Eight tech companies in the UK avoided an estimated £1.5bn in 2019 – New research

Introduction and Summary

The UK market is an extremely important market for US based technology companies. These well known companies realise substantial sales in the UK and as such are some of the most significant economic operators in our country.

For example, In 2020 Amazon made £19.4bn in sales to UK customers, a 50% rise on the previous year and more than 20 times the largest physical bookseller in the UK, Waterstones.[1]

It sold more goods to UK customers than Morrisons, the fourth largest supermarket chain in the country. The advertising revenues of Google and Facebook now surpass those made by ITV, or major publishers such as News UK, the owners of the Times Newspapers.

Given how profitable the digital economy has proved to be, the vast sales made by the global digital giants should result in these companies being some of the largest corporate tax payers in the UK. However, the accounts of the UK businesses of these major international companies show that very little profit is ever declared in the UK and as such, little corporation tax is paid on the profits these companies make from UK customers. These profits have instead re-appeared in tax havens where the company pays little or no tax at all.

TaxWatch has been tracking the tax payments, revenues and profits of the tech giants in the UK since we began in 2018. Each year we have sought to estimate the amount of revenues generated by UK customers of major tech companies, how much profit should be attributed to those sales, and how much tax has been avoided by these companies by moving their profits offshore.

This year our analysis takes on a special significance, as Finance Ministers seek to negotiate a new international settlement on how large multinational companies should be taxed. Understanding the scale of tax avoidance by global digital giants is key to evaluating the outcomes of any deal.

In 2018, we started by looking at the top five tech companies, Apple, Alphabet, Facebook, Microsoft and Cisco Systems. This year we have added Amazon, eBay and Adobe. The numbers we produce below are for the 2019 financial year, which is before the impact of the Covid-19 pandemic. The reason for this is that the UK accounts for the companies in our study are only available to 2019.

1 Amazon reports UK sales rose by 51% in 2020, *The Guardian*, 03 February 2021, https://www.theguardian.com/technology/2021/feb/03/amazon-reports-uk-sales-rose-by-51-in-2020

Our analysis has a simple methodology. We look at the global profit margin of a company, the percentage pre-tax profit the company make on every dollar of sales. This is the average profit the company makes across all operations in all jurisdictions. We then apply that average profit margin to the amount of sales made in the UK to calculate the amount of profit generated in the UK. The UK sales are either taken directly from the global accounts of the company where they are reported, or estimated using a variety of different methodologies. We then apply the UK headline tax rate to the amount of profit estimated for the UK, which gives us an estimate of the tax liability that each company should have in the UK. We then compare this to the actual taxes paid in the UK by their local subsidiaries.

It should be stressed that the figures we produce are estimates of the profits made by these companies in the UK. They are not definitive, however, in the absence of any accurate reporting on profits made from UK customers by major multinational companies, we believe our methodology gives a good understanding of the amount of profit made by each company in the UK.

We gave each company the opportunity to respond to our figures. Most declined. Amazon strongly disputed our figures. Facebook told us that they had long supported efforts to reform the international tax system and that currently the tax system does not allocate profits to where customers are located.

There are good economic reasons for taking this approach we have taken to attributing profit to the UK. As companies move into new markets, sales volumes increase and the marginal cost of production falls. As a result, the profit on each unit of sales increase. As most companies start in their home market and then move to new markets at a later stage of development then their profits will be higher in their foreign operations.

The accounts of the major tech giants appear to support this theory, with profit margins higher on non-US sales than on US sales. For example, in 2019, 79% of Facebook’s profits were made outside the US, even though non-US sales only accounted for 55% of revenues. Adobe reported that it made 86% of its profits outside the United States in 2019, despite the majority of its sales being to US customers.

By using the average profit margin across the group of companies, it means that the sales made in foreign jurisdictions share the costs of product development and other costs with the home jurisdiction. Our methodology therefore arguably underestimates the true scale of tax avoidance in some of the companies in our study.

Results

We find based on our estimates of profit arising from the UK market, that the eight global tech giants underpay their taxes by £1.5bn a year. The majority of this comes from just two companies. The largest tax avoider based on our methodology is Apple, which sees an underpayment of £517m, followed by Alphabet (Google), with £452m.

This is a significant finding. The current solution put forward by the OECD to redistribute profits made by large multinationals to countries like the UK (known as the pillar one proposals) foresees a total tax benefit of between $5-$12bn across all jurisdictions (i.e. not just the UK) on an analysis which was based on a dataset of 27,000 multinational groups.[2]

In fact, the OECD proposal which would only seek to redistribute profits that exceeded "routine profits" set at a 10% margin may mean that a company like Amazon would not be impacted at all.

