

# JUSTIN'S COMMENTARY

Justin Urquhart Stewart is one of the most recognisable and trusted market commentators on television, radio and in the press. Originally trained as a lawyer he has observed the retail market industry for 30 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.



## **All's fair in love, war... and international corporate taxation**

*"...and on the podium for **The 2013 Taxation Innovation Awards**:*

### **3<sup>rd</sup> place**

*Amazon, for ensuring that all UK sales are actually transacted with a Luxembourg holding company, despite the customer, the money and the goods never crossing the Channel. An unimaginative ploy, but done on a mind-bogglingly large scale – merits praise.*

### **2<sup>nd</sup> place:**

*Google, for relying on the hazy semantic difference between 'marketing' and 'sales' to avoid paying tax on (from what I can tell) most of its business in the UK for the past five years. An unconventional move, taking advantage of the technological nature of their products and revenue streams – a well deserved second place.*

### **1<sup>st</sup> place:**

*Apple. The outright winner. Most companies look for the most accommodating tax regime – whereas Apple simply creates its own. To be fair, you would expect little else from the creators of the various iProducts – why abide by the same rules when you can simply play a different game!*

*And the prize is...a complementary outing to the tax inquiry board of the government of your choice!"*

The American author Herman Wouk once said that *"tax returns are the most imaginative fiction being written today"* and the wonderful creativity currently being displayed by the accountancy departments of large global corporations certainly seems to bear that out.

However, the financial conditions of the last five years have increased the level of scrutiny that is being brought to bear on these multinational companies. Individuals, governments and banks have all been suffering with austerity, and public tolerance of 'free-riders' is extremely limited.

Micro-economics textbooks say that the principal duty of the managers of a company is to maximise the value of the business for the shareholders, through whatever legal means available; so by that measure the above three 'winners' are all doing the right thing. Yet most people are not habitual readers of micro-economics textbooks – what they do notice regularly is their monthly payslip, and how much tax is taken from it. With every member of the public armed with that very personal knowledge, sympathy for tax avoidance (not evasion, note) is fairly thin on the ground – and politicians are beginning to take heed. The US Senate has been quizzing perceived offenders for a number of months, as has the UK Public Accounts Committee - and last week we saw the G8 leader discussions hijacked by the tax debate.

The UK is in a fairly difficult position at present; accused not just of wanting its cake and eating it, but also of wanting a slice of everybody else's cake too. It is tough for David Cameron to argue that people and companies should stop taking their profits out of the UK, whilst at the same time having low corporate tax rates at the heart of George Osborne's budget in order to attract foreign businesses here. The fact that wealthy offshore havens such as Jersey and Guernsey are crown dependencies also comes across as (sorry about this) a bit rich.

The answer is simple – a global tax regime. However, the answer is also incredibly complicated – A GLOBAL TAX REGIME?! It took two horrific world wars before the international community could agree that all humans had the same fundamental rights – and we're still a long way from seeing these universally protected and enforced.

International co-ordination is still extremely difficult and in addition, the incentive to not comply is more than likely just too strong. Imagine a standard worldwide tax rate; it only takes one country to break ranks and offer a tax rate slightly below the rest of the world, and hence attract the tax-savvy companies. The system would shatter.

The executives we see in front of these various panels are aware of this – people like Eric Schmidt of Google and Tim Cook of Apple can openly blame the current tax laws, and challenge, even beg governments to alter them. They do this though with the complete certainty that change will be decades away and if it does come, they have buildings full of accountants just waiting to get ahead of the curve.

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At the risk of causing a boredom-induced haemorrhage, there is another snippet of information relating to tax that's worth sharing. According to the Adam Smith Institute ('ASI'), the pioneering Libertarian think-tank behind the privatisation of British Rail (please don't swamp them with your effusive letters of thanks and praise...), today is Tax Freedom Day. This means that today (30<sup>th</sup> May) is the first day when the average British worker earns their first penny solely for their own benefit.

The Institute calculates all of the tax revenue that the government will collect this year, including VAT, National Insurance, fuel duty, stamp duty, road tax and a whole host of others besides, and then sets this against the national income, eventually spitting out a rate of 41.5%. Some simple arithmetic with the days of the year leaves us where we are today, with 58.5% of the year still to go, and every single penny we earn, we can spend! Hurrah!

Obviously, this isn't the case, and to be fair to the ASI, they are not suggesting it is. Instead this statistic is used to try to provoke some thought about how much money is paid to the government, and whether we receive sufficient in return – the ASI very plainly believes we should be giving less and getting more. That is something I believe is extremely subjective, best expressed through a system which allows each person to vote for the form of government they believe the best. By extraordinary chance, we have that already: democracy.

Without probing too far into the figures, I would say that we don't do too badly – a welfare state that works, a health service envied the world over, an education system that produces highly literate and numerate adults, well-engineered roads, a top class justice and police system...the list goes on and on. I can hear the cries of outrage already, but once you put our world-famous innate pessimism aside, things actually look rather good – after all, in a recent survey Britain was voted one of the top ten places in the world to live! I think Oliver Wendell Homes Junior had the sense of it when he said *"I like paying taxes. With them I buy civilisation."*

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I'm on holiday this week, so this article has been written by Ben Kumar who is part of our Investment Management Team.

Have a good week.

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