

TaxWatch

1st annual report for the 18
month period October
2018 to March 2020

Key facts and figures:

7 briefing papers

5 in-depth reports

16 blog posts

4 opinion pieces with external publishers

235 citations in the press

4 citations in Parliament

113,578 hits on www.TaxWatchUK.org

Summary and introduction

This is TaxWatch's first annual report, covering the 18 month period from our foundation in October 2018 to our year end in March 2020.

To say this has been an eventful period would be an understatement. For TaxWatch this has been an exciting time, growing from an idea talked about over a coffee in a London cafe, to establishing ourselves as a company and becoming a respected voice on tax in the UK, seeing our research cited over 200 times in major news outlets around the world and in the UK Parliament.

The 18 months covered by this report has also been eventful for the tax world.

After nearly a decade of talk, 2019 saw world governments making tentative steps towards tackling the tax issues highlighted by the growth of the digital sector through the OECD BEPS process. At the time of writing, it appears that these efforts have stalled, but facing public pressure to do something, government has responded by pressing ahead with the digital services tax – despite pressure from the United States and the technology lobby to scrap or delay the tax.

Tax avoidance by individuals continues to be an important issue for the government and parliament, with the 2019 Loan Charge becoming one of the most controversial tax policies seen for many years.

This policy has provoked numerous debates in Parliament, and led to the creation of an All Party Group numbering over 220 MPs. The controversy around the policy has led to an increased focus on the issue of the taxation of the self employed. An issue which will continue to be important in tax reform.

In late 2019, the UK held an unexpected General Election – a time which always sees a rise in public discussions of the tax system! TaxWatch was able to participate in these discussions by providing policy research for a broad coalition of charities and NGOs putting forward proposals for improving the tax system.

Finally, as this period came to an end, the Covid-19 pandemic was starting to take hold in Europe. From early on it was clear that this would have a significant impact on the world of tax and on our work.

The speed with which the crisis took hold required fast action from the government. Inevitably this meant that responses to the crisis were crude, and some actors benefited more than others. The speed with which interventions had to be designed and delivered also increased risks of tax fraud. Both of these

issues will come into increasing focus as we move past the immediate first phase of the pandemic.

One set of companies that in general will have done better than others are digital services, as enforced lockdown policies push people toward online retail and digital services.

This makes the reform of digital taxation even more urgent. If digital commerce takes an increasing share of economic activity, and companies continue to run tax avoidance schemes, who will pay for the recovery? TaxWatch's work in this area will continue to be an important area of focus for the organisation.

Outside of the digital sector, the crisis has also brought renewed focus on tax avoidance – particularly when companies which have engaged in tax abuse qualify for government support.

At the heart of the social contract is still the idea that we put our cash into the pot because we know there are others who can't, and we also know that one day we might need the support of the state ourselves. Tax avoiders and evaders have essentially opted out of that system. This has led many people to question whether companies which engage in tax avoidance should receive government support.

Finally, the huge amount of government spending currently required to fight the pandemic is unlikely to be a short term feature of government policy. For example, there have been substantial increases in benefits, which are a reflection of the fact that rates of welfare support had been allowed to dwindle to the point that they were not enough to live on. There is also an increased awareness of the need to improve capacity in health and social care systems to deal with times of crisis.

Building resilience in our economy and society for the future will require new levels of public spending that will need to be sustained for decades, particularly in the context of an ageing population.

All of this has led to an inevitable debate on what changes to the tax system need to take place to accommodate the a larger role for the state.

TaxWatch's work in researching the functioning of the tax system, improving public understanding of it, and seeking to promote greater compliance with both the letter and spirit of tax law will be more important than ever over the next few years.

Organisational development

When TaxWatch began life as a company we had one part time director working a few days a month on the project.

In this early period of development TaxWatch's major operational focus was the recruitment of an editorial board, broadening our board of directors as well as publishing research.

In April 2019, George Turner, took on the role of Director on a full time basis. He was joined in June 2020 by a researcher, Alex Dunnagan.

In November 2019 Paul Hebden came onboard to help with TaxWatch's media work for one day a week.

In March 2020, TaxWatch changed our articles of association in preparation for an application to the Charities Commission. As part of this process the company adopted new objects, which aligned the legal objects of the company with our charitable purpose.

The objects adopted were as follows:

- To advance education, in particular in relation to tax law and the operation of the tax system
- To promote the sound administration of the law, in particular the law of taxation
- To promote compliance with the law, in particular the law of taxation; and
- To promote civic responsibility and good citizenship by promoting and encouraging high standards of business conduct, in particular in relation to compliance with the spirit of the law of taxation.

At the same time as adopting a new set of charitable objects, the company formally changed its name to "TaxWatch" from Tax Watch UK Limited.

