

WARM UP

1 In what ways might a multinational not operate in an ethical manner?

MORE ABOUT...

In November 2012, executives from Starbucks, Google and Amazon were questioned by UK Members of Parliament regarding the **avoidance of corporation tax**. Investigations carried out by several newspapers claimed that Starbucks paid only £8.6m in corporation tax in the UK over 14 years and reported losses when it was actually profitable; Amazon, the online retailer, had UK sales of over £3.3bn in 2011 but paid no tax on the profit and Google's UK unit paid just £6m tax in 2011 on a UK turnover of £395m.

Can multinationals be ethical?

Many people think of environmental issues and human rights – child labour, poor working conditions, low wages – when they consider the question of multinationals and ethics. But today there is another aspect of multinationals that is worrying people, or governments at least, and that is tax avoidance. Paying taxes, whether we like it or not, is an obligation for individuals and companies alike, so what exactly are multinationals doing and is it ethical?

A large international company is in a position to be able to decide where to locate its subsidiaries and how best to arrange its affairs to minimise its tax bill. This happened a lot around the 1990s when there was an incredible spread of global businesses across the planet. Starbucks, for example, sources its UK coffee from its wholesale trading subsidiary in Switzerland. This makes commercial sense as it is cheaper to have one team who sources all of Starbucks' coffee, and Switzerland is apparently the centre of the world coffee-trading business. But it is hard to escape the conclusion that Switzerland would not be a major centre for coffee trading if it did not charge such a low 12% tax on the trading profits.

It is not just the companies that are under competitive pressure to reduce their taxes. The tax jurisdictions also compete with each other to attract more business. Ireland, for example, cut its corporate tax rate to 12.5% specifically for this reason and Google was one business to take advantage of this, locating its two data centres there.

If a company cannot move its business outside a high-tax jurisdiction, it still has ways of moving its taxable profits outside the country through a method known as transfer pricing. This involves payments to other companies within the same corporate empire, but which are located in low-tax jurisdictions. Multinationals can overprice the goods and services provided and therefore decrease the taxable profit in one country and move it somewhere else. Amazon, Google, Starbucks, Facebook and eBay have all recently been accused of this.

In principle, these kinds of intra-company transactions are perfectly legitimate if they are done at a fair market price. In practice, the transactions are often ones that would never take place on an open market, making it impossible for a tax authority to say with certainty what the fair market price would be.

Source – BBC News – © 2012

READING COMPREHENSION

2 Read the article and answer these questions.

- 1 What aspect of multinationals' behaviour are governments particularly concerned about?
- 2 Why is the location of a multinational's subsidiaries important?
- 3 Why does Starbucks have a subsidiary in Switzerland?
- 4 What is transfer pricing?
- 5 How does it help a company pay less tax?
- 6 What difficulties do tax authorities have with transfer pricing?

SPEAKING

3 Have a class debate on the following topic.

'It is impossible for a multinational to be completely ethical in its business practices.'