The impact of global minimum levels of taxation on the tech giants

Although US based global tech giants have traditionally paid very little in corporate taxation in markets such as the UK, companies do pay taxes in the US. Indeed, in defence of their position, Facebook told that they pay the majority of their taxes in the US.

This was clearly demonstrated in our research published in April 2020, which found that the effective tax rate of several large technology companies was four times higher in US than the rest of the world. In simple terms, this means that US corporations pay four times more tax on each dollar profit they make in the US than they do on each dollar of profit their make outside of the US.

It is important to be clear that the significant tax bills that these companies face in the US have historically not been the product of profits from Europe being moved back to the United States to be taxed there. Large US corporations with a significant presence both in the US and the rest of the world pay their taxes on profits arising from sales to US customers, but by moving profits out of foreign jurisdictions into tax havens, effectively eliminate taxes paid on taxes on profits declared in the rest of the world – which make up a significant amount of the total profits of these companies. The result of this is that the effective tax rates of these corporations have sat between the US headline rate and zero.

To some extent this changed in 2017, when US tax reform introduced a form global minimum taxation, the GILTI, a charge placed on the profits of US corporations declared in tax havens. In addition, the 2017 reforms included a form of tax subsidy on profits moved back to the United States, the FDII. This provided a powerful incentive for companies to move their profits back to the United States where they would be taxed at a lower rate.

More research is needed to look at how firms responded to this change. However it is clear that Google responded by moving more profit back to the US. This is clearly shown in the latest Google 10-K which shows that between 2019 and 2020 the amount of profit the company allocated to its international operations (which previously almost all arose in Bermuda) declined by more than 50% from $23bn to $10.5bn. All of that profit re-appeared in the United States which saw its share of Google's profits jump from $16bn to $37bn over the same period. The net result of this is that US

2 Tax revenue effects of Pillar One, Tax Challenges Arising from Digitalisation – Economic Impact Assessment, *OECD*, 12 October 2020, https://www.oecd-ilibrary.org/sites/0e3cc2d4-en/1/3/2/index.html?itemId=/content/publication/0e3cc2d4-en&_csp_=60cbdb3f912de71310706737fc50a27f&itemIGO=oecd&itemContentType=book

federal tax payments more than doubled from $2.4bn in 2019 to $4.8bn in 2020, whilst taxes paid to non-US governments declined from $2.7bn to to $1.7bn.

Note 14. Income Taxes

Income from continuing operations before income taxes consists of the following (in millions):

	Year Ended December 31,		
	2018	2019	2020
Domestic operations	$ 15,779	$ 16,426	$ 37,576
Foreign operations	19,134	23,199	10,506
Total	$ 34,913	$ 39,625	$ 48,082

All of this highlights the fundamental importance of distribution in any agreement on global tax reform that ensures that more profit is allocated to the countries where real economic activity, users and customers are located. Countries should also reserve the right to take unilateral action to ensure that profits are properly taxed in their jurisdiction regardless of any deal on global minimum rates.

Could a global minimum tax rate benefit the UK?

There has been much confusion over the idea of global minimum tax rates, with even some Finance Ministers appearing to misunderstand what a global minimum means in practice. A global minimum tax rate is not an agreement between all countries of the world to increase their tax rates above a minimum level.

Instead a global minimum can be imposed by countries on companies headquartered in their jurisdiction on profits that arise overseas (the US already has a form of global minimum taxation).

When a company moves profits into tax havens, the tax administration in its home jurisdiction places an additional tax charge to top up the tax payments of the company. This severely limits the potential benefits of a tax haven.

This means that in practice, it simply does not matter if any jurisdiction refuses to sign up to a minimum tax rate as the finance ministers of Ireland, or Hungary have threatened. If a jurisdiction adopts a tax rate below the global minimum imposed on a foreign multinational corporation operating in country, all that will happen is that the country with the lower rate will be giving up tax revenues to the multinational’s home country.

The negotiations at an OECD level are for OECD members and other jurisdictions to co-ordinate economic policy so that each jurisdiction will impose a minimum tax on its corporations, resulting in a patchwork of rules that will create a system of global minimum taxation.

Although global minimum tax rates therefore primarily benefit the home jurisdictions of any multinational companies they apply to, there are benefits to the UK of adopting the policy and there are broader benefits that arise to all jurisdictions. Firstly, the UK is itself home to a great number of multinational corporations that themselves avoid taxes on their foreign profits. UK participation in a system of global minimum taxation would therefore ensure that substantial amounts of revenues could be raised from UK multinationals.