In early 2020 the Covid-19 pandemic hit Europe, resulting in the so-called lockdown introduced in the UK in March 2020.

Like every other organisation in the UK, the pandemic had a significant impact on TaxWatch, both in terms of our research and our operations.

In terms of operations, TaxWatch could transition to homeworking very easily and meetings were moved online. We gave up our office rental in Reading and will review our office provision in the Autumn of 2020.

Our Funding and Finance

The Persula Foundation, a charitable foundation established by Julian Richer has been the main source of funds for the organisation since its foundation. The organisation has also received generous donations from The Joffe Charitable Trust and James Timpson.

Broadening our donor base is a priority for TaxWatch. TaxWatch had planned a fundraising event for March 2020, which sadly had to be cancelled due to the Covid-19 pandemic. We will continue our fundraising efforts in the Autumn.

Our directors and Editorial Committee

We are pleased that TaxWatch managed to recruit an extremely high-calibre board of directors and editorial committee to oversee the work of the organisation, and to provide valuable guidance and input into our work.

Along with our change of name and adoption of new articles of association in preparation of our application to the charities commission, TaxWatch's directors became trustees and George Turner resigned from the board to lead the organisation as Executive Director.

Both bodies take an active role in the life of the organisation.

Trustees are responsible for overseeing the day-to-day operations of the company such as fundraising, staffing, and strategy.

The editorial committee is responsible for oversight of decisions relating to publications and research. This structure ensures editorial independence and that funders are not influencing the editorial content of the organisation. It also allows for more oversight of editorial matters that may exist in other organisations where all decisions are delegated to the staff.

Staff

Executive Director - George Turner

George Turner is the Executive Director of TaxWatch. Before setting up TaxWatch George worked as a journalist and has led multiple investigations that have appeared on the front pages of newspapers across the world.

George first became interested in tax policy when he wrote a paper for the think tank Centre Forum in 2013, which revealed how the UK's private equity owned water companies structured their finances to minimise corporation tax payments.

Before becoming an investigative journalist George was head of the Westminster office of the Deputy Leader of the Liberal Democrats, Simon Hughes.

Researcher – Alex Dunnagan

Alex Dunnagan is an accredited criminal investigator and military intelligence analyst. He previously worked at the National Crime Agency, investigating human trafficking, child exploitation, and political corruption.

Prior to joining TaxWatch, Alex worked at a private intelligence company leading a team of analysts providing security reporting to multi-national corporations.

Alex is currently serving as a Reservist with the British Army.

Trustees

Richard Brooks

Richard Brooks is an award winning investigative journalist with Private Eye magazine and a former tax inspector. He chairs TaxWatch's editorial committee.

Richard is the author of "The Great British Tax Robbery: How Britain became a Tax Haven for Fat Cats and Big Business" (Oneworld, 2013). His latest book – Bean Counters (Atlantic, 2018) is an expose of the accountancy profession, including its instrumental role in tax avoidance.

Julian Richer – Chair of Trustees

Julian Richer is a highly respected entrepreneur and philanthropist. The founder of Richer Sounds, the UK's largest Hi-Fi retailer, Julian opened his first shop aged just 19.

The company has paid the real living wage to all employees since 2014, and gives 15% of its operating profit to charity every year. Richer Sounds has also been awarded a fair tax mark accreditation.

Julian's latest book – the Ethical Capitalist: How to Make Business Work for a Better Society – was published in 2018.

Damien Morrison

Damien Morrison is a partner in Morrison and Associates Solicitors, and has specialised in criminal law. He regularly practises as a Higher Court Advocate.

Damien is the Company Secretary of TaxWatch.

Ana Caistor Arendar

Ana is Head of Inequality Campaigns and Policy at Oxfam GB. She previously worked as Oxfam's Campaigns, Policy and Communications Manager for Latin America and the Caribbean based in Mexico and Bolivia, and as Oxfam's Campaigns and Policy Manager in Haiti, where she worked on the humanitarian responses following the 2010 earthquake and the cholera outbreak later that year.

James Timpson

James Timpson is the CEO of Timpson the UK's largest retail chain with over 2000 outlets across the UK.

James is also the chair of the Prison Reform Trust and a trustee of the Tate Galleries

Jennifer Herrera

Jennifer Herrera is the CEO of the Good Business Foundation which runs an accreditation to recognise responsible business, called the Good Business Charter. She is also Executive Director of Acts 435, a charity established to encourage small donations online to people in need.

Jennifer is a chartered accountant and a trustee of ASB Help, a charity supporting victims of anti-social behaviour and Love 146, a charity supporting trafficked children.

The Editorial Committee

Richard Brooks – Chair

George Turner

Simon Bowers

Simon Bowers is a leading investigative journalist specialising in tax and finance.

He is currently the European Coordinator of the International Consortium of Investigative Journalists (ICIJ).

