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Starbucks, Google and Amazon grilled over tax avoidance

Executives from some of the world's most-recognised firms have been grilled by MPs on the issue of tax avoidance.

The head of Google UK and top managers from Starbucks and Amazon appeared before [the Public Accounts Committee](#).

Starbucks admitted the Dutch government had granted a special tax deal on its European headquarters, which receives royalty payments from its UK business.

Amazon and Google also confirmed they used favourable European tax jurisdictions for their UK businesses.

Amazon's sales are handled out of Luxembourg, while Google's advertising space is sold by a team in the Republic of Ireland, the executives confirmed.

Margaret Hodge, who chairs the parliamentary committee, told the BBC that she thought it was right for customers to boycott the three companies.

"One of our concerns is that the ability of global companies to choose where to they put their costs and their profits gives them an unfair tax advantage that damages UK-based businesses," she said.

No analysis

Starbucks has reported a taxable profit only once in its 15 years of operating in the UK.

"We're not at all pleased about our financial performance here," the coffee chain's chief financial officer Troy Alstead told the committee. "The most competitive coffee and espresso market we face is here in the UK."

A four-month investigation by news agency Reuters revealed that [Starbucks reportedly paid just £8.6m in corporation tax in the UK over 14 years](#) - including reporting accounting losses when it was profitable.

Ms Hodge questioned why the company even continued to do business in the UK, if it was making such perennial losses.

The taxable profits of its UK business are calculated net of the royalty paid to its Netherlands regional headquarters.

Mr Alstead said that these royalties were subject to a combined tax rate in the Netherlands and the US of approximately 16%. The UK's main corporation tax rate is 24%.

Starbucks' royalty rate used to be 6% of sales, but was recently reduced to 4.7% after being challenged by the UK tax authorities.

The chief financial officer said the 6% royalty rate was paid by its businesses in other countries, including by independent licensees in 20 countries.

He said the royalty reflected costs incurred by the business outside the UK - including new products, store layout design, new

machinery development and engineering services.

However, when challenged by the committee, he admitted that there was no detailed analysis of costs behind the 6% figure.

He denied that the Netherlands had been chosen as the company's regional headquarters because of its favourable tax rate, saying it was because the company had a major roasting plant located there.

All of Starbucks' businesses worldwide, including in the UK, buy their coffee from its Switzerland office, Mr Alstom also said, which charged a 20% markup on the price at which it bought its coffee in the wholesale market. The Swiss office paid a 12% tax rate on its profits, he said.

Mr Alstom insisted that the company does not use any tax havens, and pays a high tax rate worldwide.

Luxembourg HQ

MPs expressed frustration with Amazon's director of public policy, Andrew Cecil, who repeatedly said he would have to come back at a later date with information requested by the committee.

The information included the value of Amazon's sales in the UK, the pre-tax profits of the European company and the ownership structure of the European company.

Mr Cecil explained that sales on the amazon.co.uk website - and in all other European countries - were actually made by its Luxembourg-based European business, which employs 500 people.

Amazon's UK business, which employs about 15,000 people to manage deliveries, warehousing and other aspects of the UK business, operates as a service provider to the European company.

As such, the profits on the mark-up on the sales price are booked by the Luxembourg company.

Mr Cecil said that the Luxembourg business's turnover in 2011 was 9.1bn euros. It paid taxes of 8m euros and posted after-tax profits of 20m euros.

He said that Amazon had never publicly disclosed the country-by-country breakdown of its European sales.

According to a report by the Guardian, Amazon generated sales of more than £3.3bn in the UK last year [but paid no corporation tax on any of the profits](#), and is under investigation by the UK tax authorities.

Mr Cecil confirmed that the company had received a 200m-euro payment demand from the French tax authorities, but refused to divulge whether any other countries were investigating the company's tax dealings.

Tax haven

Like Amazon, Google also operates its European business out of a favourable tax jurisdiction - in its case the Republic of Ireland - according to Matt Brittin, who runs company's northern European businesses.

He openly admitted that the choice of Ireland was due to its favourable 12.5% corporation tax rate.

He also confirmed that the rights to the company's non-US intellectual property rights were owned in the tax haven of Bermuda, saying that the company had a duty to shareholders to minimise its costs.

He further freely accepted that until recently, the Ireland company was paying a fee to a separate Dutch company within Google, purely for the purpose of reducing its taxes.

Like the other executives, Mr Brittin insisted that nothing his employer did was illegal, prompting the committee chair, Ms Hodge, to say: "We're not accusing you of being illegal, we're accusing you of being immoral."

[Google's UK unit paid just £6m to the Treasury in 2011](#) on UK turnover of £395m, according to the Telegraph.

Google earns revenues in the UK when users of its UK search website click on links that business customers have paid Google to list at the top of the results for particular search terms.

Mr Brittin said this advertising space was sold by a team of 3,000 salespeople in its Ireland office - of which 200 deal with UK business customers.

However, he also admitted that the company employed 700 marketing consultants in the UK who, among other things, would refer clients to the Ireland sales team.

The executive insisted that the primary value provided by the company in the UK was not the sale of advertising space, but provided by its 17,000 engineers in California that creates the company's innovative technology - such as its search engine, mapping and translation services - which are mostly provided for free.

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