.

Q91 David Mowat: You make quite a play, Mr Brittin, of your desire, which is laudable, for a simpler tax system—if only all the politicians in all the different countries could get together and give you one, how much easier it would be. But it was not us who decided to ensure all our sales were booked in Dublin, it was not us who decided that the way you were going to choose to operate was utilising a technique called the double Irish, which I mentioned earlier. That is nothing to do with your apparently passionate requirement or desire for a more transparent system. You tell us you want a transparent system, yet with the system here you use the double Irish, you use the Dutch sandwich and you use Bermuda, which we will come on to. Your argument so far is, “Everyone else does it, so we do.” It does not seem to stack up.

Matt Brittin: Can I deal with your operational question and then ask Tom to deal directly with Bermuda, because that has come up a number of times? Operationally, we set up in a way we think can best serve our customers and the markets. We set up our headquarters in Dublin. We have people speaking over 14 languages there, serving customers across the region. The reason we do that is that we believe we can provide a better service by having expertise that is concentrated and shared. Many of our UK customers export to multiple markets and they have that resource that can speak multiple languages and help them to reach those customers. We set up our operations for business reasons, not for tax reasons.

Q92 David Mowat: To be clear on that point, because it is important, the evidence you have given us today is that you have set up in Dublin because of the ability to get lots of linguistic skills in Dublin. *[Laughter.]* It is nothing to do with the tax rates.

Matt Brittin: No, I said—

Q93 David Mowat: That's what you just said.

Matt Brittin: No, I said that—

Q94 Chair: You've said that three times now, I think. We haven't got that in London?

Matt Brittin: We love being in London and we have hired 1,000 more staff since I last appeared.

Chair: Multilingual, I hope.

Matt Brittin: What I said was—*[Interruption.]*

Chair: Can we let Mr Brittin answer?

Matt Brittin: Let's be fair. There are two questions I want to come to—the operational question and the use of Bermuda and other issues, which you have raised a couple of times. We set up in Dublin to operate across the whole of Europe, the Middle East and Africa. We could have set up that operation in a range of different countries. We chose to be in Dublin. I mentioned to the Committee before that a lower tax rate was one of the factors in operating there. So were lower property costs, so was the access to high-speed internet connection across the Atlantic. There was a range of factors. Once you have a scale operation across multiple countries, it is a benefit to customers in the UK to be able to access export skills, whether in Dublin or elsewhere. That is the operational reality. We set up our operations. In terms of the question you raised, I would really like to address that.

Q95 Chair: Mr Hutchinson, do you want to talk to us about why you have a set-up in Bermuda? Some of us know but it would be good to have it on record.

Tom Hutchinson: Sure. I have already made this comment but it is important to point out that the Bermuda structure does not impact the taxes we pay in the UK. The Bermuda structure is related to the peculiar tax regime we have in the US. It is a worldwide tax system and that tax system encourages companies such as Google to keep their funds overseas. Once they bring that back, they are taxed at the very high US rates, so that is one piece of that pie, but the most important point is that it does not affect the amount of taxes paid in the UK.

Q96 David Mowat: Since you are answering my question, I would just like to—

Tom Hutchinson: Sorry, if I could just finish—just one more point.

Q97 David Mowat: Could I just come back on that? What you have just said is right, clearly. It does not affect UK tax per se because you have already moved that through Ireland. But I was

using it as an example in reply to Mr Brittin's point that all that Google wants is a simpler tax regime so you can get on with building search engines and do not have to worry about all this stuff. What I am saying is that your use of these structures, albeit it is not uncommon, is not indicative of that desire.

Tom Hutchinson: Again I understand that concern, but if you look at the fact that we were paying a 19% rate for the last five years, I would say that is a very fair rate. It is the rate in the UK, so I have to assume that that is a fair rate to pay on your profits. The question is, where do we show? It is not that we are not paying enough taxes. It is which country do we pay those taxes in. That is determined by Governments.

Q98 Deidre Brock: I have just a couple of quick questions I would like some clarity on, Mr Brittin or Mr Hutchinson. One of the issues that you mentioned in your accounts that HMRC challenged Google on during the audit was shared-based compensation; I think you referenced it when Ms Flint was speaking. Could you explain that to us, please, and how it benefits Google?

Tom Hutchinson: Sure. There's share-based compensation. The issue is—obviously, that's stock that is issued by Google Inc. and Alphabet, the parent company. It's part of the compensation package for employees throughout the world. They are getting, as part of their compensation—for most employees, they're getting stock in Google Inc. or Alphabet now.

Q99 Deidre Brock: How does that benefit you tax-wise, though? Why was HMRC bringing it up as an issue?

Tom Hutchinson: It's not that it's a benefit. The issue that we were debating with with HMRC as part of this audit was whether that benefit that's accruing to employees in the UK should be included in the cost base of our UK entity, even though it's not a true cost—there is not cash going out the door—and it's not stock in the UK entity; it's stock in the US entity. The question is: does that go into the base?

Q100 Deidre Brock: And the outcome of those discussions was—

Tom Hutchinson: This is why we paid more taxes. The outcome was that we would include it in the base for both prior years, which is part of the settlement, and from 2012 on, we included it in the tax returns that were originally filed.

Q101 Deidre Brock: With regard to its original use, could I ask what role your auditors, EY, or Ernst & Young, as I think they were called before, played in advice on introducing that?

Tom Hutchinson: Sorry, I'm not sure I understand the question.

Deidre Brock: What role the auditors played.

Tom Hutchinson: What role did they have in that process? The audit process or the—

Deidre Brock: Just in advising you to take that option.

Chair: In the tax advice.

Tom Hutchinson: I don't know that EY was involved in that process. We would look at that issue internally. Oftentimes we'll use advisers if the issue is unclear. As I mentioned, they are very complex, so we likely dealt with an outside adviser on that issue, but I can't say if that was EY or some other outside adviser.

Deidre Brock: Could we get that information?

Q102 Chair: If you could tell us whether that was the case—

Tom Hutchinson: Sure. I can follow up, of course.

Q103 Mr Bacon: Mr Brittin, I have just a couple of questions. First, you said, "We paid tax at 20% on our activities in the UK." Can you say what the number is that's 100, of which 20% would be what you paid on your activities, just for the record?

Matt Brittin: The UK income for the last accounting period was £1.2 billion.

Q104 Mr Bacon: £1.2 billion. So that's the number on which you pay tax at 20%.

Matt Brittin: No, that's the revenue. We pay tax on the profits.

Q105 Mr Bacon: I'm asking you a question based on what you said.

Matt Brittin: Sorry, you asked me for the revenue figure.

Q106 Mr Bacon: If I do £1.2 billion multiplied by 20%, I get £240 million, which I quite like, but that's not what you paid.

Matt Brittin: No, but you asked me—

Q107 Mr Bacon: You said, if I can just repeat it, "We paid tax at 20% on our activities in the UK."

Matt Brittin: The profits on—

Q108 Mr Bacon: Ah! On your profits on your activities.

Matt Brittin: Yes—

Q109 Mr Bacon: Right. That's not what you said. Yes, I thought taxes were paid on profits as well. Could you, then, just tell me: what is the number upon which you paid tax at 20%?

Matt Brittin: I don't have the profit number in front of me, but being profit, it'll be 20%—

Q110 Mr Bacon: I'm not looking for a "would be" answer. You said, "We paid tax at 20% on our activities in the UK." You are now correcting that to "on our profits in the UK." Do you mean, "We paid tax at 20% on our profits on our activities in the UK"? Is that what you're trying to say?

Matt Brittin: Yes, that's how the system works.

Q111 Mr Bacon: Okay, so what's the number?

Matt Brittin: The number—£240 million. I'll get the exact number, but it must be that if that's the headline revenue number.

Q112 Mr Bacon: Mr Hutchinson, can you help us?

Tom Hutchinson: I don't have that number in front of me.

Q113 Mr Bacon: You don't know how much tax you pay in the UK?

Matt Brittin: No, we paid £46 million of tax.

Q114 Mr Bacon: How much?

Matt Brittin: £46—

Mr Bacon: I read £46 million somewhere as well.

Tom Hutchinson: Are you talking about last year, are you talking about—I'm not sure I understand what period you're asking for. If you could slow down a bit—over what period are you asking for the tax?

Q115 Mr Bacon: I read the £46 million. I was just asking a question about something Mr Brittin said earlier. Presumably, if the number is 46, then 46.2 times 5—that's £231 million; £231 million is then your activities in the UK.

Matt Brittin: That's the profit on those activities.

Q116 Mr Bacon: That's the profit.

Matt Brittin: Yes.

Mr Bacon: Okay, good. I just wanted to get that on the record. It took a bit longer than I had hoped, but anyway.

Matt Brittin: Sorry for mishearing you.

Q117 Mr Bacon: I have one other question. Why did it take you six years, which is as long as the second world war, to explain your activities adequately to HMRC?

Matt Brittin: This is a process that HMRC drives and runs, and one of the things they did in that process was take an extended period of time to look at the nature of an internet business.

Mr Bacon: Yes.

Matt Brittin: One of the things they did was slow down the process in order to ask us and other tax authorities and look at the nature of an internet business. So they went back and looked at the detail of how our products operate. But the timetable of the process is driven by HMRC, according to their published and fairly detailed and rigorous standards. Tom's team was fully involved in answering all their questions throughout that period.

Q118 Mr Bacon: So you are basically saying that it was HMRC's fault for being so slow.

Matt Brittin: They run the process according to their published standards and the requirements that the Government puts on them as their independent tax experts.

Q119 Mr Bacon: Our Committee is charged with looking at effectiveness, efficiency and economy. If it takes six years to investigate something, either you are very bad at explaining or they are very thick at understanding.

Matt Brittin: All I can say is that we did provide them with an awful lot of information. They interviewed a lot of staff, including myself and people in Dublin, from top to bottom of the organisation. They looked at our contracts, how our systems work, and sat alongside colleagues and listened to customers calling us so they could really understand the facts of our operation. In some cases, it might be faster if it is an operation they have seen many times before. They are looking at Google. We have a search engine and a whole range of things that are new, and they probably would have taken longer to do that, but I have to say that we were really fully transparent with them. Any information they asked for, we gave them.

Mr Bacon: I hope so. After that number of days—it seems to me incredible that it takes six years to explain what the internet is to somebody and how it works. Well, I'll ask HMRC when they come on.

Q120 Mr Jackson: Whether, as Mr Bacon says, you were slow or they were thick, or a combination of both, was the substance a dispute specifically about their understanding of transfer pricing? Was that at the heart of the dispute?

Matt Brittin: The heart of the question they ask is, “What is the right profit for Google’s activities in the UK?” which is what Mr Bacon was getting to there as well. So at the heart of the question is, “What are the activities?” and “What is the right profit on those activities?” and they apply a methodology to that.

Mr Bacon: I did not have a view on whether it is the correct number or not. I was just trying to get what—

Matt Brittin: I appreciate that.

Q121 Mr Jackson: Do you think that they now understand your business model?

Matt Brittin: I think they have a very thorough understanding of what our people in the UK do and what our people in Dublin do, and what the products are and how the services operate. Tom’s team was at the heart of providing answers on a very regular basis.

Q122 Chair: Did they ask you questions about permanent establishment as part of that whole process?

Tom Hutchinson: Yes.

Q123 Chair: So did they investigate the London operation—

Tom Hutchinson: A big part of their inquiry was asking questions about whether the activities that were done in the UK, by our employees in the UK, would rise to the level of a permanent establishment. But it is also important to point out that whether there was a permanent establishment or not—there has been a lot of discussion, not as much today, but in prior hearings, about that and what sales activities are happening in the UK versus Ireland—that would not change, like the statement I made about the Bermuda structure, the amount of taxes we would pay in the UK, because what was not talked about last time was that there are two steps in the process when you are dealing with PE. First, if you prove there is a PE—again, the facts did not support that, but even if you did prove a PE—the next step in that process is what is the value of that PE, which gets right back to the transfer pricing discussion, which is what is the value of the services provided in country. So it does not result in a change to the corporate income taxes you owe at the end of the day.