Secondly, the policy mitigates against the tendency for some jurisdictions to engage in a race to the bottom through cutting taxes to encourage foreign multinationals to establish subsidiaries in their countries. It places a floor on the race to the bottom where previously there was none.

Thirdly, the disincentive to use tax havens means that profit shifting is less likely. There are multiple costs to profit shifting through the potential for enforcement action, reputational damage, and the cost of paying tax advisors to create schemes. Reducing the incentive on companies to engage in profit shifting may therefore mean that fewer companies engage in the practice. Less profit shifitng will benefit the UK.

Finally, there are also some measures currently being negotiated as part of the OECD global minimum tax rate package that seek to protect the tax bases of non-home country jurisdictions. But it is not clear how effective these will be.

However, as long as there is a difference between the global minimum rate applied to any particular company, and the headline corporation tax rate of the country where they operate, there will be an incentive for companies to shift profits could remain. For example, if the global minimum rate applied to US corporations by the US Government was 21%, and the UK headline rate rises to 25% as planned, then there will still be an incentive to move profits out of the UK and into tax havens, or back to the US.

As such, it is in the UK's interests to seek to negotiate a global minimum rate of taxation at least as high as 25%, the rate which the UK Government is currently seeking to legislate for.

Figures

eBay

The online marketplace eBay launched in the UK back in 1999. eBay's 10-K shows a global pre-tax margin of 20%, and UK revenues of £997,172,883 for 2019, which gives us an estimated profit on UK revenues of £201,951,765.

With the UK's 19% corporate tax rate, this means eBay had an estimated UK tax liability of £38.4m.

eBay UK had a UK current tax charge of £5,260,000 in 2019.

Based on the above, we estimate eBay avoided £33m in UK taxes in 2019.

eBay did not respond to our request for comment.

Adobe

Adobe's 10-K shows a global margin of 33%, and UK revenues of £616,487,008 for 2019, which gives us an estimated profit on UK revenues of £205m. With the UK's 19% corporate tax rate, this means Adobe had an estimated UK tax liability of £39m.

Adobe Systems Europe Limited, a UK company, had a £2,040,000 tax charge in 2019.

Based on the above, we estimate Adobe avoided £37m in UK taxes in 2019.

Adobe did not respond to our request for comment.

Amazon

Amazon's 10-K shows a global pre-tax margin of 5%, and Amazon have confirmed to us that their UK revenues for 2019 were £13,730,000,000,[3] which gives us an estimated profit on UK revenues of £684m.

With the UK's 19% corporate tax rate, this means Amazon had an estimated UK tax liability of £130m

Amazon Services UK Limited and Amazon Web Services UK Limited had a £14,582,000 current tax charge in 2019 between them.

It is the case that Amazon's Luxembourg operation, which is the entity that charges UK customers, reports its profits and revenues directly to HMRC (although it does not provide figures for the UK publicly). We assume that this entity did not have a significant UK tax liability because its accounts show that it is loss making.

Based on the above, we estimate Amazon avoided £115m in UK taxes in 2019.

Amazon responded to our request for comment, with an Amazon spokesperson saying:

3 Email from Amazon to TaxWatch, 31 May 2021

“These calculations are wildly inaccurate, and do not include the majority of taxes we pay in the UK. Our total tax contribution in the UK was £1.1 billion during 2019 – £293m in direct taxes and £854m in indirect taxes. During 2019, our international consumer business was loss-making as we continued to invest heavily."

Alphabet (Google)

Until 2016 Google reported the revenues it made from the UK in its US 10-K filing. On average, around 9% of Google’s global revenues came from the UK between 2014 and 2016. We applied this average figure to Google’s 2019 global revenues to estimate the revenues generated from the UK in 2019.

Alphabet’s US 10-K shows a profit margin of 24%. Using this margin, we estimate the profits on UK revenues to be £2,688bn.

At a 19% UK corporation tax rate, that would amount to a tax liability of £511m.

Google UK Limited’s accounts show a current UK tax charge for 2019 of £58,987,000.

Based on the above, we estimate Alphabet avoided £452m in UK taxes in 2019.

Alphabet did not respond to our request for comment.

Cisco

The accounts of Cisco Systems International report separately on the revenues the company makes from UK sales, which were £1,699,691,993 in 2019.

Cisco’s US 10-K shows a pre-tax margin of 28%. Using this margin, we estimate the profits on UK revenues to be £616m.

At a 19% UK corporation tax rate, that would amount to a tax liability of £117m.

In 2019, Cisco International Limited and another UK subsidiary, Cisco Systems Limited, were charged £48,919,131 in tax between them.

Based on the above, we estimate Cisco avoided £68m in UK taxes in 2019.

Cisco did not provide us with a comment on our findings.

