# Written evidence submitted by UKCloud

## About UKCloud Ltd

UKCloud is a British cloud services company and one of the fastest growing British technology businesses. Since 2011, we have grown from a start-up of just six people to a company employing more than 250 with a turnover of over £37 million. As a UK company, our cloud platform - and the data that resides within it - is only hosted in the UK. Our services have been accredited by NCSC on behalf of our customers as suitable for data at OFFICIAL (including OFFICIAL-SENSITIVE) level. Customers include the Ministry of Defence, the Ministry of Justice, the Home Office, and many other public-sector bodies that hold sensitive data.

In 2017 UKCloud was awarded the Queen's Award for Enterprise in recognition of achievements and innovation in the sector, and in 2016 topped the Sunday Times Hiscox Tech Track 100 list of the UK's fastest growing technology companies. As a long-standing partner of the UK public sector, we are doing everything within our power to make sure government has what it needs to protect the nation and maintain continuity of critical public services during the coronavirus crisis.

Below we have responded to the Committee's terms of reference (ToR) most relevant to our experience of the tax system and its impact on government procurement.

**Overview**:

As the UK Government reviews it tax structures in the aftermath of the coronavirus pandemic and assesses how to repay the cost of government intervention, it should prioritise tackling corporate tax avoidance over the introduction of new taxes that will harm innovative, domestic enterprises. We must ensure that international corporations with the broadest shoulders, such as tech giants, who have benefitted significantly during the pandemic yet avoid paying taxes in the UK, contribute to our socioeconomic recovery. This means not only retaining and strengthening existing taxes such as the Digital Services Tax to ensure that they are fit for purpose, but also reviewing procurement frameworks to ensure that we only award contracts to businesses with the highest standards of tax affairs and corporate social responsibility, and that deliver genuine social value to the UK.

### ToR2: What more can the UK do to protect its tax base from erosion as a result of globalisation and technological change, and what further impacts will the coronavirus pandemic have on our tax base?

To protect the UK's core tax base from erosion and generate additional tax revenues that will aid our recovery from the pandemic and repay debts, the UK Government should prioritise tackling corporate tax avoidance. The OECD estimates that up to $240 billion is lost per year to multinational corporations shifting profits abroad, equivalent to 10% of global corporate income tax revenues[1], while the Tax Justice Network estimates this figure to exceed $425 billion[2]. Based on OECD country-by-country reporting data, Tax Justice Network revealed this month that the UK is the third biggest tax loser globally as corporations avoid paying tax in UK shores, while data also shows that our nation ranks second on the list of countries that contribute to other nation's tax losses. 37.4% of global tax losses are said to be enabled by tax structures in the UK and its Overseas Territories and Crown Dependencies, laying the foundations for reform of the UK's corporate tax reporting system[3].

[1] https://www.oecd.org/tax/beps/
[2] https://taxjustice.net/wp-content/uploads/2020/11/The_State_of_Tax_Justice_2020_ENGLISH.pdf

A sizeable chunk of this tax avoidance, both in the UK and abroad, can be attributed to international tech giants. Fair Tax Mark reported last year that six digital companies worth more than the 1,000 companies listed on the London Stock Exchange – Amazon, Facebook, Apple, Netflix, Google and Microsoft – were responsible for a tax deficit of $155.3 billion worldwide between 2010 and 2019 as they routinely shifted profits to tax havens[4]. What is more, all of these firms have benefitted significantly during the pandemic following the shift online, generating soaring profits and value for shareholders. From March to June this year, Facebook's worldwide revenues year increased by 11% on 2019 figures to $18.7 billion[5]; Apple posted quarterly revenues of $59.7 billion[6]; Netflix's share price increased by 60%, bringing its market capitalisation to $235 billion[7]; and Amazon reported profits of $5.2 billion and sales of $88.9 billion, up 40% on the previous year[8]. Amazon's CEO Jeff Bezos' personal wealth was reported to have increased by £13 billion in one day in July after increases in Amazon's share price[9].

By contrast, at the same time, the UK's domestic tech industry has suffered tremendously. In April, the investment analytics organisation Beauhurst reported that equity deals involving tech companies had fallen to their lowest level since 2014, while up to 1,300 start-ups that previously raised funding over the past two years were in need of new funding[10]. Recruitment in the tech sector in London alone fell by 57% during the first three months of the pandemic, while a number of the capital's tech unicorns were forced to make redundancies following a slowdown in activity[11].