Q124 Chair: We have been doing quite a lot of preparation about this, and on previous Committees, so we know there is discussion and that in the end, a deal has to be done between you on what that is.

Q125 Caroline Flint: Obviously, a lot of negotiation went on to arrive at the £130 million. Would you be prepared to share with the Committee what the top-line figure was that, after discussion about what you should pay, negotiations started from? Was it £200 million? Was it £300 million, with negotiation following to get down to £130 million?

Tom Hutchinson: It's a great question. That is not how it worked in the process. They don't throw out a number. It is not a negotiation, where they throw out a number and we throw out another number.

Q126 Caroline Flint: No, I was thinking that they may have looked at the rules and everything and come to a view about what the headline figure should be, and then you would come back and say, "Well, actually, tax inspector person, we have these other things that you need to take into account. We invested here, so knock that off." I am not suggesting that they just pluck a figure out of the air, but what was the top-line figure that you worked down from?

Tom Hutchinson: Again, just to explain, there was no top-line figure. That is not how the process works. The process works—

Mr Jackson: But you are saying that the process is very—

Tom Hutchinson: Sorry, if I could just describe how the process works, I think it might help in this discussion. The process is: they would initially do a very long fact-finding process. As Matt mentioned before, they are talking to our engineers, our customers and our employees. They went here and in Dublin to understand the substance of what is happening in our UK office. They then do an analysis of the tax law and how that applies. The transfer pricing rules require you to look at what a third party would get for those services, so they are looking at our comparables that we used in doing our tax return. They may be arguing about, "Is that the right comparable?" and whether maybe they should have another comparable in that process. We are arguing about what is the right profit to show. They never threw out an amount and said, "Here's what you owe us," and then we said, "No, we want to owe something smaller than that." That's not how the process works.

Q127 Mr Jackson: But you're saying that the process was opaque and confusing through those six years—

Tom Hutchinson: Sorry, I didn't say that. I didn't say it was confusing.

Q128 Mr Jackson: You did. You said it's very complex and that there are different regimes and rules.

Matt Brittin: We said that the rules were complicated.

Tom Hutchinson: The tax rules are very complicated. The transfer pricing rules are very complicated.

Q129 Mr Jackson: You are asking us to accept that you had a definitive, one-off amount agreed, that there was effectively no discussion and debate over that, and that they just said, "It's £130 million," and you said, "Fine." Are you saying that?

Tom Hutchinson: No, that is not exactly what I was saying. I was saying that there is a debate about the comparables. There is a debate about tax issues, tax policy and tax analysis. There is no debate about the number.

Q130 Mr Jackson: We are not talking about policy. We're talking about your negotiation on the £130 million. I think Ms Flint has asked a reasonable question. Was there a pitch that they made that you brought them down on? It's not ignoble to have done that, because you can go to them and say, "Actually, you've not taken into account intellectual property and write-downs in other areas as a result of this. This is what we think." You're saying that that wasn't the case.

Tom Hutchinson: Right, I understand the question. I wanted to provide some background, but I think I answered the question. No, a number was not thrown out by HMRC and we did not negotiate it down. That's not the way the process worked.

Mr Jackson: Thank you.

Q131 Mr Bacon: I have just one more question. You can talk about the different structures until you're blue in the face, but at the end of the day this is staining your reputation, because you have chosen, in Mr Mowat's words, to take complex routes. Sales revenue goes from here to Ireland and then, if I believe the *Daily Mail* this morning—it's a rule of mine to believe almost everything I read in the *Daily Mail*—it goes from Ireland to the Netherlands and then from the Netherlands to Bermuda, where it has no effect whatsoever on UK corporation tax, as you have kept on saying six times. At the end of the day, it must have an impact on how your employees feel about working for Google. You cannot like the fact that lots of people hate you because of this. They are very angry. Why don't you face up to that?

Matt Brittin: We find ourselves in the spotlight and we understand why. We have reached the end of a lengthy and intensive independent process. At the end of that process, we were required to pay more tax by HMRC. HMRC is not allowed to settle for any less tax than they believe is due. At the end of a process in which they have analysed all the questions and addressed all the issues that the Committee has raised with us, they have told us exactly the amount of tax to pay, so we are paying that amount of tax. We want to pay the right amount of tax. We believe in paying our taxes and we want to be seen to be paying the right amount of tax. We have just finished a six-year intensive review by independent tax experts, working on behalf of the Government, that has told us exactly how much tax to pay. I want to be in a position where our employees focus on helping the UK make the most of the internet, helping small businesses grow, export and create jobs, and we want to be paying the right amount of tax. We believe that we are, because we are paying the bill that the tax authorities told us to pay.

Q132 Mr Bacon: Luke Johnson is a journalist and venture capitalist—a capitalist's capitalist.

Matt Brittin: I am aware of him.

Mr Bacon: He wrote in *The Sunday Times* in an article titled "Search your soul, Google" about you knowing that you ought to pay fair tax: "Corporations such as Google debase the reputation of business and undermine civil society by failing to pay their way in an equitable and transparent manner."

Matt Brittin: We would love the system to be simpler and more transparent. We are paying the tax bill that the taxman has told us to pay in the UK. We cannot legally pay more tax in the UK. There is no mechanism for paying more tax.

Mr Bacon: That's actually not true. You can always—that is simply not true. You can hand in extra money to the Consolidated Fund any time you like. I am sure that the chief executive of HMRC will confirm that.

Tom Hutchinson: That actually is not true. We cannot pay more tax.

Q133 David Mowat: Following on from some of that stuff, you have probably paid about the right amount of tax, given how you have chosen to structure yourselves in the UK, in Ireland, in Bermuda and in Holland. You probably have. As you say, you have gone through an exhaustive process. The best and the brightest of HMRC have discussed it with you and you've gone through all that. You have come up with a number that is probably about right for the law. And then you write an article in the *Telegraph* and you say that it would actually be a lot better if they made the law simpler so that you wouldn't have to do all these six-year processes and all the rest of it, because if they did that, you would do that. Nevertheless, you have chosen to base your operating structure on the double Irish, the Dutch sandwich and—to an extent—the Bermuda deal, which apparently is pervasive, although that's rather like somebody in the playground telling the teacher that all the other boys are doing it as well. Given all those points, you have probably paid the right amount of tax.

However, to refer to Mr Bacon's point, your employees—you are growing in the UK—want to be proud of you. They want to be proud of your contribution. They want to feel as though they work for an entity that—I think your boss said, “Do no evil.” Have loftier ideals. That's where Google started from. And it seems a long way from the guy who started the whole thing and came up with things like, “Do no evil” and, “We're going to be a different sort of company”, to you, being in front of the Public Accounts Committee and explaining why you've had a double Irish—albeit because of the fantastic language skills that exist in Dublin—and that you use Holland as well, and that you use Bermuda like everybody else. Doesn't it bother you that some of your employees might bale out over that?

Matt Brittin: We're set up in order to try to organise the world's information and to put the power of the internet in the hands of as many people as possible, and we're proud of what we do in helping people to do that every day and helping businesses grow—

Q134 Chair: I don't think that any of us doubt that you run a good search engine, Mr Brittin. That's not what we're here to talk about, so could you answer the question—

Matt Brittin: Thank you. That's what we try to do. But I agree: we want to be in a position where we're paying the taxes that are due and are seen to be paying the taxes that are due. And I think we've tried to explain, and Tom can give you more clarity on how we do that.

Q135 David Mowat: How many employees—? You mentioned earlier—I didn't write it down—How many do you have in Ireland?

Matt Brittin: Well over 5,000.

Q136 David Mowat: And in the UK?

Matt Brittin: Just around 4,000 now.

Q137 David Mowat: And in Bermuda?

Matt Brittin: None.

Q138 David Mowat: Cayman Islands?

Matt Brittin: Tom can explain this—

David Mowat: Sorry—can you answer my question? How many employees do you have in the Cayman Islands?

Tom Hutchinson: I don't think we have any Cayman Islands entities—

Q139 David Mowat: No. So you have 5,000 in Ireland—they're the guys with the language skills, where you book the sales. You have 4,000 in the UK. You have none in Bermuda and you have in the Cayman Islands—?

Chair: None.

Q140 David Mowat: So, over to you now, Mr Hutchinson.

Tom Hutchinson: We know how many we have in the US, which is an important part—

Q141 David Mowat: Sorry?

Tom Hutchinson: A large part of our employees are based in the US. That's where most of our IT—

Q142 David Mowat: I understand that, and accept it.

Tom Hutchinson: And your comment earlier was that—you say that we feel good about ourselves that we have set up this complicated structure and then maybe we're paying the right tax under that complicated structure. I think it's important to point out—I've said this a few times, so I know you may not want to hear it again—that those complicated structures that keep getting talked about are not affecting the amount of taxes we pay in the UK. So, it's not that we set up these complicated structures and now the HMRC has said, "Well, with that complicated structure, here's the amount of taxes you pay"—[*Interruption.*]

David Mowat: Just on that point—

Tom Hutchinson: We would pay the same amount of taxes even if we didn't have that complicated structure.

Q143 David Mowat: What affects the amount of tax that you pay in the UK is the first part of your complicated structure, which is you book the sales through Ireland. So that affects the tax you pay—

Matt Brittin: We do that—*[Interruption.]*

Q144 David Mowat: But if, as you say, you're paying a fair amount of tax—I think I've heard you say 19% on global profits; fair enough, or it may be fair enough—why go through it all? Why go through the Dutch sandwich? Why do the double Irish? Why have the Cayman Islands? Why have Bermuda as part of your set-up, if the result of all that is you end up paying the right amount of tax anyway?

Tom Hutchinson: Exactly. So we end up paying the amount of tax that we think is a reasonable amount—19%. Again, that's very close to the UK rate.

Q145 David Mowat: But my question isn't that. My question is—fine, the 19% is right. I don't know; maybe it is right. You're the tax guy. If, then, your objective—laudably—is that you're going to pay the right amount of tax, why do you put yourselves through all this stuff about booking sales in Ireland, moving profits through the Dutch sandwich, and why do you have the Cayman Islands stuff and Bermuda? Because then you have to answer questions from people like us, and it seems a lot to have to put yourselves through if the result of it all is you're paying the right amount of tax.

Tom Hutchinson: Let me make an important point. If we set up differently and we had our UK office selling directly to UK customers, that would be a change in our structure and it's one of the things that's been talked about. Again, that would not change the fact that the tax rules require you to show profit in the UK attributable to the value of those services in the UK—

Q146 David Mowat: No, that's a different point. You're right. That point goes to my other question about whether your UK employees—many of whom will have parents who use care homes and doctors, and relatives who use teachers, and all of that—goes to whether or not the way you've chosen to set yourselves up is cognisant of your UK employees being proud of working for a company that may well pay the right global amount of tax but appears to go to great lengths so that it's not in the UK.

Matt Brittin: We are paying the amount of tax in the UK that—

Q147 David Mowat: That is how I started off, and I couldn't get anywhere with Mr Hutchinson. Mr Brittin, aren't you worried that you will lose young people, who are more and more ethical these days and want to work for a company that is ethical as well? Aren't you worried about that, in terms of your retention and all the rest of it?

Matt Brittin: Yeah. We want to be in a situation where we are focusing on building products that help everybody and help businesses grow. We want to pay the right amount of tax. We have been through an intensive audit that told us the right amount of tax to pay here; we have come and answered your questions in detail, and we will continue to do so, because we want to be paying the right amount of tax and be seen to be paying the right amount of tax.

