

Starbucks exposed for avoiding millions in tax

Despite making billions of pounds in coffee sales, Starbucks have paid next to nothing in tax. No laws have been broken, but customers are furious all the same.



BUSINESS & ECONOMICS

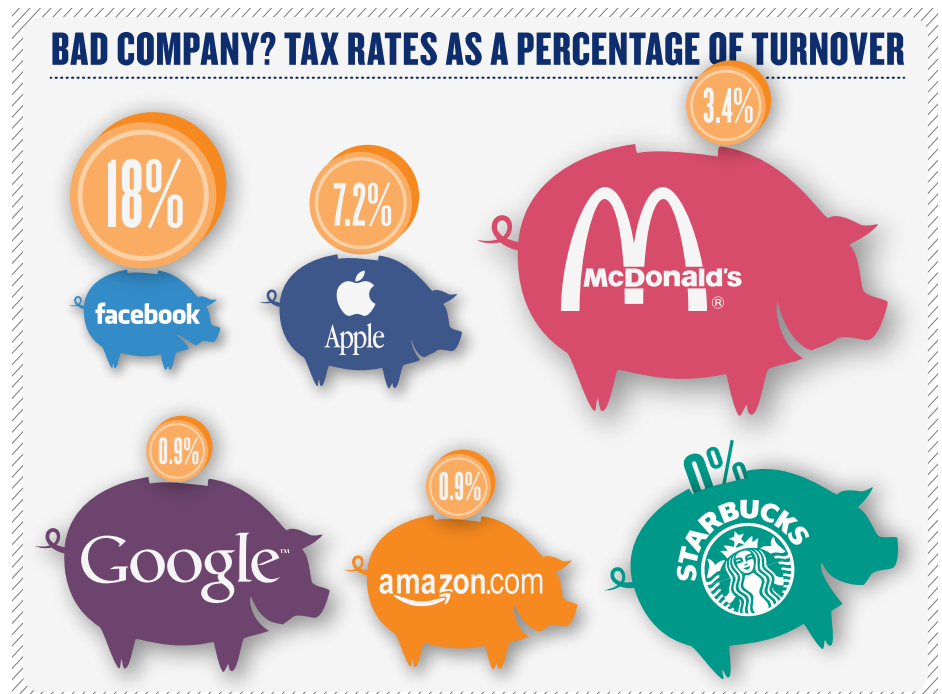
With its forest green front and smiling mermaid logo, Starbucks can be found on practically every high street in the UK. The ubiquitous coffee chain sells an estimated 4 billion cups of coffee each year from 5,500 shops in over 50 countries.

But today, Starbucks is under fire. Since opening in the UK in 1998, it has grown to 758 branches, and raked in over £3 billion in sales. Yet it has handed over only £8.6 million in tax – and in the past five years has paid not a single penny.

In that time, Starbucks has told authorities that it has made a financial loss – and so has not been required to pay tax.

But when executives speak to investors they have portrayed the company in a very different light. The brand, they said, was both ‘successful’ and ‘profitable’. In fact, some were so ‘pleased’ with the UK performance they planned to use it as an example to Starbucks all over the world.

Bizarrely, it is possible to argue both



these claims at once – using clever and totally legal tax avoidance techniques.

One of the brand's favourite methods involves reducing its UK profit by shifting revenue to different parts of a company. When a UK branch sells a Starbucks latte, for example, 6% of the price goes to the American parent company as royalties for the coffee's branding and product. Offices of the company also loan money to British branches at a high interest, making a dent in UK profits, but ensuring the money goes back to Starbucks in another country.

Starbucks is not the only multinational to come under fire for dodging the taxman. Of the £175 million Facebook made in sales last year, just £238,000 was paid in tax, while Google paid just £6 million on a UK revenue of £395 million. That's the equivalent of just 1.5%. To put that in perspective, the basic rate of tax for personal income is 20%, while earnings over £34,371 get taxed at 45%.

Why is it possible to pay so little? The UK's tax code is the longest and most complicated in the world, with a handbook of tax law running to 11,520 pages. That means plenty of loopholes, which wealthy corporations go to great lengths to exploit.

BRINGING IN THE BUCKS

For tax avoidance campaigners, this is an unacceptable situation. It is every company's duty, they say, to contribute to its society – and paying taxes is the best way to ensure that. Those that refuse to pay their way leave the tax burden to normal people – such unfairness has no place in British industry.

But not everyone agrees. A company's real contribution, they say, lies in creating employment and wealth. A significant amount of that goes back to government through income tax and VAT. In generating that money, companies should be as free as possible – not crippled by taxes.



Q & A

Q Why should I care if Starbucks doesn't pay taxes?

A The taxes corporations pay are meant to contribute to government expenditure – things like hospitals, schools and roads. If the money for essential things like these aren't there, public services suffer – or the money has to be found somewhere else.

Q Where?

A Essentially, other people's taxes. While Starbucks pay tiny amounts of tax, your parents might pay 20% of their earnings to ensure there is enough money to keep the country running. And when you're older, you will need to pay the same.

Q That doesn't seem fair.

A Comedian Frankie Boyle neatly describes what he thinks of the wealthy individuals'

tax avoidance: 'if you're rich, don't look at it as tax avoidance, look at it as a children's hospital buying you a pool table'.



SOME PEOPLE SAY...

'Tax is theft.'

WHAT DO YOU THINK?

► Starbucks exposed for avoiding millions in tax



WORD WATCH

Ubiquitous – Something that is found everywhere.

Tax Avoidance – Starbucks are currently under fire for tax avoidance, which means using loopholes in the law to minimise the amount of tax paid. This is legal. Tax evasion, on the other hand, means concealing earnings and assets, refusing to pay tax or dodging assessment for it. That is illegal.

Revenue – A company's revenue is the money it makes from the sale of its goods or services.

Profit – After the costs of a business are taken away from its revenue, profit is what is left. Costs might be the price of the ingredients in a product, packaging, staff costs and overheads. Corporate tax avoidance works by artificially increasing costs, reducing profit to very little, or even to a loss – leaving them

with no taxable income.

Income Tax – Unlike corporation tax, income tax applies to individuals. It is deducted from earnings in your job, income from self-employment, and interest from shares and some savings.

VAT – Value Added Tax is a tax on most goods and services: when you buy something, part of the price is usually VAT. In the UK, standard VAT is currently 20%.



YOU DECIDE

1. Do you think Starbucks' reputation will be harmed by the tax avoidance scandal?
2. Should all corporations be bound to pay the full amount of tax?



ACTIVITIES

1. Design a campaign to raise awareness of Starbucks' tax avoidance.
2. Imagine you are a senior board member at Starbucks. You want to radically change the company's approach to tax, and start paying more. Persuade your colleagues to stop avoiding it.



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