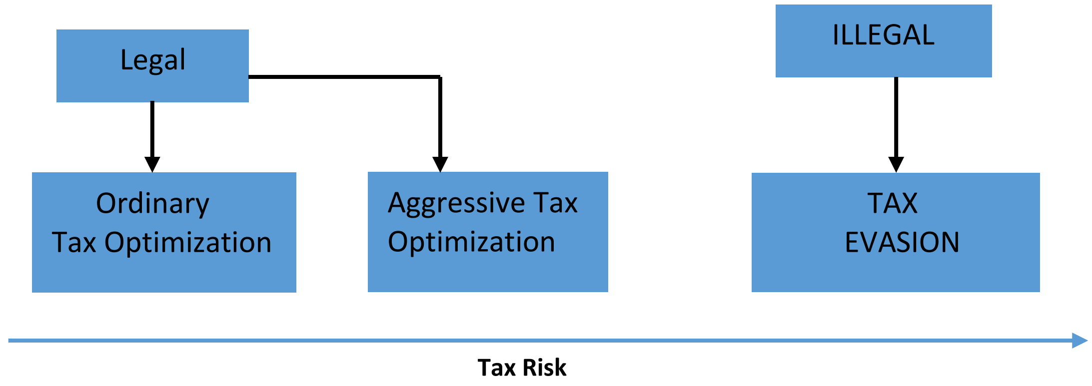
Handout of:
How Multi-National Companies Avoid Taxes

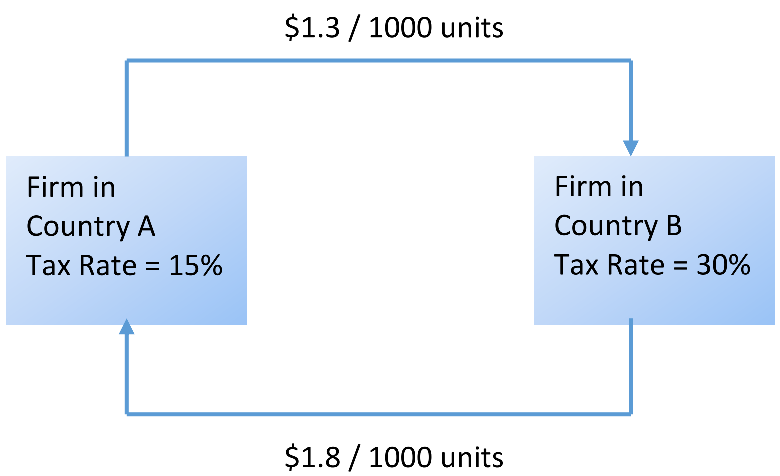
MNC's use aggressive tax optimization technique for paying less taxes.



There are four main different ways for an MNC to avoid taxes. They are

1) Transfer Pricing
2) Intra-Corporate Loans
3) Inversion and
4) Royalty Payments

Transfer Pricing



The idea behind Transfer Pricing (TP) is simple. When two divisions of a same company are located at two different countries with two different tax rates, then the firm in the higher tax bracket can charge less for number of units because the tax burden will be less. Similarly, the firm in the country with lower tax rate can charge higher price for the number of units purchased and therefore lessen the tax burden. This method shows significant growth on the Profit Margins.

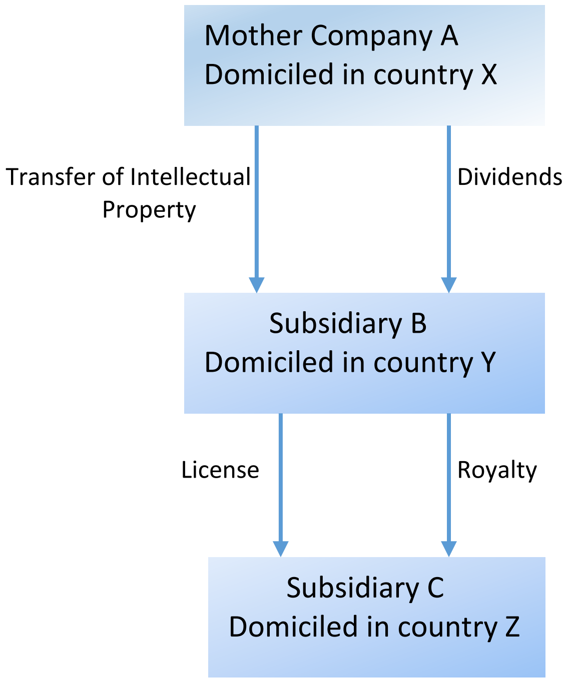
Intra-Corporate Loans

This is actually a provision that a government offers companies to deduct interest payments on loans as an expense item. But. If the lender (source of funds) and borrower are companies within the same MNC, although in different nations then the MNC has a clear path to paying less tax in high-tax jurisdictions.

Inversion

An inversion involves a company shifting its corporate headquarters to a lower-tax jurisdiction by merging with a foreign firm in a lower-tax country. For larger MNC's, the annual savings can be in billions. A recent example of an MNC using this method is Burger King, which has shifted its base from the US to Canada. Canada has lower corporate tax rate than in the US, which charges nearly 35-40%.

Royalty Payments



The parent company A domiciled in country X establishes a subsidiary B in country Y which applies a reduced tax rate to revenue from licenses, and the mother transfers all its intellectual rights to this subsidiary. Then, company B grants property rights to another subsidiary C located in another country, which actually runs the business based on the license. Under this agreement, company C regularly pays higher royalties to company B. Taxes are not withhold if the royalties are paid to a company registered in another EU member state. The profit in Company B is paid as dividends to mother company A. As part of this transaction, the tax withholding in Country Y can often be avoided, as can the income tax in country X.