Q148 David Mowat: I have one more point to make on that, because you didn't really answer my question about whether the way you are conducting yourselves corporately is conducive—this is a question for you and your management team—to the retention of the best young ethical people, whom you want to employ to make a difference. You mentioned small businesses and all the rest of it. I would just say that to the extent that organisations like yours remove and erode the UK tax base away from small businesses—there is an attack on the high street from the internet, and it would be reasonable for the internet giants, such as yourselves and others, to pay the right amount of tax in compensation for that. I will leave it at that.

Matt Brittin: I would just like to answer your question, if I can. Many of our customers are small businesses. We are helping them to grow, sell more products and export. Deloitte estimated that the value of the businesses using our services is in excess of £11 billion a year, and we want to be an important part of their future growth as the internet doubles in size. We are really supportive of those small businesses. We find ourselves in a situation where we are paying the tax that the tax authorities told us to pay, and we want to get on and invest in—

Q149 David Mowat: That is correct, based on the structure you chose to adopt.

Matt Brittin: Yes. I'd love to invite you to come to Dublin to understand our operations there. The Committee is welcome to visit us, just as HMRC did, to understand in detail how we operate. We would love to welcome you in any of our offices so you can see that for yourselves.

Chair: Thank you for the invitation. I am going to bring in the Comptroller and Auditor General, and then I have a couple of points before we wrap up.

Sir Amyas Morse: In a way, your explanation is based on saying that the UK tax is the right amount of tax worldwide. It's fair to say that your tax structures aren't just designed to deal with UK tax; they are designed to deal with US tax, which is at a higher corporate rate—I think it's in the 30s, isn't it?

Tom Hutchinson: rose—

Sir Amyas Morse: Excuse me, I'm not finished. I accept that Bermuda is primarily for US tax reasons, not for UK tax reasons. We can all be happy about the fact that all of these things aren't aimed at the UK tax regime. But isn't it true that you've kind of taken a change in stance to become tax reformers, because now you've worked out that it's better for your brand, and you can rely on the incoherence of discussion in the OECD to mean that it will be a long time before there is any action? Meanwhile, you continue to benefit from having a highly professional—congratulations, Mr Hutchinson—international tax group in place that is still delivering, relative to the US at least, a low tax rate.

Tom Hutchinson: Even though that is my expertise—

Sir Amyas Morse: I can see that.

Tom Hutchinson: I would love the rules to be simpler so we could explain it to people who are not tax people.

Sir Amyas Morse: But it's not going to happen any time soon, is it?

Tom Hutchinson: I hope it does. I hope the rules change.

Sir Amyas Morse: But is it actually likely?

Tom Hutchinson: But I think the rates—well, I can't say what's likely, but I think it's important to address your point about what is the right amount of tax. You are saying that we are using these structures to not pay the right amount of tax in the US. Again, our overall tax rate is 19%. To me, that seems like a fair amount of tax to pay.

Sir Amyas Morse: What, against the US rate?

Chair: Finish your point, Mr Hutchinson, and then I am going to bring in Richard Bacon.

Tom Hutchinson: Really quickly, just like with the HMRC, we have tax audits in the US on a continuous basis because we are a large corporation, and that's the way it works. They've looked at our structure. They asked us a lot of questions about it. We talked to them, and we've been very transparent about it. Under the rules in the US, this structure makes sense. I don't think this is an aggressive structure, if you understood the US rules. We have talked at length with the IRS in the US about the structure.

Sir Amyas Morse: I accept that it's not aggressive, but it is tax efficient, right?

Tom Hutchinson: It is tax efficient.

Sir Amyas Morse: Thank you.

Tom Hutchinson: Our job as a tax team is to make sure that if the business wants to do whatever they're doing, we are going to do that in a tax-efficient way.

Q150 Mr Bacon: Mr Hutchinson, just to clarify one point before we finish. You have said several times that you pay tax at a rate of 19%. What is the 100 upon which 19% is the amount that you pay?

Tom Hutchinson: Sorry, I'm not sure I understood that question.

Q151 Mr Bacon: If you are paying tax at 19%, it must be on something. There must be something that is 100%, of which 19% is the tax that you keep on referring to that you pay. What is that 100% number?

Tom Hutchinson: Let me explain. The 19% that I am giving is over the last five-year period. So it is looking at our profit for that five-year period.

Q152 Mr Bacon: Just to be clear, the profits for the last five financial years—

Tom Hutchinson: Exactly. You were about to do the math, so multiply that by five.

Q153 Mr Bacon: So, the 19% tax rate that you pay is the tax rate that you have paid in sum, in total on average, if you add them all up and average them over the last five years. That is the last five tax years. Are you talking about in the UK or globally?

Tom Hutchinson: Globally. So if you take that amount, multiply that by five.

Q154 Mr Bacon: So what is the amount?

Tom Hutchinson: The amount if you multiply that by five?

Q155 Mr Bacon: Yes. You keep on saying you pay tax at 19%. What is the amount of tax? What is the total amount of money of which 19% is the amount that you have paid in tax over those, as you say, five years?

Tom Hutchinson: It would be £100 billion.

Q156 Mr Bacon: One hundred billion pounds. So you paid £20 billion in tax.

Tom Hutchinson: So 20 times 5.

Matt Brittin: The most recent pre-tax profit globally in 2015 was £20 billion. The number has been increasing as the company has grown over recent years.

Q157 Mr Bacon: I am not talking about the pre-tax profit in any one year, because that is on what you pay tax. I am trying to express myself clearly. 19% is the amount of tax that you pay. You pay it at a rate of 19%, and 19% must be 19% of a number that is 100. Are you saying that the £100 billion is the amount that, over five years, you paid tax on at 19%, and therefore £19 billion of tax. Is that what you are saying?

Tom Hutchinson: I was trying to understand your question. What I am saying is that for the most recent year, for 2015, our overall global profit is £20 billion.

Q158 Mr Bacon: Can we stick to the 19%? This is the number that you have used, not me.

Tom Hutchinson: I would have to go back to every year and add up those amounts for every year. I do not have those in front of me. I am happy to provide them.

Chair: They can provide that.

Q159 Mr Bacon: Just a minute; this is really important. You have said several times that you pay tax at 19%. That must be on something. There must be a number of which 19% is the amount of tax that you pay.

Tom Hutchinson: There is.

Q160 Mr Bacon: You answered that by saying to me that it was actually spread over five years.

Tom Hutchinson: That's right.

Q161 Mr Bacon: Then I'm looking for five years' worth of numbers, of which the total number has a number that is 19% of it that you have paid as tax. If I were to gross up the 19% number, which is the tax that you have paid, up to 100%, what is the number that I would get to?

Tom Hutchinson: I understood your question—

Q162 Mr Bacon: I cannot understand how you would not know that.

Tom Hutchinson: With respect, I understand the question. I can provide those numbers afterwards.

Q163 Mr Bacon: What I am asking is why don't you know it now?

Tom Hutchinson: Because I don't have it in front of me. We have looked at those numbers for the last five years and the average is 19%. I am happy to provide the calculations afterwards.

Q164 Mr Bacon: The £100 billion that you mentioned earlier, Mr Brittin, was what you reckoned over the five years.

Matt Brittin: No, I just gave you the most recent year's number. I have in front of me the most recent year's number, which was £20 billion—

Q165 Mr Bacon: I am after this five-year number that Mr Hutchinson was talking about.

Matt Brittin: We will provide that afterwards. We do not have it here in front of us.

Q166 Chair: Clearly, they do not know it, Mr Bacon, so Mr Hutchinson will have to write to us.

Tom Hutchinson: It is a very simple calculation. I am happy to provide it. We just don't have the information in front of us.

Q167 Mr Bacon: I am very surprised you don't know.

Tom Hutchinson: I can tell you what it was last year in 2015. It was £20 billion.

Q168 Chair: We just had that from Mr Brittin. We will have to wait to get that response in writing.

I want to conclude. Mr Brittin, you have talked a number of times about this six-year independent—"transparent" was the word you used—process with HMRC. It is not transparent to the taxpayer. I urge you again to be more forthcoming. In answer to Mr Mowat, you said you want your staff to be proud and you want to do good in the world, so why can't you tell the ordinary British taxpayer how your tax settlement was reached?

Matt Brittin: We are fully transparent with the Government's independent tax authority. In reaching the conclusions they reached about the tax that we should be paying, they looked at a lot of confidential information. Like any taxpayer, we have confidential information that we do not want to make public, but we have been more transparent than any company in trying to explain to you that settlement—

Q169 Chair: Sorry, are you talking about being transparent here in this Committee?

Matt Brittin: We are fully transparent to the tax authority. That is how the tax system operates.

Q170 Chair: Yes, we get that. That is not my point.

Matt Brittin: There is a difference between that and being public about all of the details that we provided to HMRC in order to reach this conclusion, because those include things like the amount of money individual customers are paying on individual products, which we think is commercially sensitive, private information.

Q171 Chair: So is there anything that you can put out in the public domain that would convince people of what you are convinced of: that you are paying "the right amount of tax", to quote you?

Matt Brittin: By trying to answer your questions and being clear with HMRC, we hope that the tax system in the UK—that is the way it is designed to work, when HMRC—

Q172 Chair: Sorry, I am asking whether you would be willing or able to put out any more information into the public domain. We understand that commercial confidentiality may apply to

part of it, but not all of it. Other companies do more than you do. Will you consider putting more in the public domain?

Matt Brittin: One of the things that we are looking at is trying to understand how we can publish more clearly our contribution in all aspects in the countries in which we operate to help to provide more transparency. In line with the OECD process, which we support, as I said earlier, we would love the tax system to be simpler and clearer, because that would address the questions you are raising.

Q173 Chair: Mr Brittin, I am puzzled. When you came in front of us in 2012, I remember vividly that you were sitting in this very room, on the end there, and you were the last witness we came to. You were very candid about the arrangements of Google Inc. and the tax avoidance measures you used to ensure that you remained as tax efficient as possible as a company, and you were unapologetic about that. Today, you come and say that you are absolutely delighted about the idea of greater simplification and the OECD processes—things that go into the future. If you are so keen on this tax reform, why do you not lead by example and provide more information to the general public both in other countries and in the UK, which is what we are concerned about?

Tom Hutchinson: I would say that the amount of information that we have provided on this tax settlement is more than I have ever seen a company provide. We are talking about a lot of the details of the settlement. We cannot go into information that is commercially sensitive, but we have been talking about a lot of the details in this Committee, and I have never seen a taxpayer share so much information about a tax and audit settlement, which is a confidential matter.

Q174 Chair: I still think that the real issue here is that the British taxpayer finds this bewildering, because they are paying their tax. Small companies, which you say you support, have no ability to work around the rules as you do.

Matt Brittin: Any company that is international has to apply the rules just as we do.

Chair: You have chosen a set of structures. I do not think we will go back into this, but Mr Mowat made the points very clearly. I think we have come to the end of where we are going to be able to get with you. Thank you for coming. Our transcript will be up uncorrected on the website in the next couple of days, so please let us have any comments that you wish to make. We will be putting out a report in the next couple of weeks. I thank you very much indeed for coming along. You are welcome to stay for the next session. I call our HMRC witnesses.

Witnesses: Dame Lin Homer, Chief Executive and Permanent Secretary, HMRC, Jim Harra, Director General Business Tax, HMRC, and Edward Troup, Tax Assurance Commissioner, HMRC, gave evidence.

Q175 Chair: Welcome to the second part of our hearing, which is on the tax settlement with Google in particular, but because we have HMRC in front of us we are hoping to broaden it out and look at tax settlements more widely. We have as our witnesses Jim Harra, the Director General for Business Tax at Her Majesty's Revenue and Customs, Dame Lin Homer, the Permanent Secretary at

Her Majesty's Revenue and Customs—it might be your last outing in front of us, Dame Lin—and Edward Troup, the tax assurance commissioner at HMRC.