He was previously senior financial reporter, specializing in investigations, for The Guardian newspaper, where he worked for almost 20 years. Topics he has covered

include generic medicine price-fixing cartels, the laundering of gold linked to war lords, Big Oil pledges on climate change and the Icelandic banking bubble.

With the ICIJ Simon has worked on many of the major tax stories that have rocked the media world in recent years, including the Panama Papers, Paradise Papers and LuxLeaks.

Felicity Lawrence

Felicity Lawrence is an investigative journalist and special correspondent with the Guardian. She has done pioneering work on corporate tax avoidance, responsible for some of the first work on the issue in a mainstream newspaper ten years ago.

Since then she has done ground breaking investigations on the food supply, and is author of Not On The Label: What Really Goes Into The Food On Your Plate.

Our research and publications

TaxWatch's main activities have been the publication of research, briefings and commentary on various issues related to the tax system. A summary of our research is below.

The tax affairs of digital companies

Digital companies were by no means the first to engage in tax avoidance but there is little doubt that the digitisation of the economy makes profit shifting easier and harder to police. With the growth of the digital economy and its increasing dominance of all of our daily lives, the tax structures employed by the sector have continued to be the subject of controversy. The debate on how to reform the international tax system to deal with this issue has now become one of the most important issues in international relations.

TaxWatch's first major report, published in October 2018, sought to estimate how much the UK was losing in corporation tax revenue by profit shifting by the world's largest technology companies. We published an updated version of the study in February 2020. Our study estimated that approximately £5bn of profits were being shifted out of the UK every year, with tax losses of £1bn resulting from this.

With the Digital Services Tax, a new tax on the revenues of digital companies, becoming one of the most debated issues in international tax, TaxWatch's research in this area has been widely cited and continues to be used by journalists and politicians today.

TaxWatch continues to research the digital economy, and challenge businesses operating in this sphere to behave responsibly when it comes to tax.

Actions in this area have included calling on the European Commission to investigate the tax structure of Google, and challenging Facebook to be more transparent in their tax dealings.

The tax issues presented by the digital economy extend well beyond corporation tax, and as well as looking into profit shifting, TaxWatch also published articles concerning the VAT treatment of online market places.

HMRC estimate that VAT fraud conducted via online marketplaces such as Amazon and eBay costs the UK £1.5bn a year in lost tax revenues, not to mention the billions more in damage done to domestic retailers.

Our research found that despite HMRC issuing thousands of notices to online marketplaces over non-compliant sellers, only 20% of the amount of cash lost was being recovered.

Video Games Tax Relief

In July 2019, TaxWatch published an investigation into the tax affairs of the makers of Grand Theft Auto, Rockstar North. The report revealed that despite making the most successful entertainment product in history in GTA V, the company had not had a net tax liability in the UK over the previous 10 years. In fact, through the Video Games Tax Credit system they had managed to claim £42m in subsidies from the taxpayer as a direct result of the paper losses.

The story was picked up by media outlets around the world, from Japan to Peru. Our website received thousands of hits in the days following publication. In January 2020 we published an updated article looking at Rockstar's recently published annual report. This generated further interest.

We followed our work on Grand Theft Auto with a number of further publications looking at the games industry and the Video Games Tax Credit system.

Our next report looked at Activision, the makers of Candy Crush and World of Warcraft, and we were able to show how \$5bn had been shifted to tax havens in the Caribbean. We then worked with the Guardian to reveal how much in Video Games Tax Credit had been claimed by large multinational companies.

In late 2019, the National Audit Office produced a report looking at the issue of tax expenditures, which include video games tax credit. The report highlighted how government spending on tax reliefs was substantially above the expected cost of reliefs. Following this there has been increasing interest on the subject of tax reliefs, with calls for greater transparency around how reliefs are spent. Our work on video games tax relief will be an important part of the evidence base for this debate.

Netflix

Continuing our work on the digital economy and the creative industries, in January 2020 TaxWatch published a major report into the tax structure of Netflix. The report detailed how Netflix's subscription revenue from the UK was paid to a Dutch company. This resulted in very low revenues and profits in the UK, despite the company basing a large amount of production in the UK (which attracts government subsidy).

The Tax Gap

Early on TaxWatch identified the Tax Gap as a priority area of research.

TaxWatch published a briefing document setting out the issues with the HMRC calculation of the tax gap when it was released in June 2019.

This was followed by an opinion piece for The Independent at the time of the release of the new HMRC figures.

On 10th July 2019 we held a round table discussion on the Tax Gap at our offices. Attendees included leading academics, researchers, the National Audit Office, and the Public and Commercial Services Union.

Ahead of Budget 2020, TaxWatch published a paper highlighting issues to look out for in the field of tax avoidance and tax evasion.

In the future, TaxWatch hopes to produce our own figures looking at the Tax Gap for Corporation Tax.

