Tax Avoidance Strategy

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Double Irish Dutch Sandwich

- Tax strategies used by Google, Apple, Facebook and many other corporations esp. in technology and pharmaceutical sectors to shift profits by sending royalty payments for intellectual property to jurisdictions with no corporate income taxes.
- Under a **Double Irish** structure, a U.S. parent company, USCo, sets up an Irish-incorporated holding company, IrishCoA, whose management resides in a tax haven (say, Bermuda).
  - Under U.S. law, IrishCoA is an Irish company, since U.S. law determines tax residency by the place of incorporation.
  - Under Irish law, IrishCoA is a tax resident of Bermuda, since Irish law allows tax residency to be determined by where the company's central management and control is located.

Double Irish Dutch Sandwich

- USCo then sets up an Irish-incorporated operating company, IrishCoB, that is wholly-owned by IrishCoA and is managed and controlled in Ireland.
- USCo transfers the non-US rights for its IP to IrishCoA, which in turn grants the license to IrishCoB. IrishCoB generates revenue from the IP and pays royalties to IrishCoA.
  - IrishCoB could further sublicense the rights to other USCo's affiliates and receives royalties for their use of the IP.
- Result: IrishCoB pays 12.5 percent Irish corporate income tax on its profits (after royalty payments to IrishCoA are deducted) and IrishCoA pays no taxes as it is a Bermuda resident for Irish tax purposes.

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- Under the U.S. entity classification ('check-the-box') election rule, IrishCoA and IrishCoB can be treated as a single company from a US tax perspective.
  - Check-the-box election allows a subsidiary company to be treated as a branch of its parent company (rather than a separate entity) for tax purposes.
- Royalty payments from IrishCoB to IrishCoA will therefore be considered as internal transactions and not subject to U.S. taxation under Subpart F.

Double Irish Dutch Sandwich

- In a **Double Irish Dutch Sandwich** structure, a third subsidiary, NetCo, is set up in the Netherlands.
- Because royalty payments from IrishCoB to IrishCoA may be subject to withholding tax in Ireland (since IrishCoA is a Bermuda resident), further tax reduction can be achieved by having IrishCoA license the IP to NetCo and NetCo sublicense the IP to IrishCoB.
- Pursuant to EU directives, Ireland does not withhold taxes on royalties going to another EU member country. The Netherlands has no withholding tax on royalties, no matter where they are paid.

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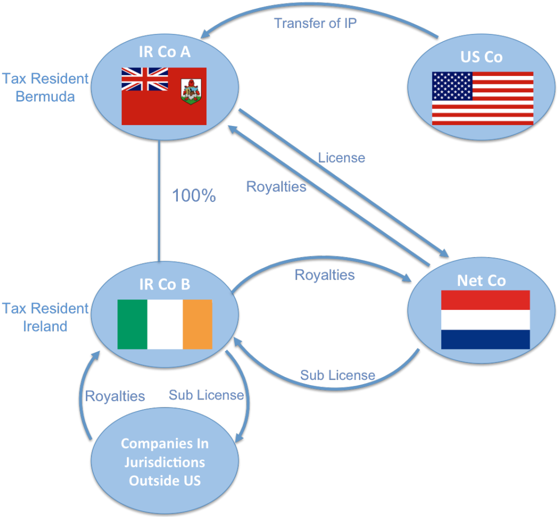
- Result: royalties now go from IrishCoB $\rightarrow$ NetCo $\rightarrow$ IrishCoA without triggering withholding taxes.
  - NetCo can similarly use check-the-box election to be treated as part of IrishCoA for U.S. tax purposes to avoid Subpart F taxation.
- In sum, the Double Irish Dutch Sandwich structure takes advantage of the transfer pricing of intellectual property, the Irish management and control standard, the Irish and Dutch withholding tax rules, the U.S. check-the-box rules, and the low tax environment of Ireland and Bermuda to achieve the goal of minimizing a company's global tax rates.

Double Irish Dutch Sandwich



Double Irish Dutch Sandwich

- Google is one of the many corporations that have utilized the Double Irish Dutch Sandwich structure.
- Google set up two companies in Ireland: Google Ireland Ltd. and Google Ireland Holdings. Google Ireland Ltd. is wholly-owned by Google Ireland Holdings. The management of Google Ireland Holdings is set in Bermuda.
- Google Ireland Holdings owns the rights to Google's search and advertising technology for Africa, Europe, and the Middle East. It licenses the rights to Google Netherlands Holdings B.V., which in turn sublicenses them to Google Ireland Ltd.

Double Irish Dutch Sandwich

- When customers in Africa, Europe, or the Middle East buy Google advertising, Google Ireland Ltd. bills the customers and collects the revenue. It then makes royalty payments to Google Netherlands Holdings B.V., which in turn pays royalties to Google Ireland Holdings.
- In this way, Google earns the majority of its non-US income in Ireland and pays very little taxes: in 2013, Google Ireland Ltd paid an effective tax rate of 0.16 percent on €17bn revenue (€27.7m).

Double Irish Dutch Sandwich

- The Irish government, under international pressure, has taken steps to curb the Double Irish strategy: starting January 2015, companies newly incorporated in Ireland must also be tax resident there.
  - However, companies can continue to execute the strategy by exploiting Ireland's extensive treaty network. For example, IrishCoA can move its management to Malta, a European tax haven, with which Ireland has a treaty that would continue to allow Irish firms with Malta-based management to be treated as tax residents of Malta.
  - Ireland has also created a special low tax rate for IP-derived income ("knowledge box") to maintain its appeal in international tax competition.