Before we start on the main session, we were concerned as a Committee to receive a letter from you, Dame Lin, late yesterday afternoon when we were in Committee. It offered privately to reveal to us information about the tax settlement with Google. Can I ask first whether you co-ordinated that letter? Did you talk to Google about that letter before you sent it to us?

Dame Lin Homer: I think you received a letter from me on Tuesday sharing some information with you and referencing—

Q176 Chair: No, we received a letter yesterday.

Dame Lin Homer: No, you received a letter from me on Tuesday sharing some information with you as a Committee, which we were able to share under our own steam.

Q177 Chair: Sorry, that was the stuff you put on the gov.uk website.

Dame Lin Homer: And some additional information that was in the public domain.

Q178 Chair: Dame Lin, I am talking about the letter that arrived yesterday from HMRC.

Dame Lin Homer: And on Tuesday we also—

Q179 Chair: I am sorry, Dame Lin, I am asking about a letter that arrived with us yesterday. That is what I am asking about.

Dame Lin Homer: No, I am about to answer your question. We also shared some information with you the evening before yesterday indicating that we may be able to share some taxpayer confidential information with you confidentially; but while we offered that to you we also went back to Google with our advice that it would be better if they were prepared to share that—

Q180 Chair: I don't know why you are arguing about this point. I am not really trying to pick an argument with you on the date on which a letter arrived. We received a letter yesterday while we were in Committee. We were in Committee; we remember it arriving because we were busy doing something else.

Dame Lin Homer: That was the third letter from me.

Q181 Chair: The letter I am talking about, then, is the letter we received yesterday in which you offered to share information with us about the HMRC and Google settlement or deal.

Dame Lin Homer: That was the third letter, and that offered, once we got consent from Google, which we got just shortly before that letter, to disclose taxpayer confidential information to you, yes.

Q182 Chair: If you had just answered my first question, Dame Lin, we could have got to that point much sooner. So you did co-ordinate with Google about the letter you sent to us yesterday, offering to reveal information.

Dame Lin Homer: We wrote the statement. We asked for their permission to share it, which they gave us yesterday.

Q183 Chair: Fine, okay. That is all I needed. We could have got here five minutes quicker. Can I be really clear to you? We are having this Committee hearing today not for our own personal benefit but because we want answers about this in public, so that the taxpayers who are our constituents hear the answers too, and partial late information in confidence just doesn't do that. It didn't give us any chance to do anything with it. So we are going to disregard that today. We haven't seen any of the confidential information and we are going to talk to you openly and publicly and we hope that you will all be clear and precise in your answers, bearing in mind, as I am sure I don't need to remind you, that you are public servants, and it is as the servants of us all that we are trying to get answers from you. I was disappointed at that approach, frankly. It was not very helpful to the transparency of our process.

Can I kick off, then, to you, and ask first of all how much it cost HMRC—actually I think maybe Jim Harra might be the person to answer this one—when you spent six years investigating Google? We have heard quite a lot of detail about what went on in that investigation. How much did it cost HMRC and the British taxpayer?

Jim Harra: We don't hold our information in the way that enables us to do that. It went on over six years. At various stages different people were involved in it at different times, but obviously conducting a six-year audit is a very expensive and resource-intensive process for us, which I wish we didn't have to undertake.

Q184 Chair: Have you got a ballpark figure, or did you do an opportunity cost, or take staff off other things to go and do this?

Jim Harra: No, we didn't. What we do is: we do a risk assessment and deploy our resource to risk. In the case of large businesses the yield-cost ratio is about 75:1 if you take the tax—

Chair: The yield-cost ratio is 75:1.

Jim Harra: In large business inquiry work, yes.

Q185 Chair: In doing this long six-year investigation—and I am going to bring in Deidre Brock in a moment on this issue—it seems it took a long time to get to the bottom of something that we have raised here in this Committee, and other people have been raising for some time, about the

challenge of taxing internet giants. Why did it take six years? Was there not a way of doing it faster, so that you could actually collect tax in real time?

Jim Harra: Well, yes, ideally corporates would take a lower-risk approach to their tax planning and would deal with us in real time, and we would not have to do six-year audits into tax. Although transfer pricing inquiries do actually take longer than most other inquiries to carry out, they do not normally take six years.

I think Mr Brittin explained some of the reasons why this one took so long. First of all, it is a new area of the economy. There are a number of tax authorities, in a co-ordinated way, looking at this and sharing intelligence and ideas, and we are a member of an international project of six tax authorities looking at digital giants in particular; so we were sharing lots of information during that time.

Also, it is the nature, I think, of digital companies like Google, that their scale, their business model and the way they and their customers behave change all the time. Mr Brittin mentioned, for example, the exponential growth in the size of the UK operation. That means we cannot just look at one year and then apply what we learned that year—extrapolate that—to other years. We have got to look at each year individually and look at how things change during that period. So it was a very resource-intensive and long inquiry, and painstaking, to get to the bottom of things.

Chair: We are going to get into a bit more detail about the inquiry and about relative resources. I ask Deidre Brock to kick off with this.

Q186 Deidre Brock: As the Chair says, the deals took six years to finalise. What were the main sticking points for HMRC during that time?

Jim Harra: So, how we conduct these inquiries is, first, there is a thorough and painstaking review of the facts. As Mr Brittin mentioned, in this case that meant not only looking at what goes on in the UK and interviewing the group's employees from the very top through to the people doing work as—

Q187 Deidre Brock: That is fine, but it is a process. I am wondering what the main sticking points were. What were the main areas that you had big discussion over and that caused this delay?

Jim Harra: I think the two key areas in an inquiry like this are, first, establishing the facts of what goes on in the different jurisdictions—the activities that are carried on and the assets that are located there year by year—then looking for comparable data using the different methodologies—

Q188 Deidre Brock: Sorry, that is again the process. What are the main arguments that you had with Google that delayed the final decision to arrive at the amount you arrived at?

Jim Harra: Once you've established the facts, the kind of discussion that you have is about what value-add is created by activities, what remuneration those activities get on an arm's length basis in the market and which transfer pricing methodologies are the relevant methodologies to apply. If you look at several of them, what ranges do they give? As was mentioned in this case also,

while there is clearly a UK company to which we can attach a tax charge, is there a permanent establishment of some other Google company in the UK?

Q189 Deidre Brock: Okay. Taxpayers are very angry at the whole process—how long it has taken and how opaque it appears to be. I am wondering, Dame Lin, why can't we be told how that figure of £130 million is broken down and what methodology you used?

Dame Lin Homer: I think on the back of the agreement we got yesterday from Google, Jim can tell you more information than we are normally able to. To go back to the Chair's point, I totally accept the point that it would have been better if we could have told you earlier—

Chair: I am sorry, but you need to answer Deidre Brock's question.

Dame Lin Homer: We asked for the information to be capable of being shared in order to be able to tell you a little more about it. On the taxpayer confidential information—which, by the way, our letter to you last night said can be public and is not confidential—the note last night—

Q190 Chair: But it is public only because we are having this hearing. That is the concern that Ms Brock is trying to raise.

Deidre Brock: And that is the concern of taxpayers, who don't understand why this is happening behind closed doors.

Dame Lin Homer: Well, because of the law. I think Mr Bacon referred to a number of hearings, as did Ms Hillier. I think both of you were here at the hearings in 2012. Under the Act, which we are ruled by, we are obliged to keep taxpayer information confidential. Your previous witnesses illustrated some of the reason for that. There are elements of commercial sensitivity if you lay all of a company's business on the table, but in practical terms the benefit we get when we do inquiries is knowing that they are sharing with us—not, if you like, with their competitors—which allows us to get a wider—

Q191 Deidre Brock: We do not need to know the earnings and the tax details of everyone and every company, but we do need to know that HMRC is treating everyone fairly.

Dame Lin Homer: Yes, of course you do.

Q192 Deidre Brock: At the moment, it is very difficult for anyone to be able to figure that out, be it for any of the taxpayers who look on in these situations—in bewilderment, frankly, at how you arrive at these figures.

Dame Lin Homer: This is also something that we have discussed with you at length. It is an issue that I grappled with immediately after I was appointed four years ago. You had had a hearing then. You had challenged us about whether our processes and our governance were strong enough and good enough. I think Mr Bacon referred to our architecture needing change. I think Ms Hillier referred to us needing to be much better at creating separate roles. I put in place a new governance and a new structure, which are designed to account to you—Edward, as our Tax Assurance

Commissioner, reports annually—and to be subject to audit by our own internal audit and by our audit and risk committee, but also to be part of our annual audit with NAO. We have done our best, but, statutorily, we are still—

Q193 Deidre Brock: One last question. I appreciate that, but what would normally happen to, say, a sole trader? I have many businesses in my constituency—say, running a corner shop—whose tax affairs are not sorted out for years on end. What would happen to them normally?

Dame Lin Homer: Thank you very much. I would like to take the opportunity to say that we apply exactly the same system to everyone. People who are in the area where we start with a self-assessment—that will include many small businesses, as well as big ones—come to us and tell us the tax that they think they should pay. With many small businesses, we then agree that and take that tax. With large businesses, at any one time we say to two thirds, “Before we agree that we want to root about and make sure that you are right.” We also do that for about 12% of small businesses. We then apply exactly the same approach to expecting back payments and penalties across all businesses.

Q194 Deidre Brock: But this particular approach took six years.

Dame Lin Homer: On average, our transfer pricing takes 22 months, so yes, this is a long one, and yes, there are some small businesses for which it can take us a number of years to arrive at a settlement. In the main, for most people, it is a much quicker process, but it is exactly the same process.

Q195 Caroline Flint: Does the fact that Google have paid £130 million, of which £18 million is interest, reflect that they did not pay enough tax?

Dame Lin Homer: I will ask Jim to answer that.

Jim Harra: Yes, it clearly does. If you look at their accounts from 2005 to 2015, the total charge they have taken for corporation tax and interest is £196.4 million. They have acknowledged that £130 million of that is as a result of our investigation. That is a very significant uplift in their liability. In fact, I believe that that £130 million understates the impact of our inquiry, because if you look at their accounts from 2012, they acknowledge that they are going to have to pay more, and they already start charging more in their accounts in 2012 and 2013. A very substantial part of the tax and interest that they have paid over the past 10 and a half years arises as a result of our investigation.

Q196 Caroline Flint: Thank you, Mr Harra. If that is the case, why hasn’t HMRC applied any penalties to Google for non-payment of tax?

Jim Harra: Penalties and large businesses are quite a challenge. I will describe in a second what the Government is doing about that issue. In order to attach a penalty, we have to demonstrate two things: first of all, that the return was wrong—and it clearly was in this case—and secondly, that insufficient care was taken in producing the self-assessment. The challenge in transfer

pricing is, as a previous witness said, that they can take a lot of expert advice and opinion, and can take a reasonable position in relation to a complex area of law. We can challenge that and they can accept that they need to change their position, but it is very difficult to establish that they have taken insufficient care.

We have a penalty consistency panel that applies specifically to large businesses, to make sure that in every case where we get a significant uplift in profits we apply a penalty if we possibly can. We have published draft legislation in the Finance Bill 2016 to remove that reasonable care defence from large businesses that are habitually aggressive tax planners and habitually understate their profits as a result.

Q197 Caroline Flint: Mr Harra, basically their lawyers and tax people have outmanoeuvred HMRC with a story about why they should not face a penalty. You can understand why the public—whether individual taxpayers or businesses—find it hard to believe that—

Jim Harra: I absolutely—

Caroline Flint: Sorry, if I could just finish, you can understand why the public find it hard to believe that, in your own words, they did not return a proper tax return and have not paid the tax that they should have, but apart from the interest they have not faced a penalty. There is considerable public anger at that, because it seems that if they have enough hired guns in the form of lawyers and tax people, big companies can get away with it.

