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Osborne Pledges U.K. Tax Clampdown as Starbucks to Pay More

By Gonzalo Vina and Kevin Crowley - Dec 3, 2012

U.K. Chancellor of the Exchequer George Osborne said he will devote more money to tackling tax avoidance as Starbucks Corp. (SBUX) bowed to pressure from Parliament and said it will consider paying more tax in Britain.

A 77 million-pound (\$123 million) effort to improve Her Majesty's Revenue and Customs' technology and recruit more staff may yield an extra 2 billion pounds in unpaid tax from companies such as Starbucks, the world's largest coffee-shop operator, Osborne said. Pre-empting a House of Commons Public Accounts Committee report, the U.S. coffee chain said it is already in talks with the Treasury and "looking at our tax approach."

"It is unacceptable for a minority to avoid paying their fair share," Osborne said in a statement released by his office in London today. "We are determined to tackle this problem."

Osborne is responding to a backlash that followed a Nov. 13 parliamentary hearing with executives from Starbucks, Amazon.com Inc. (AMZN) and Google Inc. (GOOG) who were criticized for using complex accounting methods to reduce their tax liabilities in the U.K. Osborne today said he would use his Dec. 5 autumn statement to announce measures that would raise as much as 10 billion pounds for the Treasury.

Osborne also will probably say this week that he'll decrease the bureaucracy surrounding a 1 billion-pound tax known as the carbon-reduction commitment, rather than doing away with it, the Financial Times reported today without saying where it got the information.

Transfer Pricing

Osborne needs to placate lawmakers and voters by preventing large corporations from minimizing tax bills at a time when he is driving through the biggest budget cuts since World War II to narrow the nation's fiscal deficit. Osborne said last month he wants clearer international rules to help reduce tax avoidance.

The U.K. will focus its efforts to combat transfer pricing arrangements in which international

companies shift earnings to low-tax jurisdictions.

The plan also includes previously announced efforts to raise as much as 5 billion pounds from individuals escaping the U.K. tax system by hiding money in Swiss bank accounts and an information-sharing deal with U.S. tax authorities. The U.K. will also put tax avoidance at the top of the Group of Seven agenda when it chairs the gathering next year.

"I completely understand people's anger when they see people not paying their fair share of taxes," Osborne said in an interview with BBC Television's Andrew Marr Show yesterday.

'Insult'

The Public Accounts Committee, a cross-party panel that scrutinizes government finances, said in a report based on the testimony of the U.S. executives that the revenue office had to be "more aggressive and assertive" in challenging large corporations that avoid tax.

"This is an outrageous and an insult to British businesses and individuals who pay their fair share," said Margaret Hodge, a lawmaker from the opposition Labour Party who chairs the committee.

Starbucks is in talks with the Treasury over its tax affairs and will release details of the discussions this week, the Seattle-based company said in an e-mailed statement. Starbucks has complied with all U.K. tax laws and is committed to the country for the long term, it said.

"We have listened to feedback from our customers and employees, and understand that to maintain and further build public trust we need to do more," Starbucks said. "As part of this we are looking at our tax approach in the U.K."

Taxpayer Confidentiality

Chief Secretary to the Treasury Danny Alexander welcomed the move, while rejecting calls to "name and shame" tax avoiders. "I think taxpayer confidentiality is a very important part of our tax system," he told BBC Radio today.

Starbucks paid no income taxes on revenue of 1.2 billion pounds over the past three years by using intra-company transfers and loans to record a loss for its British business, Reuters reported Oct. 15, citing company filings. There is no suggestion the Seattle-based company has broken the law in the U.K., its biggest European market.

The coffee-shop operator eliminated a 5 million-pound corporation tax bill by paying a royalty fee of 4.7 percent of its U.K. revenue to its Dutch division for a license to use its brand, the Sunday Times reported yesterday, without saying where it got the information.

Starbucks Chief Financial Officer Troy Alstead angered lawmakers last month by refusing to publicly disclose details of a low-tax rate granted by the Netherlands at a parliamentary hearing. In the past three years, the company has paid more than 160 million pounds in employee, national insurance and business rates tax, he said.

The testimony last month at times drew laughter from members of the committee who also queried how Amazon made 20 million euros (\$25 million) profit on sales of 9.1 billion euros across Europe last year and questioned why Starbucks remained in Britain. Google paid 6 million pounds in company tax last year.

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