How the Dutch help Starbucks avoid taxes
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On 12 November 2012 the UK Parliament's Public Accounts Committee interviewed Troy Alstead, global chief financial officer of Starbucks. It appeared that Starbucks reduces its UK tax bill by paying a 6% royalty to Starbucks headquarters in Amsterdam. Mr. Alstead explained that about half of the payments flow through Amsterdam directly to the US, as a compensation for the historical development of the brand, the product innovation and store design systems. The other half, he added, remains in Amsterdam. The Committee then asked whether Starbucks paid Dutch tax on the royalties:

"Q242 Chair: Can I ask a question about that? You are paying on royalties in the Netherlands, aren't you? Is there a special low-tax regime in the Netherlands on royalties?

Troy Alstead: Yes, there is. We have a tax ruling that we have had since—

Q243 Chair: So it is less.

Troy Alstead: Oh yes, it is a very low tax rate.

Q244 Chair: So there is a tax advantage to you from paying the royalties in the Netherlands.

Troy Alstead: It is a favourable tax rate that we have in the Netherlands on all income that comes in from all over the—

Q245 Chair: That is why you put it into the Netherlands.

Troy Alstead: It is not why, but it is an attractive reason to be there, there's no question.

Chair: No, it is why.

Q246 Stephen Barclay: What is the tax rate you pay in the Netherlands?

Troy Alstead: I am very happy to provide that to the Committee, but I am bound by confidentially to the Dutch Government on that. My request would be: could I follow up afterwards and provide it just to the Committee? I am very happy to do that—just confidential."

(See this pdf-file for the full interview)

This discussion led the Committee to conclude that the whole purpose of the Dutch tax ruling is to reduce tax. Mr. Alstead confirmed this: "yes, they do offer very competitive tax rulings—it is not unique just to Starbucks."

Assuming that this is correct – how does it work? Due to the confidentiality of Dutch tax rulings, we have to make an educated guess. The rulings could be based on the innovation box that offers an effective tax rate of 5% for income from qualifying intellectual property. Another possibility is that the Dutch tax authorities issue so called informal capital rulings. These rulings typically involve cases where a Dutch taxpayer is granted a royalty-free license of intangibles by a group company. The ruling allows the taxpayer to deduct a deemed arm's length royalty from its taxable income. Alternatively, the ruling enables the taxpayer to capitalize the intellectual property at fair market value and subsequently amortize that intangible (for more information see this pdf-file).

With increasing international attention drawn to multinationals' tax avoidance, these tax rulings are harmful to the reputation of the Dutch tax climate. It is now up to the Dutch Parliament to ask the State Secretary for Finance to clarify this matter.