Jim Harra: I understand that anger. HMRC's position, and the Government's position, is that the current penalty legislation does not work in relation to large businesses in the way that it should.

Q198 Caroline Flint: Okay. That must have been around for some time, because we are talking about Google today, but when I looked at the business pages of the *Evening Standard* last night I noticed that Gap was being looked at. There are a whole number of companies.

Jim Harra: The penalty legislation has been there since 2007.

Q199 Caroline Flint: My colleague Mr Mowat mentioned the Dutch sandwich and the double Irish—we have to think of something for Bermuda; the Bermuda triangle is all I can come up with right now. But does the existence of the structural way in which they organise their finances in Bermuda have an impact on the tax paid in the UK? We couldn't really get a clear answer from the Google representatives.

Jim Harra: The previous witnesses gave an answer to that, which I agree with. The starting point that we take is, what are the activities that are carried on in the UK or what are the assets that are held in the UK? What value do those create in the group's profitability, and are we getting sufficient profits returned to reflect that value? So if they have an asset held in Bermuda that, as they said, is designed to make sure that profits do not get back to the US and get taxed in the US, that is not material to the UK. The key thing that I have to do is make sure that all UK activities get taxed at the full value that they bring.

Q200 Caroline Flint: You noticed in the questioning in the last session that I quoted the fact that Google were saying that although in the past they would look at their profits in terms of what they should pay tax on, going forward they will be looking at their sales activity as well. We got into a discussion about that. How will that change the amount that they will pay in tax?

Jim Harra: For the future, what we will have to do is wait and see what Google self-assess. We will obviously monitor that, we will risk-assess it, and we will inquire as we would with any business if we have concerns about it. When you look at how activity should get rewarded, there are a number of methodologies approved by the OECD. Some of them can be like a cost-plus methodology, but you can also look, particularly in activities that are marketing-related, at what is a commission on sales that you would expect that kind of activity to get. Those are the kinds of methodologies that we have looked at in this case and would look at in similar cases, but what Google do in the future we will have to wait and see.

Q201 Caroline Flint: We also heard in the last session that the diverted profits tax is not going to apply to Google. If I have understood it, it is because they have paid their tax. So it seems that it is only companies where there is a concern that they are not paying their tax that this legislation will be applied to. How much do you think the prospect of being caught under the diverted profits tax led to a settlement at this time?

Jim Harra: The application of the diverted profits tax to Google in the future, again, remains to be determined. We have agreed that it does not apply to them for the last three months of their accounting period to 2015, when it was in force.

What the diverted profits tax does is, it says that if we are not getting full value for the activities and assets carried on in the UK because of some contrivance that has been put in place, then as a backstop we can get the diverted profits tax instead. It is set at a rate that is higher than corporation tax—

Caroline Flint: 25%, isn't it?

Jim Harra: Correct, yes. Because the aim is to encourage large businesses not to try to avoid their corporation tax in the first place. So what we expect to see, and what indeed we already have seen, is large businesses becoming risk-averse as a result of that and starting to change their transfer pricing arrangements and pay more corporation tax, so that they do not have to pay diverted profits tax.

Q202 Caroline Flint: I think there is nothing wrong with the diverted profits tax, but it does indicate that there are clearly contrivances going on in a way that denies countries like the UK, France or elsewhere a fair share of the tax that should be paid.

Jim Harra: There certainly are some contrived arrangements out there, which it is intended to tackle.

Q203 Caroline Flint: Dame Lin, could I just ask you a couple of questions, please? I think you said at the start of the session that you sought permission from Google to share information with this Committee concerning their tax. I completely understand the legalities around that. Have you

ever sought permission from Google to share more detail with Government Ministers about the settlement or any other tax arrangements regarding Google?

Dame Lin Homer: No, and both this Committee and Ministers have had to put up with me saying over and over again, “The Act says this,” and “This is what we do.” What we did, and I think Google indicated this, was that with their permission, we told Ministers shortly before—literally the day before—that there was due to be a press release by a big company the next day. When Google indicated, I think to the shadow Minister as well as to our Ministers, that they were making it, we provided a copy of that.

Q204 Chair: A copy of what?

Dame Lin Homer: The news release, when it was issued.

Chair: Right. So you provided a copy of Google’s news release.

Dame Lin Homer: To our press colleagues, but it was available, and from what Mr Brittin said, I think they had already done it anyway. What we never do is share any taxpayer information, either with Ministers or with Treasury colleagues. We have a very strict rule about that, and indeed we try to operate within HMRC on the basis that—

Chair: Yes, we appreciate that.

Q205 Caroline Flint: That is very helpful, because I think you said that you shared an embargoed release a day before—

Dame Lin Homer: No, I don’t think we even shared the embargoed press release the day before. I think we just told them that there was going to be an announcement by a big company.¹

Q206 Caroline Flint: You told the press?

Dame Lin Homer: Ministers. We just said, “Tomorrow there’s going to be something in the news.” We didn’t say who, and we didn’t share the details of it.

Q207 Caroline Flint: You just said, “There’s something in the news tomorrow”.

Dame Lin Homer: Yes.

Caroline Flint: Really?

Dame Lin Homer: Yes.

¹ Clarification from HMRC: Ministers were told two days before that there would be an announcement by Google but details were not shared.

Q208 Chair: Meanwhile, Google had been doing briefings itself directly.

Dame Lin Homer: Yes, but—

Q209 Chair: And you wouldn't have known that?

Dame Lin Homer: That is up to them.

Q210 Caroline Flint: What I am trying to get at relates to the point at which Google publicly announced the settlement. The Chancellor seemed to be ready for that because he was tweeting at midnight, or something on the day from Davos. Then in his speech he made a big deal about it. You will have heard me quote a section of his speech in a previous session. He said, "We've got Google to pay taxes. I think it is a huge step forward and addresses public anger." What co-ordination was there with HMRC and the Chancellor and his office around the deal? He went on to say, "I hope to see more firms follow suit. I think it is a big step forward and a victory for the Government." That must indicate that he must have had some sense of what was involved in the deal. How can he say it is a victory and a great step forward? If I were a Minister, I would be saying, "£130 million—is that really good? What is that made up of?"

Dame Lin Homer: We don't write the Chancellor's press releases. I do not know exactly what he meant by his tweets. What I would say is I think we feel that the work both the Treasury and ourselves have done in relation to the OECD work, the BEPS—base erosion and profit shifting—work and the diverted profits tax is part, as Jim has said, of bringing about a change in behaviour. We are rather proud of that. If the Chancellor is as well, that is a good thing.

Q211 Caroline Flint: So you are saying there was no co-ordination, no briefing with any Treasury officials working for the Chancellor or any other Minister about a heads-up on the announcement from Google.

Dame Lin Homer: No, and we have not given the Treasury the information we have given you about taxpayer-confidential information because we feel that is for you to publish if you wish to.

Q212 Caroline Flint: Thank you. Mr Brittin acknowledged—he didn't deny it—that there had been a huge number of meetings, 20-something-odd, between Google and the Government over the past five years. He also indicated that possibly, even if it was not the substance of the meeting, there might have been a question and answer about the tax situation in Google. Was an HMRC person present at any of those meetings?

Dame Lin Homer: No.

Caroline Flint: Not at all. Thank you.

Dame Lin Homer: I will vouch for the fact that when you do a job like this, people talk to you about tax.

Chair: But the answer is no.

Q213 David Mowat: Mr Harra, you used a great phrase a few minutes ago when talking about penalties and corporates. You said, “We are looking at the regime as it might apply to habitually aggressive tax planners.” Presumably, what you meant by that was that you might have a different penalty regime for people of that type. In your opinion, does the way Google has set itself up in the UK and conducted itself in the last few years make it a habitually aggressive tax planner?

Jim Harra: The legislation that is in draft at the moment sets out a number of criteria that will apply. Our aim when working with large businesses is to impress on them some of the things that the Committee has tried to impress upon them today, which is that reputationally it is in their interests to take a conservative, low-risk approach to their tax planning. That also means that we do not have to conduct very long, expensive investigations of them.

How this will work is, where we identify a large business that we believe is habitually understating its tax because it is being an aggressive tax planner, we will first put it on warning that it will go into special measures if it does not change its ways. If it is put in special measures and continues to submit returns that, when challenged by us, are shown to be incorrect, it will not be able to claim, as a defence from paying a penalty, that it took reasonable care and took expert advice.

Q214 David Mowat: I understand that. That is a good explanation. It didn’t answer my question, though, which you may be reluctant to do—

Jim Harra: I can’t say whether in future that will apply to Google because it will depend on how it behaves in the future.

Q215 David Mowat: Let me ask the question slightly differently then. Clearly, you are at the forefront of this legislation, which seems sensible legislation and a good thing to be doing. It is reasonable perhaps that you cannot say who X, Y and Z are, but given what we have heard from Google this morning and at other times, would there be a candidate that you might look at under this new legislation for being a habitually aggressive tax planner?

Jim Harra: Yes. We will have a risk assessment process that looks at the high-risk businesses on which we need to focus. It will be, I believe, a very small number because we have seen, and continue to see, a change in behaviour among large businesses, but it depends on how they behave in future.

Q216 Mr Jackson: Mr Harra, given that Google’s company structure—they admitted, effectively—didn’t really change and has not changed, and yet it has taken you six years to come to this agreement, mainly around transfer pricing and the permanent establishment issues, don’t you think that is a hugely long amount of time to not really permanently settle the regime in respect of companies like Google?

Jim Harra: It was a long amount of time because we had to be very thorough and painstaking, and because we had to look at relatively novel issues that arise from digital companies, and share our thoughts with other tax authorities. When you say, “Nothing has changed”, although their basic tax structures remain as they were, in fact the nature of the activities that people in their organisation do has changed; the way their customers behave has changed; and of course the scale of what they do has changed over that time. So, for example—

Q217 Mr Jackson: But not the structure.

Jim Harra: But not the basic structures.

Q218 Mr Jackson: They invited us to consider—with risible evidence—that Dublin was full of multilingual people, which is why they went there, and nothing to do with their tax regime, which is obviously nonsense, really.

I have one specific question. Going back to Ms Brock’s question about how you treat people with fairness and equanimity, did you ever consider, or would you ever consider, in this case invoking section 396 of the Companies Act 2006, which says directors should always give “a true and fair view of the profit or loss of the company”? That is a legal obligation. Does it ever come into your estimation as to whether it would be prudent to use that?

Jim Harra: It does, potentially. Obviously, we’re not the regulators of company law; that would be the Financial Reporting Council. However, we do have a power to disclose taxpayer-confidential information to that regulator if we believe that directors are not showing true and fair accounts.

Q219 Mr Jackson: So, not filing proper tax returns and making untimely payments of tax, based on evidence that this Committee has found of discrepancies between accounts given on things such as LinkedIn profiles and payslips—you wouldn’t consider that to be a prima facie case of a contravention of that particular part of the Companies Act 2006?

Jim Harra: I am not an expert on company law, but I believe what you said goes to the published accounts, not to their tax compliance. We are the regulators of whether people fill in their tax returns correctly; we have a whole range of powers that we can deploy if they do not. Also, however, because we rely heavily, as a starting point, on the accounts, we have a power—if we had any concern about accounting—to involve the FRC.

Q220 Mr Bacon: Mr Harra, this six-year investigation must have cost quite a lot of money. How much?

Jim Harra: As I’ve said, I’m afraid I don’t have information that enables me to calculate how much, but you are correct—it is a very resource-intensive process for us.

Q221 Mr Bacon: How many transfer pricing experts do you now have?

Jim Harra: We currently have 81 transfer pricing specialists on our central team and of course there are other people in the organisation who are not specialists in transfer pricing but who are trained to conduct the inquiries.

