



# The Tax Gap Index

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# Corporations:

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- think they profit maximise
- definitely avoid tax
- are aggressive in doing so



# Corporate social responsibility:

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- claims to indicate the corporation's contribution to society
- is voluntary
- focuses on these issues:
  - n employment
  - n social
  - n environmental



# Corporations use CSR

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- 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:

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- 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

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- tax is complicated
- analysts don't understand it
- they assume low tax = good tax



# Tax and Ethical Investment

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- 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:

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- 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

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	2003	2002	2001	2000	1999	Total
	£m	£m	£m	£m	£m	£m
<b>PBT</b>	<b>15.70</b>	<b>-92.60</b>	<b>45.50</b>	<b>4.10</b>	<b>98.70</b>	<b>71.40</b>
<b>Tax</b>	<b>5.80</b>	<b>-33.10</b>	<b>9.10</b>	<b>2.30</b>	<b>19.30</b>	<b>3.40</b>
<b>% tax</b>	<b>36.9%</b>	<b>35.7%</b>	<b>20.0%</b>	<b>56.1%</b>	<b>19.6%</b>	<b>4.8%</b>
<b>Tax paid for year</b>	<b>0.00</b>	<b>0.00</b>	<b>0.10</b>	<b>0.10</b>	<b>0.00</b>	<b>0.20</b>
<b>Actual Tax %</b>	<b>0.0%</b>	<b>0.0%</b>	<b>1.1%</b>	<b>4.3%</b>	<b>0.0%</b>	<b>5.9%</b>
<b>Deferred tax for year</b>	<b>5.50</b>	<b>-25.40</b>	<b>8.70</b>	<b>0.00</b>	<b>18.80</b>	<b>7.60</b>
<b>Deferred tax provision</b>	<b>107.40</b>	<b>101.90</b>	<b>57.50</b>	<b>48.80</b>	<b>48.60</b>	
<b>Shareholder reserves</b>	<b>37.10</b>	<b>34.00</b>	<b>137.10</b>	<b>105.30</b>	<b>-9.40</b>	
<b>Gearing ratio for def tax</b>	<b>2.9</b>	<b>3.0</b>	<b>0.4</b>	<b>0.5</b>	<b>n/a</b>	



# Unpaid tax:

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



# Our concerns

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- 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

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



# What we need

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- funding
- support
- data



# What do we expect the impact to be:

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- 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:

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



# When we launch:

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- this autumn with a FTSE sample