Yet, despite their successes, the UK tax payments by these tech giants remain low. Amazon's UK arm – Amazon UK Services – paid just £14.46 million in corporation tax on UK revenues of £13.7 billion and profits of £102 million in 2019[12]. Facebook is estimated to have avoided £297 million of taxes in the UK between 2012 and 2017[13], while Netflix has only just agreed to start declaring its UK revenues after criticism of its decision to funnel its revenues through the Netherlands and bypass reporting structures[14].

The Digital Services Tax (DST), introduced in April 2020, was designed to help combat these disparities, encourage tech giants to pay more taxes in the UK, and level the playing field between domestic and international digital companies. However, the tax, which imposed a 2% levy on revenues derived in the UK by online marketplaces, search engines and social media firms with global revenues of £500 million and UK revenues of £25 million has proven to be ineffective. In August 2020, Amazon, potentially one of the largest contributors to the DST, announced that it would circumvent the tax placed on its marketplace entirely by passing the 2% levy on to small businesses that use its website to sell products[15]. The tax also currently excludes Amazon's own product range and its highly profitable subsidiaries that are not online marketplaces, search engines, or social media companies.

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[3] *Ibid.*
[4] https://fairtaxmark.net/wp-content/uploads/2019/12/Silicon-Six-Report-5-12-19.pdf
[5] https://www.ft.com/content/0245b495-4be6-4bfb-9ece-595179ea58a3
[6] https://www.theguardian.com/business/2020/jul/30/amazon-apple-facebook-google-profits-earnings
[7] https://www.forbes.com/sites/jonathanponciano/2020/10/19/netflix-earnings-5-numbers-growth-continues-during-the-coronavirus-pandemic/?sh=40155070225e
[8] https://www.theguardian.com/business/2020/jul/30/amazon-apple-facebook-google-profits-earnings
[9] https://www.thetimes.co.uk/article/jeff-bezos-increases-wealth-by-record-13-billion-in-one-day-bpzwv0zfw
[10] https://www.forbes.com/sites/davidprosser/2020/04/03/dont-leave-high-growth-start-ups-behind-in-uk-covid-19-response/?sh=2f89f4576742
[11] https://www.verdict.co.uk/london-tech-recruitment-coronavirus/
[12] https://www.theguardian.com/technology/2020/sep/08/amazon-uk-pays-3-more-in-tax-despite-35-rise-in-profits
[13] https://fairtaxmark.net/wp-content/uploads/2019/12/Silicon-Six-Report-5-12-19.pdf
[14] https://www.theguardian.com/media/2020/nov/28/netflix-to-start-declaring-1bn-plus-uk-revenues-to-hmrc-google-amazon-tax-arrangements
[15] https://www.thetimes.co.uk/article/amazon-passes-on-tax-rise-to-small-firms-6q2zxr258

One notable example is Amazon Web Services (AWS), the cloud services arm of Amazon and a key supplier to government, which accounted for 71% of Amazon's profits in 2018 yet is excluded from tax[16]. The division also reported revenues of $10.8 billion for the quarter from March to June this year alone[17]. It is not right that an organisation with such market power and economic impact is able to avoid paying taxes on our shores. Using Fair Tax Mark's estimate that the entirety of Amazon's UK operations raised $14.5 billion in revenues in 2018 alone, it is calculated that extending the DST, and closing its loopholes, to cover Amazon's total UK operations would increase Amazon's annual contribution through the mechanism to $290 million, enough to fund over 6,000 nurses' salaries[18].

Moreover, as government debates the introduction of new taxes in the coming year, it should consider the introduction of a one-off tax on big businesses that have profited during the pandemic. Analysis shows that technology companies are within the few winners of the COVID-19, gaining new customers and extending market share, and it is only right that these companies fairly contribute to the costs of recovery[19].

**Recommendation**:

To protect our tax base from further erosion, government must ensure that its tax laws are fit for purpose and that large companies, including tech giants, are made to pay their fair share of taxes in the UK. This means not only closing the loopholes of the DST to ensure that companies cannot simply pass on costs to smaller businesses, but also extending the scope of the tax to include subsidiaries of tech giants that are exempt from the tax despite generating significant profits. This will not only create a level playing field for businesses of all sizes, domestic and international, to prosper, but will all also ensure that revenues derived in the UK remain in the UK.

**ToR3: Do these pressures need to be met with tax reform, and if so, is this the right time for reform?**

Whilst government can mitigate against corporate tax avoidance strategies deployed by tech giants via an amendment to the DST, it must also deter wider corporate tax avoidance using mechanisms outside of the tax system, such as procurement.