Q222 Mr Bacon: What proportion of those were recruited externally for their expertise?

Jim Harra: I don't have that information. I know that we have increased the staffing of that team by 25% in the last couple of years, and certainly some of those recruits have been brought in from outside.

Q223 Mr Bacon: When we last discussed this—sorry, Dame Lin.

Dame Lin Homer: I think around 120 people have been taken into large business from the private sector over the last three years. That may not be an absolutely accurate figure, Mr Bacon, but it's around about that—

Q224 Mr Bacon: Have you retained them all?

Dame Lin Homer: Yes, at the moment. I was just wondering whether it was worth mentioning the size of large business overall, which has also increased since we spoke to you in 2012.

Jim Harra: Yes. The large business directorate looks after the tax affairs of about 2,100 companies. I have 2,447 full-time equivalent people in there—

Q225 Mr Bacon: I am really interested in the transfer pricing point, because when I first asked you the question, it was 65; the last time, it was nearly 80; and now it's 81. Presumably, there's a turnover. You said to me last time that some of them do leave and go off to the big accounting firms.

Jim Harra: There is some turnover on that. However, at 81 I am up to full complement on that team and we've been able to sustain that.

Mr Bacon: How many staff worked on the Google case over the six years?

Jim Harra: It would have varied at different times. There is a core case team that works on a case. They are then supplemented at various stages, depending on the stage of the inquiry, by economists, data analysts, lawyers and specialist investigators, so I can't give you a fair number on that.

Q226 Mr Bacon: You can't give me a fair number.

Jim Harra: It is in the tens at any one time.

Q227 Mr Bacon: Seventy and 90 and 110 and 20 are in the tens. It just depends on how many times you multiply 10 by 10. How many, roughly, were there?

Dame Lin Homer: Clearly, not all 80 are working on Google.

Mr Bacon: One would hope not. I am just trying to find out—

Jim Harra: At any one time, almost certainly more than 10, but less than 30.

Mr Bacon: Thank you.

Q228 Chair: On one company.

Jim Harra: On one case, but it will vary over time.

Q229 Mr Bacon: More than 10, less than 30. So between 12.5% and 37.5% of your entire complement of transfer pricing specialists.

Dame Lin Homer: No, not—

Jim Harra: No, that is not all transfer pricing specialists. If you look at the activities that you have to undertake in an inquiry like this, you have forensic investigators who need to get at information, you have data analysts who analyse big piles of electronic data—they get thousands and thousands of documents—you have economists who are looking at the value created and the prices that you should get for it, and lawyers. There's a whole variety of different people.

Q230 Mr Bacon: Mr Troup, how did you keep the approval of the settlement separate from the negotiations?

Edward Troup: I am glad to be here talking about the process. I was pleased to hear Mr Brittin say that we had got the right amount of tax under the law and Mr Mowat say that he didn't doubt that. The assurance arrangements that Lin referred to earlier were introduced when I came in in 2012. I publish an annual report on them and send it to your Committee each year. They remain entirely separate from the casework, and I have nothing personally to do with the casework.

The Comptroller and Auditor General looked at the arrangements last year and said that the changes have substantially improved the transparency and accountability of large tax disputes. What this means in practice is that we have about a dozen meetings a year, which I chair with two other commissioners, who will vary. Our largest and most sensitive cases come to those meetings. Typically, the case will involve some quite comprehensive preparation by the case team, often running to hundreds of pages of submission, background, summary, and questions for decision. It all boils down to whether we should accept a settlement or continue with the dispute and proceed to litigation.

When specialist issues come up, we will have the opportunity to get a briefing on the technical issues. On diverted profits tax, for example, commissioners were given, completely outside the facts of this case, a briefing on how diverted profits tax worked, to ensure that all commissioners

taking part in the decision were aware of a novel bit of legislation. We are given time to read the papers in advance, and my office always sets aside quite a lot of my time ahead of meetings to ensure that the papers have been gone through, but that is the first point when I, as tax assurance commissioner, actually see the details of the case. I may have been aware that the actual case was coming up and may have been encouraged to make a bit of time if it is a particularly large case.

The actual tax assurance commissioner meetings are reasonably formal. In fact, the feedback I get is that they are regarded as slightly alarming by the teams who come. Not the entire team of a dozen or so, but the lead workers and typically between two and half a dozen supporting workers will come. We will get them to present the case in a brief way, because we will have had the chance to see the papers, and then we will spend what can be up to a number of hours asking them questions about that, challenging them and reaching a decision, which may be to accept the settlement, to reject the proposal or to remit it for further work. On one or two occasions, we may even say that it is not something that should have come to us in the first place. The outlying details of all this are in my annual report each year.

Q231 Mr Bacon: In this dispute with Google, was the proposal for a settlement deemed acceptable by the tax commissioners the first time that it was brought before you?

Edward Troup: I do not think I would go into the details of what has happened on particular cases, but—

Q232 Mr Bacon: Why not?

Edward Troup: To be honest, I don't think that within the rules of confidentiality I can discuss anything to do with Google's affairs beyond the material we have now shared with the Committee, which they agreed that we should share. We do have cases that come back more than once. Because I have a supporting team that works with the caseworkers on each case, case teams are generally discouraged from coming to commissioners until my supporting team have satisfied themselves that what they are bringing to me is likely to be capable of reaching a decision.

Q233 Mr Bacon: So there is an informal "sherpaing" to try to ensure quality, basically.

Edward Troup: Your phrase, but not a bad one to describe it. We have had cases that we have sent back. Those are some of the ones that we have remitted either for further work with the taxpayer or for further work on the case because we have not been satisfied that we've had sufficient facts, but they are very much in the minority. For the overwhelming majority of cases, we have reached a decision at the commissioner's meeting in question and allowed the case team to go back to the taxpayer to either confirm the settlement or tell the taxpayer that we're going on to litigation.

Q234 Mr Bacon: Okay. The phrase "sherpa" is not mine. I borrowed it from Whitehall, where it is used regularly to describe the people who make sure that when the politicians turn up, they don't say the wrong thing. There is a clear history of this in "Yes Minister".

Edward Troup: That is why I slightly balked at your use of the word. I have a team who try to make sure what comes to me is capable of discussion, not to pre-cook the outcome, but to make sure the quality of the material—I have to say that over the three and a half years I have been doing this job, the quality of the material—

Q235 Mr Bacon: Let me say for the avoidance of doubt that I wasn't suggesting for one moment that you are like those people who turn up to international meetings, whom Sir Humphrey was referring to, and wouldn't know what to say unless they were told beforehand. I wasn't suggesting that at all.

Edward Troup: I think if the caseworkers were here, they would confirm that I certainly do know what to say, as do my fellow commissioners.

Mr Bacon: Terrific. Can we talk about your fellow tax commissioners for just a second? There are six of you.

Chair: Three of them are here.

Q236 Mr Bacon: In total there are six. Your role as tax assurance commissioner was added following earlier inquiries of this Committee. That was a recommendation. The six commissioners are not all tax experts. Dame Lin, you said famously, "I am not a tax expert," in front of this Committee a while ago. Of the six commissioners, how many are tax experts?

Dame Lin Homer: I think this was—

Q237 Mr Bacon: I'm just looking for a number.

Dame Lin Homer: Jim is a tax expert; Jennie is a tax expert; Edward is a tax expert; Nick Lodge has been on the HMRC staff for 26 years. He has a financial background, and I regard him as having tax expertise. I don't think Ruth or I would regard ourselves as deep experts, but Ruth has, over the past three and a half, nearly four, years, been in charge of the bit of the business that brings in most of the tax.

Chair: That's Ruth Owen, just so we're clear.

Q238 Mr Bacon: You mean Ruth Owen, the director general of personal tax.

Dame Lin Homer: Yes. I am the least tax expert, and you will be pleased to know that I don't sit on any of these settlement hearings. I hold myself apart from those, having put the process in place.

Q239 Mr Bacon: So the answer to my question is three and a half. You said that Mr Lodge has 26 years of experience, but it is mainly financial, not tax.

Dame Lin Homer: No, no, I would regard him—

Q240 Mr Bacon: He has acquired some tax expertise, you said. Then you, not; and then Ruth Owen, the director general of personal tax, not.

Dame Lin Homer: No, I think Ruth has. She is responsible for the bit of the business that brings in most tax. She heads up the policy team that do that, and she has advised on both policy and implementation. I think over time she has, but I think she would accept that she clearly has less tax expertise than others.

Q241 Mr Bacon: It ought to be self-evident that the people who carry the job title “tax commissioners” are all tax experts, and that we shouldn’t even be having this discussion.

Dame Lin Homer: I think it was a discussion that you correctly had back at the end of 2011. You said that HMRC needed more tax expertise, and that was something I set about improving very rapidly. It is worth bearing in mind that we are also the department of government that is responsible for the most transactional activity. The Cabinet Office believes—this is not a figure that I have quoted—that we are responsible for 80% of the transactional activity with citizens. We are also a business that deeply needs operational experience.

Mr Bacon: I understand that.

Dame Lin Homer: I think we need a mixture.

Q242 Mr Bacon: I understand that, which is why you have a board. I am questioning why you have tax commissioners who have statutory powers and not expertise. Mr David Green, who ran the old revenue and customs prosecutions office, wasn’t an HR expert. He hired a COO to get all that sorted, who promptly hired his wife to do all the HR consultancy. You will remember that case.

Dame Lin Homer: We are always talking about this case.

Q243 Mr Bacon: What I am curious about is why those functions—and plainly there will be legal, IT, HR functions that aren’t to do with tax expertise—why tax commissioners, whose job, presumably, is quite closely related to tax, are not all tax experts.

Dame Lin Homer: I will hand over to Edward in a minute, but I think what I would say is I think it is important to remember we are responsible for implementing the functions of Her Majesty’s Revenue and Customs and I think that—

Q244 Mr Bacon: You mean statutorily.

Dame Lin Homer: Yes. I think it would be possible for the person in my role not to be a commissioner, but the way the Act was determined I would have no authority over the commissioners if I were not.

Q245 Mr Bacon: They might quite like that.

Dame Lin Homer: They would love it. I think the chief executive of the organisation would find that a little bit more difficult; but I have taken a judgment that I will interrogate the performance of my tax commissioners. While I don't sit on settlements, I have taken a strong and direct interest in whether, as a tax administration, we are working effectively. I think being a commissioner allows me to do that with authority.

Chair: I think I am going to bring in the Comptroller and Auditor General, now, who has been waiting.

Sir Amyas Morse: I just want to come back to the settlement, if I might, and ask something of Jim Harra. I wasn't clear: one of the biggest components, looking at Google group worldwide—the big component of moving charges around appears to be a sort of royalty related to intellectual property or intellectual property exploitation rights. I think roughly speaking I have got that right. Were you able to look into that?

Were you simply looking at the relationship between Ireland and the UK or were you able to look into how those intellectual property rights are built up from what we have often heard of—all the software engineers in the US? Did you get into that area of how that is charged, or is that something that relates to—Google sounded as if they thought the US tax authorities were fairly relaxed about the Bermuda group; do those charges and their build-up get really rigorous examination in the US? Are we to really believe that, and did you have a chance to look at them directly, or were you taking that slightly as a received item? I am not trying to lead you anywhere; I just want to know.

Jim Harra: I certainly can't comment on, and I don't actually know, what the IRS do in relation to that. It is clear from the filings that Google have made that they are under inquiry by the IRS for something.

In our case, yes, first of all we do look at and investigate the wider arrangements, so that we understand how the whole global group sees its profits allocated to its different functions and assets; but, when it comes to looking at what is subject to UK tax, what we focus on is what are the activities carried on in the UK, and what are the assets carried on in the UK, and what should the value be that attaches to those? Relevant to that is an understanding of what are all the different components of the group that produce value.

