

Tax evasion in the uk | essay



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An Investigation Into Tax Evasion In The British Large Companies

Abstract

This project looks at the tax evasion in the British large companies and find out the reason of this problem. It aims to discover the methods to control it. As resources find, firstly, tax loopholes cause tax evasion. Secondly, tax is so high and effects large companies much. Companies hope to cut costs without paying tax. Thirdly, the leaders of companies can not realize they have duty to pay tax. Finally, the government ask companies to pay double tax which is unfair to companies. Therefore, British Large companies should raise the awareness of responsibility to pay tax. The Governemt should improve the tax law. The research was conducted by examining previous studies. Two cases study focus on tax evasion of Google and Amazon in the UK. The results show that British large companies have tax evasion problem. Companies use branch offices for transferring British tax money to other countries' offices which is located at tax heaven. The leaders of companies even are proud of tax evasion. In conclusion, in the UK, tax evasion is quiet serious in the large companies. Whatever ethical and social system cause tax evasion problem. The government should prevent this situation by improving tax system and letting people raise the responsibility to pay tax.

1. Introduction

Tax evasion is defined as an illegal behaviour that a person, organization or corporation purposely avoids paying true tax liability. Those caught evading taxes are generally subject to criminal charges and significant punishments (Investopedia, n. d.). Nowadays, with British economy and finance development, tax evasion has increased year by year. This area is important

because lots of British companies, such as Google, Amazon, Starbucks and Apple, have tax evasion problem. Britain have turned into a tax evasion heaven that cheats itself in the process. The reason is the loopholes of tax evasion system. According to PCS, 90% of tax is effectively voluntary with just few staff to check suspect cases. The National Audit Office reported that HMRC has doubled the amount of tax debt written off in one year and due to its own mistakes relatively. Labour's record on chasing tax loopholes was depressing. In 2009, it set up the patent box - a vast new tax avoidance vehicle. This government's new enormous tax escape leak is the controlled foreign companies management system, allowing British companies to pay tax in the cheapest country they can find, and none when they bring profits back (Polly Toynbee, 2014). Furthermore, profit motivate companies avoid paying tax to save money for themselves. As hypothesis, because of profit, companies keep away from turning in tax to the government on time. In addition, the tax system has the leak so that companies have ability not to pay true tax. Therefore, this project aims to discover the reason of tax evasion and find the way to prevent this situation in the large companies in the UK.

1. 1 Research Question

- Do the profit aims and the loopholes of tax system cause tax evasion?
- How to deal with tax evasion in the British large companies?

2. Literature review

The reason of tax evasion in large companies in the UK.

In this world, tax evasion is never ethical. It is illegal whenever the century. Companies and individuals all own a duty to the government to pay

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whatever taxes the state demands. There is no such thing that taxes are too high even though British resident always complain the level of price and taxes (McGee, 2012). However, in this century, tax evasion is such a normal phenomenon. There are some opinions about the reason of tax evasion in the large companies in the UK. Firstly, although the reforms of the tax structures improve year by year, the British tax system still has loopholes (Zodrow&Fuest, 2013). Therefore, companies can route around the laws to avoid paying tax. The loopholes cause shadow economy increases. Shadow economy is quite narrow. It does not need to take results and insights of other sciences into account. It is difficult to control. With shadow economy climbs, it attracts original tax system and creates competition for the official firms at the same time (Schneider&Enste, 2003). Moreover, because of tax system loopholes, in multinational corporations, the extensive phenomenon of income shifting happens frequently. Multi-national and offshore companies have illegal market and inequitable competitive advantages. Tax system loopholes let overseas and offshore companies avoid finance acquiring, asset stripping companies and markets. The effects impact all tax system and supply and value chains (Nicholas, 2013). The offshore economy tends to be around us. Lots of trades are successful through the offshore economy. What is more, entrepreneurs' corruption and government expropriation of private resources destroy the balance and interaction between tax and investment. The political structure can not use as effective tool for the original tax system (Zodrow&Fuest, 2013). Therefore, the tax system loopholes are continued to expand. Furthermore, Endemic avoidance relies on means legitimated by the tax system. Companies exploit tax differences within different places and tax regime and transfer profit to avoid tax. British

companies use companies, trusts and partnerships to shelter earnings or assets. (Nicholas, 2013). Secondly, according to Thomas Sowell (2012), tax cut for the rich. Tax affects rich companies greatly. Because the total amount of money saved by someone in the large companies is often larger than the total amount of money saved by someone in small companies. With the higher tax, the more money companies have, the more tax they need to pay. All people desire to have more money. By tax evasion, companies can save lots of financial revenue. Thirdly, leaders of companies think government does not give them or society tangible benefits and value. It wastes their paid tax money. So, companies do not want to pay tax to the government. Maybe, companies give money to charity that is better than paying tax to the government. The former can bring more social value and popularity to the companies (D'Souza, 2012). Finally, because the government asks British large companies to pay double tax, companies believe that it is unfair to themselves. Therefore, British large companies do not pay tax to the government (Baekdal, 2013).

The approach for preventing from tax evasion

In the UK, tax evasion situation is serious. Here are some methods to help to solve the problem. Firstly, British government should set law to limit or remove the legal standing of companies or ownership from jurisdictions with cannibalistic tax and secrecy regimes (Nicholas, 2013). Secondly, the large companies tax standards need to be updated to prevent loopholes from being abused. Companies have ability to use new data and advanced technology to control fraud and evasion risks. The government has also set up a new centre of system within HMRC to enhance expertise for solving

offshore tax evasion (Gov, 2014). Thirdly, British companies should raise their ethical and legal responsibility to pay tax for developing British society and country.