Another piece of research in this area looked at the taxation of tax exiles. In January 2020 The Sunday Times published the second edition of its annual Tax List. This sought to look at the taxes paid by the largest tax payers in the UK. The list included several tax exiles, as it included the corporation tax paid by their companies operating in the UK. TaxWatch followed this up with a short article setting out how the research from The Sunday Times demonstrated the importance of Corporation Tax as a withholding tax on wealth.

Defining Tax Avoidance and Tax Evasion

An important piece of research has been into the nature of tax avoidance and tax evasion itself. There are many different and conflicting views about what constitutes tax avoidance. This confuses the debate on this issue.

TaxWatch has produced its own definition based on key court decisions and case law on tax avoidance. As part of this area of research, we also published a longer analysis of whether tax avoidance is 'legal'. This dispels the often cited myth that tax avoidance is a "perfectly legal" and therefore a legitimate activity.

The simple fact of the matter is that tax authorities around the world are able to take action against tax avoidance via the courts, and seek an order that the tax is repaid with penalties. In some cases, tax avoidance is attacked through the courts by attacking the fraudulent nature of underlying transactions involved in tax avoidance schemes.

We hope that this work will serve as a useful reference work for people interested in the area of tax avoidance in general and setting out the facts on tax avoidance will going forward be a major part of TaxWatch's work. The importance of this area of work is highlighted by the way in which many people become involved in tax avoidance schemes after being reassured that their activities are all "perfectly legal". These people may later find themselves to be the subject of life changing bills when tax avoidance schemes fail in the courts.

Covid-19

The measures introduced by the government to combat the economic and social impacts of the Covid pandemic brought with them radical changes to the government spending which had an impact on the tax system. This included billions of pounds of emergency funding being pumped into the economy by government.

Early on TaxWatch decided that we could add value by monitoring the provision of government support and highlighting any policy issues this raised.

Before the year end, we managed to publish three articles in this area. The first looked at how supermarkets had been a major beneficiary of government support, despite booming sales as they remained some of the few retail outlets allowed to remain open.

The second article highlighted the comments of Pope Francis which said that in the context of Covid-19, tax avoidance was akin to "murder".

Finally, our Director, George Turner, published an op-ed in the Guardian which discussed how tax avoiders would inevitably gain from government support granted during the Covid-19 crisis, and that this should strengthen our resolve to tackle the issue. The op-ed was one of the most widely read articles on the comment section of the Guardian website when it was published and received thousands of shares on social media.

Tax Compliance

One of our areas of research focuses on the administration of the tax system and how well it is performing in terms of tackling tax avoidance.

In 2016 HMRC was given powers to sanction large companies if they were found to be persistently non-compliant with their tax affairs. In October 2019, we published research which found that these powers have never been used, despite government estimates that they would bring in large amounts of cash.

In March 2020 we published a briefing on disguised remuneration schemes and the 2019 Loan Charge. The Loan Charge is one of the most controversial pieces of tax legislation to hit the statute book over the last decade. The new charge impacts tens of thousands of people who engaged in avoidance schemes which sought to hide income from HMRC through the use of artificial loans.

Given the highly controversial nature of the charge, and the fierce debate that has raged around it, TaxWatch felt it could make a valuable contribution by setting out some of the facts in this area.

Other issues

In addition to the issues covered above, TaxWatch also seeks to cover live tax issues where there is capacity to do so. Examples of the kinds of issues we have covered over the reporting period include an article looking at the tax affairs of Starbucks following the publication of their latest accounts in the UK, and an article looking at the settlement reached with BBC employees following historic tax avoidance schemes used by the organisation.

The use of TaxWatch research

One of the goals of TaxWatch is to publish research that facilitates a better informed public debate on tax issues.

One of the successes of TaxWatch since its foundation has been the interest shown in our work by the media. Since we were founded we have secured widespread, global media coverage of our work with major media outlets. This includes articles in every major UK print publication as well as a broad range of broadcast and online outlets.

We have also generated coverage internationally, with our reporting on Video Games Tax credits in particular being reported on in media outlets as far as Peru and Japan. Our work on Netflix was covered by the Dutch national broadcaster.

In total, over the period of this report TaxWatch has logged 235 citations of our work in the media. We believe this compares very favourably to other, more established organisations of with substantially larger operations.

As TaxWatch has grown in public stature, increasingly our research has been used by politicians and policy makers. TaxWatch is now regularly contacted by academics, politicians and other civil society organisations about our research.

In February 2018, Dame Margaret Hodge MP secured a half an hour debate in Parliament on the subject of the Tax affairs of Netflix. This debate was inspired by

TaxWatch's report on the company. TaxWatch's research on the scale of tax avoidance by digital companies is regularly cited in Parliament in debates on the Digital Services Tax.