Facebook

In order to estimate Facebook’s real revenues in the UK, we looked at Facebook’s average revenue per user (APRU), which is published in a chart, broken down by region, appended to the company’s US stock market filings. We then took the mid-point between the US APRU and European APRU basing this calculation on the assumption that the UK would be at the top end of the European APRU range, but less than the US. Using the online tool Napoleon Cat, we calculated an average of 42,000,000 Facebook users in the UK for 2019.

On the basis of these numbers we estimate Facebook’s revenues from the UK to be £2.9bn in 2019.

Facebook's US 10-K shows a pre-tax margin of 35%. Using this margin, we estimate the profits on UK revenues to be just over £1bn. At a 19% UK corporation tax rate, that would amount to a tax liability of £194m.

Facebook's UK accounts show a current UK tax charge for 2019 of £40,049,000.

Based on the above, we estimate Facebook avoided £154m in UK taxes in 2019.

We spoke with Facebook, who informed us that they have changed their structures to be more transparent about where they generate revenue, including in the UK. Facebook have stated that they have long supported the OECD process which is looking at new international tax rules for the digital company.[4] They also said that currently the tax system does not allocate profits to jurisdictions where customers are located and pay the majority of their taxes in the United States.

Microsoft

Microsoft's UK accounts do not disclose any information about how much the company earns from UK customers. All of the revenue earned by Microsoft's main UK subsidiary, Microsoft Limited, is income earned from other Microsoft subsidiaries.

Microsoft's UK sales are booked by an Irish subsidiary, Microsoft Ireland Operations Limited. Its accounts provided a figure for revenues earned from the UK until 2015. Between 2013 and 2015 the proportion of the company's global revenues that came from the UK ranged between 3.12% and 3.6%.

To estimate revenues that Microsoft gained from the UK in 2019 we applied an average of 3.44% to the global revenue of Microsoft.

We estimate that Microsoft generated revenues of £3.4bn in 2019 from UK customers. This would yield an estimated profit of £1.2bn and a tax bill of £2225m in 2019. Microsoft Limited had a tax bill of £34,194,000 in 2019.

Based on the above, we estimate Microsoft avoided £191m in UK taxes in 2019.

Microsoft did not respond to our request for comment.

Apple

Our figures for how much revenue Apple makes from the UK market is derived from an estimate of the amount of money spent by UK customers on iPhones in the UK, which was constructed from data on smart-phone penetration and market research.

This shows that £6.3bn was spent on iPhones in the UK in 2017. This accounted for 6% of Apple's global iPhone sales. If we assume that other Apple products have a similar market share in the UK, and that the amount UK is worth as a per cent of the global total remained the same, then in 2019 Apple would have made revenues of £12.7bn in the UK.

4 Facebook boss 'happy to pay more tax in Europe', *BBC News,* 14 February 2020, https://www.bbc.co.uk/news/business-51497961

Applying Apple’s global pre-tax profit margin of 25% implies an estimated profit of £3.2bn and a tax bill (at the UK’s 19% corporation tax rate) of £610m.

Apple (UK) Ltd, Apple Europe Ltd, and Apple Retail UK had a £92,839,000 UK tax charge between them in 2019.

Based on the above, we estimate Apple avoided £517m in UK taxes in 2019.

Apple did not respond to our request for comment.

	eBay	Adobe	Amazon	Google	Cisco	Facebook	Microsoft	Apple	Total
Current UK Tax Charge	£ 5,260,000	£ 2,040,000	£ 14,582,000	£ 58,987,000	£ 48,919,132	£ 40,049,000	£ 34,194,000	£ 92,839,000	£ 296,870,132
UK Estimated Revenues	£ 997,172,883	£616,487,008	£ 13,730,000,000	£ 10,979,551,791	£ 1,699,691,993	£ 2,904,305,592	£ 3,408,827,130	£ 12,699,873,462	£ 47,035,909,859
Estimated Profits on UK Revenues	£ 201,951,757	£205,090,395	£ 684,047,882	£ 2,687,957,516	£ 616,194,000	£ 1,019,302,521	£ 1,183,417,748	£ 3,208,820,181	£ 9,806,782,000
UK Estimated Tax Liability	£ 38,370,834	£ 38,967,175	£ 129,969,098	£ 510,711,928	£ 117,076,860	£ 193,667,479	£ 224,849,372	£ 609,675,834	£ 1,863,288,580
Estimated UK Tax Avoided	£ 33,110,834	£ 36,927,175	£ 115,387,098	£ 451,724,928	£ 68,157,728	£ 153,618,479	£ 190,655,372	£ 516,836,834	£1,566,418,448