The National Audit Office estimates that government procures £240 billion of goods and services each year, with this figure likely to increase as government implements the National Infrastructure Strategy and its decarbonisation priorities as part of the economic recovery from the pandemic. Such a huge sum of money plays a significant role in the sector and British economy and how the Government utilises this spending can have a significant impact on wider policy objectives including increasing tax revenues, 'levelling-up' the economy and creating a resolute domestic industry base that can spearhead economic growth in the years ahead.

By holding its suppliers to the highest standards of accountability and transparency, and ensuring procurement rules are robust and comprehensively applied, the Government can ensure that beneficiaries deliver genuine social and economic value to communities around the UK. However, the currently reality falls short of this ambition, with several of government's key suppliers well known for their complex tax structures aimed at driving

[16] https://www.bizjournals.com/washington/news/2019/10/25/aws-is-amazons-income-generator-and-more-from-the.html
[17] https://www.theguardian.com/business/2020/jul/30/amazon-apple-facebook-google-profits-earnings
[18] https://www.mirror.co.uk/money/amazons-90million-tax-avoidance-cash-21007123
[19] https://www.ft.com/content/1af55118-99bf-11ea-871b-edeb99a20c6e

revenues overseas and limiting their tax bill in the UK. This in turn limits the multiplier effect of procurement investment decisions, and further erodes the UK's tax base.

For example, a recent report by the think tank Demos found that 25 of government's 34 Strategic Suppliers and delivery partners are part of corporate groups with subsidiaries based in tax havens, with these firms awarded over £41 billion of contracts between 2011 and 2017[20]. Of these companies, 19 were found to have operations in jurisdictions included on the EU's 'blacklist' or 'greylist' of countries non-compliant with EU international standards for good tax behaviour. Meanwhile, in the technology procurement market, research conducted by Tussell (data commissioned privately) found that 38% of central government spending on IT companies in 2019 was with firms registered outside the UK, with these firms awarded contracts exceeding £3.6 billion in total. If the Government is looking to utilise every lever at its disposal in the UK's economic recovery from COVID-19, it should also include greater consideration and scrutiny of the distribution of public procurement spend rather than driving the economic benefit offshore.

For instance, since 2016, AWS has seen its revenues obtained through the government's G-Cloud procurement framework increase year on year from £4.85 million at the end of 2016/17 to £92 million for 2019/20[21]. Conversely, government expenditure on cloud services from SMEs fell from 50.55% to 40% between 2015 and 2020[22]. Recent analysis by the TUC found that AWS has been awarded 82 contracts by central government since 2015 with a lifetime total value exceeding £225 million[23], although by Amazon's own admission this figure increases to £1.3 billon once the value of contracts delivered through its partners are considered[24]. Notably, the Home Office awarded AWS a £100 million four-year contract without a competitive tender[25], while in 2018 HMRC awarded £11 million in contracts to AWS, more than six times the £1.7 million it received from the business in corporation tax[26].

**Recommendation**:

If government is serious about clamping down on tax avoidance, it must reframe procurement processes to drive greater positive social impact and only award contracts to companies that demonstrate the highest standards of Corporate Social Responsibility and tax practices, and that drive genuine social value. Government should also enforce greater ethics, transparency, oversight and enforcement rules to allow the public to become more aware of the impact of procurement decision-making and investment in government suppliers.

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[20] https://demos.co.uk/project/value-added-how-better-government-procurement-can-build-a-fairer-britain/
[21] https://app.powerbi.com/view?r=eyJrIjoiNTEyMTZhZDAtZGNiNi00OWQxLWI5ODYtMjg1ZWNlMmNkODVhIiwidCI6IjlmOGMwZDc5LTNlODctNGNkMy05Nzk5LWMzNDQzMTQ2ZWE1ZSIsImMiOjh9
[22] https://www.thetimes.co.uk/article/whitehall-pays-amazon-web-services-51m-in-snub-to-british-tech-firms-86qq70wh0
[23] https://www.tuc.org.uk/research-analysis/reports/challenging-amazon-report
[24] https://awsimpactreport.publicfirst.co.uk/
[25] https://www.theregister.com/2020/01/10/home_office_hands_aws_100m_for_public_cloud_services/
[26] https://www.theguardian.com/technology/2019/jun/11/hmrc-outlay-on-amazon-over-six-times-what-firm-paid-in-corporation-tax-gmb