The Tax Gap Index

Richard Murphy
Corporations:

- think they profit maximise
- definitely avoid tax
- are aggressive in doing so
Corporate social responsibility:

- claims to indicate the corporation’s contribution to society
- is voluntary
- focuses on these issues:
  - employment
  - social
  - environmental
Corporations use CSR

- it's smokescreen
- it's substantially unmeasurable
- it's adoption is voluntary
- use reflects Friedman's maxim that it’s done if it contributes to profit
Payment of tax:

- is a real measure of the corporation's commitment to society
- is the CSR issue the corporations fear
- is widely misinterpreted
Tax - the ignored financial indicator

- tax is complicated
- analysts don't understand it
- they assume low tax = good tax
Tax and Ethical Investment

- Craig MacKenzie of HBOS:
  'Tax is not even on the periphery when it comes to responsible investing. The complexity of the subject is seen as a barrier, and we're not sophisticated enough to make sense of the answers. We need to identify the grey areas.'

- That’s what we’re doing
Tax - the realities:

- Tax is not being paid
- In the US most corporations are not paying tax
- In the UK we think the average FTSE 100 company is paying 23% tax
- The average FTSE 100 company has a tax charge of 30% in its accounts
### The Virgin Example

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>£m</strong></td>
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<td></td>
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<tr>
<td>PBT</td>
<td>15.70</td>
<td>-92.60</td>
<td>45.50</td>
<td>4.10</td>
<td>98.70</td>
<td>71.40</td>
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<tr>
<td>Tax</td>
<td>5.80</td>
<td>-33.10</td>
<td>9.10</td>
<td>2.30</td>
<td>19.30</td>
<td>3.40</td>
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<tr>
<td>% tax</td>
<td>36.9%</td>
<td>35.7%</td>
<td>20.0%</td>
<td>56.1%</td>
<td>19.6%</td>
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<tr>
<td>Tax paid for year</td>
<td>0.00</td>
<td>0.00</td>
<td>0.10</td>
<td>0.10</td>
<td>0.00</td>
<td>0.20</td>
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<tr>
<td>Actual Tax %</td>
<td>0.0%</td>
<td>0.0%</td>
<td>1.1%</td>
<td>4.3%</td>
<td>0.0%</td>
<td>5.9%</td>
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<tr>
<td>Deferred tax for year</td>
<td>5.50</td>
<td>-25.40</td>
<td>8.70</td>
<td>0.00</td>
<td>18.80</td>
<td>7.60</td>
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<td>Deferred tax provision</td>
<td>107.40</td>
<td>101.90</td>
<td>57.50</td>
<td>48.80</td>
<td>48.60</td>
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<tr>
<td>Shareholder reserves</td>
<td>37.10</td>
<td>34.00</td>
<td>137.10</td>
<td>105.30</td>
<td>-9.40</td>
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<td>Gearing ratio for def tax</td>
<td>2.9</td>
<td>3.0</td>
<td>0.4</td>
<td>0.5</td>
<td>n/a</td>
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</table>
Unpaid tax:

- deferred tax is a measure of society’s failure to collect tax
- is substantial and rising

Tax Research Limited
Our concerns

- tax is being misunderstood
- valuations are being distorted by tax accounting
- tax gearing is not being noticed
- risk is increasing
- incorrect investment decisions might result
What we're doing

- talking to the ethical investment community
- talking to the banking and broking community
- developing the index
- planning to publish it
What we need

- funding
- support
- data
What do we expect the impact to be:

- as big as Transparency International
- broader than Publish What You Pay
- a major contribution to the "moral debate" on tax
- a key publicity component for the TJN
- a campaigning tool
What we will publish:

- analyst's data - target audience the City
- an index:
  - the movement in tax paid
  - shifts in the absolute value of unpaid tax
  - trends in corporate behaviour
- a grading mark for each company:
  - the good
  - the bad, and
  - the ugly
- an auditor index:
  - whose client's pay least
  - whose client's make the most tax errors
When we launch:

- this autumn with a FTSE sample