I think one or other of the two witnesses that were here before said that in their view the big value in Google that generates a sort of economic rent is the intellectual property rights that that group has developed through its engineering work; but that is what we do. We look into all of that.

Sir Amyas Morse: Just to make sure I have understood your answer correctly; what you are saying is in fact that you wanted to make sure it was computed reasonably but you weren't in a position to go into a detailed examination of how those rights are built up. I am not finding fault with you. I am just asking to be clear.

Jim Harra: When we deal with groups they will often try to constrain the information that we look at, and, indeed, the information they will give us, by saying "That is not relevant to what you have to look at, which is the activities that we carry on in your country." We do have other means of

getting that information from other tax authorities, under our double taxation agreements, and, shortly, through country-by-country reports under the OECD BEPS project. So we do not allow ourselves to be constrained by the information that the group will give us; but ultimately what we are looking to do is tax at full value the activities carried on here and not, for example, police their global tax compliance.

Q246 Mr Jackson: Following on from what the Comptroller and Auditor General has said, may I ask you, Mr Harra, whether, as a result of what we have learned from the Google case, you have developed more of an expertise within HMRC on digital-only companies, such as LinkedIn, Facebook and Google, to try to work within the OECD aspiration, which is a simpler, fairer tax system? Are you now better prepared to deal with that specialist area of tax policy?

Jim Harra: I believe that we have developed a greater expertise in digital companies as a result of this work and other work that we are doing. As I said earlier, we are part of an international project called the E6 project, where we are collaborating with five other major tax authorities to share our intelligence, the arguments that we deploy and what we are learning about these digital giants, which of course operate in all of our jurisdictions. Together, we are all building up our knowledge and understanding of how those companies operate, and what the tax issues and the arguments are.

Q247 Mr Jackson: You anticipate my next question, which is either to you, Mr Harra, or to Dame Lin, and is about the tax settlement vis-à-vis other European Union jurisdictions. Have you had conversations with your counterparts in Italy and France about how they come to such radically different figures from yours? According to figures quoted, allegedly French officials are close to receiving the equivalent of £380 million from Google. In Italy, for the period 2009-13, it will receive the equivalent of £173 million—not for 10 years but for four years. Are you meeting them to find out their methodology?

Dame Lin Homer: We do have regular conversations with them, and if you don't mind, I will ask Edward to answer that one, but as Jim said earlier, we have shared quite a lot information about this settlement with colleagues and although it is a settlement, if we found that there was material information unknown to us, we would be able to go back and revisit. At its heart, this is global co-operation.

Edward Troup: Mr Hutchinson said to you this morning that they had never paid a higher settlement outside the US than they have paid to the UK. So you just have to take that. He also said that they were figures, not facts that you had been quoting back to him.

Q248 Mr Jackson: I am not asking about his evidence. We have heard his evidence. I am asking you directly—

Dame Lin Homer: Have we talked to the French?

Q249 Mr Jackson: Let me ask you a very simple question. Given it is obviously the case that in terms of sales and profits, the French market is significantly smaller for Google, why are they

allegedly paying the equivalent of £380 million? Are you learning lessons from that? Because you seem to be rubbishing the French tax authorities as well.

Edward Troup: Jim's people have a lot of communication at a working level with a number of tax authorities. We have communication at senior levels, and Jim has described the E6, which is a co-operation of six countries, but you used the word "allegedly" and I think you just have to take what has been said by Mr Hutchinson.

Q250 Mr Jackson: But what is your evidence? You are at the cutting edge of this. You are working with these other tax authorities in different jurisdictions.

Edward Troup: I am not quite sure what your question is.

Q251 Mr Jackson: It is all very well your saying, "Well, the other witness says it's not true". I am asking you: are you saying it is not true?

Edward Troup: As you know, we cannot share information about anything we receive. It is taxpayer-confidential, and we do not routinely get information about settlements outside the UK, but we will share information on particular taxpayers under the arrangements. As Lin has said, if we receive information in relation to a settlement on any of our taxpayers that gives us facts that we think are relevant to a settlement that we have already made, we can, if those facts are not facts on the basis of which we have settled, go back and reopen. So if, as a result of anything that goes on internationally—and we will share information where we possibly can—we get further information that allows us to go back to any taxpayer, you can be assured that Jim will make sure that that happens.

Jim Harra: May I add that under our double taxation treaties with other countries both parties do commit to exchanging information? In the terms of those treaties it is clear that that information is confidential, so we are unable to disclose what information we get from other tax authorities. Furthermore, in the case of European tax authorities, European law requires us to share information. So I believe we have a good level of collaboration with other tax authorities and a good level of understanding of what they are doing, and they have a good understanding of what we are doing. I take what you say—that there are allegations that they are paying more in other countries. The previous witness has said categorically that the UK's is the largest settlement outside the US.

Dame Lin Homer: We are confident that we have got the full tax that is due. In a sense, we have made the decision based on evidence and we have made the settlement, and nobody else has.

Q252 Chair: In France and Italy, we understand that there was a raid by the French tax authority on Google's offices in June 2011, and Italian finance police believe the company owed more. Do you have contact with other jurisdictions? There is nothing equivalent to HMRC necessarily, in some of these countries. Mr Jackson has talked about the links with tax authorities, but do you also link with those sorts of bodies?

Dame Lin Homer: I mean—we have working relationships. We have discussed before—I think the last time I was here with Jennie, actually—

Chair: Jennie Granger?

Dame Lin Homer: Yes. We discussed how a number of other jurisdictions have different procedures from us and sometimes start in more of a police environment and seize lots of documents.

Q253 Chair: But my question is, do you have contacts with those police?

Dame Lin Homer: Yes, of course.

Jim Harra: I should say that whilst I talked about tax authorities collaborating, the treaties are between countries, not between tax authorities, so that country is obliged.

Q254 Mr Jackson: I have one more question, if I may, then that is it from me. Obviously you have heard from Mr Mowat, Ms Brock and others about the sense of anger and bewilderment from so-called ordinary taxpayers. In order to assuage that to a certain extent, and yet comply with your legal obligations, do you think you might reach a point where you could publish anonymised agreements, deals and settlements relating to these big corporate cases, so that you keep the names secret but the methodology is out there, and so that there is obviously greater openness and transparency in that respect?

Dame Lin Homer: Generally, I think we are trying to be more transparent. We have talked to you on a number of occasions, and Jim puts out information about schemes that we have challenged, as does Jennie. The annual report from Edward does just what you have just said. It summarises the overall settlements he has reached and puts a value to them. We committed—I think it may have been to you, Chair, when you asked us—to publish aggregate information. It was when Gus O'Donnell came to the Committee. There is quite a lot of information there. We would be more than happy to have regular meetings with you on that report, and we could talk about generalities. We have tried, in the information we put on gov.uk on Tuesday, to use some examples that will help people understand this very complex area.

Q255 Chair: I have to say that car sales are not quite the same as internet sales.

Dame Lin Homer: Well, we put a range up.

Q256 Kevin Foster: I was just wondering, as Her Majesty's Revenue and Customs, what discussions have you been having with Her Majesty's Government of Bermuda about some of the arrangements we have been hearing about today?

Dame Lin Homer: This is in relation to them being a tax administration?

Kevin Foster: Well, in relation to the fact that we have had quite a lot of discussion so far today, which I know you sat through and listened to, about tax liabilities. We can see the little diagrams, going via a double Irish to a Dutch sandwich and then off into what looks like a Bermuda triangle. Coming towards the deal, what discussions did you have to try to make sure you had all the

information that you could have from the Government of Bermuda? Bluntly, at the end of the day, they fly the same flag as we do.

Jim Harra: I can't disclose details of this specific case, but the UK does have a tax information exchange agreement with Bermuda, whereby they commit to giving us information that we need to conduct our inquiries. They do provide information to the UK under that agreement. So whilst multinationals may place assets there because it is a tax-efficient thing to do, it is not a hidden or non-transparent thing from our point of view.

Dame Lin Homer: And they would be part of country reporting.

Edward Troup: And they will be part of the common reporting system to disclose information.

Dame Lin Homer: That is 92 countries from 2017. I think Jennie has called that a game-changer, and we genuinely think it will be.

Q257 Chair: We will wait to see it. I suspect some of the expensively, highly paid experts in the companies may still run rings around tax officials here and elsewhere.

Dame Lin Homer: Chair, I would challenge that. I think Ms Flint used the term "outmanoeuvred". I believe that what we are seeing here is a leading-edge application of tax expertise, both in Jim's area and in Edward's tax assurance area. We don't get outmanoeuvred by these big firms, we make them pay more tax. If I am honest, I would like to see a little bit more recognition of that. I think we have a fine set of tax inspectors who do an extremely good job.

Q258 Chair: And I don't doubt there are a lot of very good individuals in HMRC all trying to do the right thing, but we know that these big companies, as we have discussed before, have a lot of resource, and Mr Bacon has highlighted the number of transfer pricing people you have, for a start.

One of the witnesses—the tax expert from Google—said it is very common that tax authorities will take a very different view. You have always maintained, Dame Lin, that you do not do deals, but we know that with a lot of these things there is a range of options. Maybe Jim Harra will answer this. The company will come to one view and you will come to another, and in the end some accommodation is reached. That to us is a deal. Do you not agree that that does take place?

Jim Harra: First, Mr Hutchinson did explain in response to questioning from Ms Flint that there is no pitching of numbers and negotiating, or horse trading or dealing around that.

Q259 Chair: Not a global number, but each bit along the way.

Jim Harra: You are right that in the case of transfer pricing in particular there is often a range within which the answer can fall, because what you are looking at here is a judgment about what is the value of something. I know you did not like the analogy of a car dealer, but in a very simplistic way, if you were building an extension to your house and you took a quote from four builders, you are unlikely to get exactly the same quote from them all, and you cannot say that one of those is right.

What we have in transfer pricing OECD guidelines is a number of different methodologies that you can apply in determining the transfer price. One of the things that we do is to look at what transfer price you might get applying those different methodologies and see where those cross, so that we narrow the range and make it as specific as we possibly can to the facts of the particular case. But ultimately in transfer pricing there will be a range within which a transfer price will fall.

Q260 Chair: I think it is fair to get that on the record.

Dame Lin Homer: It's a judgment.

Jim Harra: It's not an absolute.

Chair: There is a judgment. We will perhaps come back to that.

Q261 David Mowat: I want to return quickly to the issue of potential settlements in France and Italy. I think you guys quoted Mr Hutchinson as saying that this UK settlement is the biggest ever for Google, but he didn't say there aren't bigger ones in the pipeline. He was quite careful with his language and tenses, I thought.

Ms Homer, you said something very important, which I want to absolutely understand and nail. If and when the French or Italian tax authorities agree something with Google—it might on the face of it be a better deal than we had here—clearly, you would look at that. You have the legal ability to open up the deal that you have done and revisit the assumptions that you have made in the light of those transactions if they turn out to be different.

Dame Lin Homer: This would be if there were material evidence that had not been made available to us and should have been. We would not want to comment on any other tax administration's negotiations. What I would say is that an assertion is often reported by several people. One has to wait to see what happens. But if there were circumstances—

Q262 David Mowat: Let me push you and your colleagues on that. If the computation that was finally produced in Italy or France took a different view as to the value of intellectual property than the sale in the UK has taken, would that be a material consideration that would allow you to open it up?

Dame Lin Homer: We should get Jim to explain this.

Jim Harra: What would enable us to reopen this is if facts came to light subsequently that were not disclosed to us during the course of this investigation and they were relevant to the value that should have been attached to that.

Q263 David Mowat: I guess it is a grey area as to what was a fact and what was a judgment that you took. Is there a time limit on how long it can be until you can reopen this case?

Jim Harra: Not that I am aware of.