3. Case Study

Case Study–Google’s tax evasion

Google’s current situation

Google, as a large company, uses its dominant position for own economic goals with tax avoidance strategy escape financing of government and public infrastructure (Baekdal, 2013). From 2006 to 2011, although Google has 18 billion pounds revenue in Britain, the company reported only 16 million profit for taxes to British authorities (Reuters, 2013). In 2011, Google’s UK unit just paid six million pound to the Treasury and turned over of 395 million pound (Barford & Holt, 2013).

The reason of tax evasion in the Google

Google operates its European branch companies out of approving tax jurisdiction on purpose. Google own the company’s non-US intellectual property rights in the tax haven of Bermuda. The leader of Google company believe that enterprise has the duty to shareholders to minimise its costs by avoiding paying tax (BBC News, 2012). The chairman of Google even said that he is proud of his company’s tax evasion scheme. As the report said that he even thinks the tax evasion of 2. 5 billion pounds in Google is capitalism (Kumar & Wright, 2012). In Ireland, Google has a branch office which should pays fee to isolated Dutch company. Google establish Dutch company purely for the purpose of reducing the taxes (BBC News, 2012). As

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Google's executive chairman Eric Schmidt said that he does not agree on UK tax debate. He thinks that it is political decision instead of economical issues if the company must comply that the tax laws is changed by British system. It is not fair that companies should pay more tax when the tax rate climbs up (BBC News, 2013). Therefore, The reason of tax evasion in Google company is that the holders are not conscious of having responsibility to pay tax for the government and society. It desires to reduce the costs in order to achieve their economic aim by avoiding paying tax.

Case study –Amazon's tax evasion

Amazon's current situation

According to the report given by the Guardian, Amazon earned more than 3.3 billion pounds profit in the UK last year without paying any corporation tax to the tax authorities. In 2011, Amazon, which has earned about 3.35 billion pounds in the UK, only reported a tax expenditure of about 1.8 million pounds (BBC News, 2013). Now it is under investigation by the UK tax office.

The reason of tax evasion in the Amazon

The tax structure loopholes are used by Amazon company. Luxembourg country is well known as tax heaven. The tax rate in Luxembourg is much less than the tax rate in Britain. According to the report, the goal that Amazon company establish deliberately branch office in Luxembourg is to round around the British tax laws. Tax system loopholes are used by Amazon to transfer billions of pounds profit from British customers to Luxembourg. Then, Amazon's profit is used Luxembourg's law to pay the tax which is much less than paying in the UK. This behaviour aims to pay invisible British

tax (Bowers&Wintour, 2013). Under current laws, Amazon has 4. 2 billion revenue annual years in the UK, which rely on a network of eight grand warehouses across Britain by routing through Luxembourg. (Bowers & Wintour, 2013). According to Ibtimes website (2014), Amazon's accounting strategies have been attacked by John Lewis and other high street stores, which they think give Amazon an unfair advantage by using the Luxembourg loophole to shield its profits from the tax authority in the UK.

4. Discussion

According to the resources, in the UK, tax evasion in the large companies is known as the fault of the companies. There are three reason of tax evasion. The first is that tax system has loopholes which is used to transfer the profit from high tax rate place to low tax rate place. The Second is the leader of companies may not realize they have responsibility to pay tax to the government and society. They just desire to achieve the economic goal. The third is that tax rate is so high and tax effects the rich more. As cases of Google and Amazon show these reasons have been proved. The leader of Google was proud of tax evasion and desired to reduce costs to achieve their economic goal. Amazon company used branch offices which is in tax heaven country to transfer revenue for avoiding paying tax. However, there has other agreement that government is greedy to ask companies to pay double tax. Generally speaking, because government put tax money on social infrastructure and companies have a lot revenue, companies should raise the awareness of duty to pay tax. Moreover, government is probably the one that should improve the tax system and establish the law to punish these illegal attitudes. Furthermore, comparing to other countries, Tax authority

should control tax rate and keep balance between each area in order to prevent companies to transfer profits to branch offices in other countries.

5. Conclusion

As resources found , in current century, tax evasion situation is much serious in the large companies in the UK. There are four reasons of tax evasion.

Firstly, although the reforms of the tax structures are developed year by year, the British tax system still has loopholes. Therefore, companies can route around the laws to avoid paying tax. Companies use branch offices for transferring British profits to other countries which is located at tax heaven.

Secondly, tax affects rich companies much. The companies are more rich, the tax money they should pay to the government and society. Companies desire to save costs for economic goal. Thirdly, leaders of companies might not have sense of responsibility. Two cases of Google and Amazon have proved the most of people believe that tax evasion should due to British large companies themselves. However, a few people think government causes tax evasion because it asks companies to pay double tax which is unfair to companies. According to discussion, companies have responsibility more than the government because the government puts tax money to society with developing medicine system , charity and others.

5.1 Recommendations

According to the research, British large companies should be enthusiastic with paying tax to the government and society. . In addition, the government might better to develop British tax laws to control tax system loopholes. In the future, with society, economy and technology development, the situation

of tax evasion would be changed. British people should continue to research tax evasion.

5. 2 Limitations and scope for further research

As the place and time limited, research was limited in two British large companies in recent years. If the research carried out in several companies and researched the situation of tax evasion in 10 years, it could has more accurate results.

(Words: 2015)

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