Q264 Mr Bacon: Mr Harra, do you know how much tax Google paid globally over the last five years?

Jim Harra: In terms of what they paid globally, I have access to the same information as you have from their public accounts.

Q265 Mr Bacon: I asked them and they could not tell me. They kept on going on about this figure of 19%. They kept on saying they were paying 19% tax. When I asked if it was in the UK or globally, they said globally. When I asked how much it is on which there is an amount of 19% that they are paying in tax, they could not tell me. I wondered whether you knew.

Jim Harra: I don't off-hand. I know that they say 19% is their effective tax rate globally. That is based on their tax charge in their accounts and their profits per their accounts, and as you pointed out, they operate in different jurisdictions with lots of different rates. That is an average across all the jurisdictions, and I believe the witness said it was an average over five years as well, but I don't have—

Q266 Mr Bacon: I was looking for a number. Nobody seems to know. It puzzles me that nobody seems to know this. Google didn't know it, and here you are, after six years of an investigation involving between 10 and 30 of your experts at, you said yourself, great cost, and you don't know it, either.

Dame Lin Homer: But we're not the global tax administration, Mr Bacon.

Q267 Mr Bacon: I realise that you're not the global tax administration. Given your customer service performance here at the moment, whether we want to inflict you on the rest of the planet is itself moot, but I realise you're not.

Dame Lin Homer: That is unfair and unjustified.

Mr Bacon: I'm just asking whether, after six years and 10 to 30 people investigating it, we might not expect you to know the answer to that question, even though you're not the global tax administration.

Dame Lin Homer: Well, you have asked for that and Google have agreed to write to you.

Chair: I think we're more surprised they didn't know it.

Dame Lin Homer: We think it will be extracted from their accounts. It is not absolutely straightforward to be able to—

Mr Bacon: I understand that, but you will appreciate that it does not give us overwhelming confidence that this thing has been settled satisfactorily when neither you nor they can say how much tax they have paid globally in the last five years. That wasn't a question.

Jim Harra: I go back to what it is we are here to do. We are here to identify the activities that are carried on in the UK that are taxable in the UK, understand their value and make sure that we get the full amount of corporation tax on them. You have heard from the previous witnesses that they have tax structures in place designed to make sure that they are tax-efficient in relation to the US tax system in particular. That is not something that I would like my very expensive resource to be spending quite a lot of time looking at.

Q268 Mr Bacon: Nor should you need to. I'm just after one number.

Jim Harra: Their global profit in 2015, from their own accounts, was \$17.259 billion. I assume their effective tax rate is 19% of that figure, but they agreed to write to you, I think, on that.

Mr Bacon: Yes.

Dame Lin Homer: We'll check whether the figure that Jim quoted is the correct one when they write to you.

Mr Bacon: Thank you.

Q269 Chair: Mr Harra, you were named tax personality of the year last year; congratulations on that. You are well paid. You were or are the highest-paid employee of HMRC. I'm not knocking you for getting a salary for doing—

Dame Lin Homer: He's not.

Chair: He's not now?

Dame Lin Homer: You've made him very grumpy, because he has gone and looked at what everybody else is paid.

Jim Harra: You have caused me to check it, and I find I am the lowest-paid—

Q270 Chair: I think you are a lot better paid than a lot of your tax officials. You are well paid for doing your job. You are an award-winning taxman. Do you think the British taxpayer will see this tax deal with Google as an award-winning tax settlement?

Jim Harra: What I hope the public will see is that HMRC has done a thorough and professional job and got the amount of tax that it can get from Google under the law and, indeed, over the period 2010 to 2015, from large businesses generally, there was £38 billion of additional tax. It is impossible to get that amount of money from large businesses without doing a thorough and professional job. That is what I want the British public to believe. Whether they believe that the amount of tax that Google has to pay under the law is fair or not is a matter for them to debate, but it is not a matter for which I can account to them.

Q271 Chair: Okay, but it took a six-year investigation to get this back tax for a 10-year period. Are you proud of the fact that the tax was not coming in as it should have done in real time?

Dame Lin Homer: Tax was coming in during that period.

Q272 Chair: Okay, but not the figure that you eventually settled on, whether or not—

Jim Harra: You are right that, over a period of years, the amount of tax being paid year on year was less than the amount that was due. We have got that tax and we have got interest for the fact that it was paid late, so the public purse has not lost anything from that. But it is part and parcel of the way we do our work that we inquire into a risk for a particular year. If we believe there are problems in previous years, we go after the back tax. We have powers to collect it. Six years is a long time to carry out an investigation, but looking at the level of attention that it is getting and the level of scrutiny, the fact that we have done a thorough, painstaking job, I think, is important.

Q273 Chair: Dame Lin, can you tell me what interest rate Google paid on their unpaid tax?

Dame Lin Homer: I'm going to have to ask; I don't know—

Jim Harra: I'm afraid I don't know it off-hand. It is set in statute, but I'm afraid I can't tell you off-hand what it is.

Q274 Chair: Okay, it's set in statute, so can you guarantee to us, Dame Lin, that no British taxpayer has paid a higher interest rate than Google on any back tax?

Dame Lin Homer: It is a statutory rate, so I'll just repeat—

Q275 Chair: So it's the same for corporates as it is—

Dame Lin Homer: For each year—

Chair: For any individual as well as for a corporate.

Dame Lin Homer: Yes.

Q276 Chair: So a corporate with a lot of expert tax officials that may have managed not to pay as much tax as they should have done, for whatever reason, in certain years, will pay the same interest rate as any of us around this table and the small businesses in our constituencies.

Dame Lin Homer: Except for those people—and there are some, as you know—where we enter into more generous arrangements to allow people time to pay. It will sometimes be less for small businesses.

Q277 Chair: So you are saying that the ordinary taxpayer—the individual or small company—might pay less sometimes but they would never pay more.

Dame Lin Homer: It is a cornerstone of our system that we have one set of rules and we apply them to people. That is something that people should take confidence from. If I might say so on behalf of the tax personality of the year, I hope people will also hear that this is the largest settlement Google has made outside the US.

Q278 Chair: Earlier, you quoted the Cabinet Office, which said—talking about you as an entity—that 80% of Government transactions with citizens are with HMRC. We have had you before us a number of times about basic customer service for those taxpayers. Do you understand, and do you have any sympathy with, the frustrations of taxpayers who cannot get through on the telephone, yet see £130 million from a large corporate working in the UK paraded as a great success story?

Dame Lin Homer: I think it is very important that every single taxpayer believes that we are treating each of them fairly and under the same rules. We spend a lot of time trying to ensure that that is heard. I have said here before and I will say again that we never enter with an intention to give poor customer service. We did so in the first quarter of this year. I am very pleased to say that that has continued to improve and the performance during the SA peak—not just for people filing self-assessments, but for other customers as well—was seeing some of the highest standards of service we have ever given.

Chair: We would hope so. It is a pretty big basic.

Dame Lin Homer: It is a very big priority for us.

Q279 Chair: Going back to Google for a moment, we have heard what seems a bit like a damascene conversion from Mr Brittin, who was talking about the delights of tax simplification, welcoming the OECD BEPS programme and all the rest of it. You may remember, Dame Lin—I am not sure who was here then—that in 2012 he was very confident about why they had these arrangements. It was about avoiding tax. It was very clear in his evidence. I do not need to quote it as it is all written down. Do you think that the sudden conversion to this desire to see simplification coincided with the need to settle with HMRC?

Dame Lin Homer: Look, I think it is important that the international work on aggressive multinational behaviour continues.

Q280 Chair: I am not talking about that. I am asking you, very specifically, whether you think it is a miraculous conversion.

Dame Lin Homer: I think that that work is changing behaviour. The introduction of BEPS and of diverted profits tax—our approach—is changing behaviour. One thing we are consulting on at the moment, which will further change behaviour, is the proposition that we should expect large businesses to publish annual tax strategies. If they have to explain people what their tax strategy is, it does have an effect of their behaviour.

Q281 Chair: Ultimately, what we are talking about is public confidence in you at HMRC to get the money in from everybody equally and fairly. You make these statements about fairness, but it does not feel like that to many individual taxpayers who see these cosy—

Dame Lin Homer: That is a sadness.

Chair: Let me finish my point. You are saying that you would like to see companies publish their tax strategy.

Dame Lin Homer: We are consulting on that at the moment.

Chair: Let me finish. Mr Jackson was asking about ensuring that, as well as the annual report, there is something even simpler than the annual report for members of the public to understand. Do you agree that there is a tax confidence issue with the public, and what are you going to do about it?

Dame Lin Homer: Yes, and I would just ask anyone who might be watching this—it is surprising how many people watch the Parliament channel—to have a look at the gov.uk piece that we put out on 9 February. It is short and explanatory. I hope it will give people confidence.

Chair: I don't want, at the end of a hearing, to get into that. It was quite extraordinary, but it was very highly supported by Sir Jeremy Heywood, I noticed.

Q282 Karin Smyth: On that point, I am pleased to hear about your tax strategy, and I am interested in your views about the local Bristol clinical commissioning group in my area. It is currently changing its constitution under threat of a legal challenge by private healthcare companies about awarding contracts to private healthcare companies that are seen to be offshoring their tax because the CCG's current rules may be unfair. What is your view on that?

Dame Lin Homer: The Cabinet Office has rules about ensuring that Government, when it puts out competitive tenders, checks and requires evidence that companies are compliant with our tax rules. I think that is a good thing.

Q283 Karin Smyth: But do you think that the local NHS should be changing its constitution to allow companies to feel that they can do that and—

Dame Lin Homer: I am not sighted on the particular case. I think that if Jennie Granger were here, she would tell you that we treat public sector organisations as taxpayers in just the same way as we do others. If we see them doing things that we think are moving towards tax avoidance, we intervene with them as we do with anybody else.

Q284 Karin Smyth: Would that come within your latest tax strategy?

Dame Lin Homer: We have a team that looks at public sector organisations.

Jim Harra: But the proposition in the draft legislation, in Finance Bill 2016, is that large businesses must in future publish their tax strategies, so it is specifically targeted at large businesses.

Q285 Chair: Can I finish on this point? We have talked a lot about transparency today. You have talked about them publishing their tax strategies. That is a good start, but you have often talked about the absolute need for confidentiality or you would not be able to seal the deal with those companies to get tax in for other taxpayers. But you do not give us evidence for that; you simply assert it. Have you got any evidence to prove that confidentiality is actually going to get more tax in than if the sunlight was shone on tax affairs much more clearly?

Dame Lin Homer: Confidentiality in our tax system has been there since we have had a tax system.

Chair: We know the background. I am talking about the future.

Dame Lin Homer: We have increased transparency throughout our period, and I'll refer again to Edward Troup's annual report. I think that if Parliament chooses to change that base, we will be able to measure a before and after. I see no other way of knowing. What I will say to you is that it is the norm—far and away the norm—of tax administrations throughout the world. Even the very limited number that do something else publish a very small amount of information. For instance, a couple of Scandinavian countries publish tax returns. They still do not publish the taxes paid. I think encouraging companies to be more explicit about their tax is a good thing. I think I first said that here very soon after I arrived, but on the question about whether we could put everybody's tax information out and whether that would help or hinder our ability, our view is that being able to talk with the taxpayer in a way that does not make them feel that by showing us something they are exposing their competitive advantage to their competitors, does help us collect tax.

Q286 Chair: We recognise that there may be bits of information that are difficult, but people are not convinced. We know, from people who contact us, from our constituents, that there is lack of confidence in the system, and that worries us, because in the end—

Dame Lin Homer: I would like to be able to reassure you.

Chair: Because in the end, we want HMRC to have the confidence of the people it is serving.

Dame Lin Homer: So would we.

Chair: Thank you very much indeed for coming along. As always, the transcript will be online in a couple of days and the Report will be out in the next couple of weeks.