

TAX AVOIDANCE PRACTICES OF MULTINATIONAL COMPANIES AND THEIR EFFECTS ON CUSTOMERS

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ABSTRACT

One of the major problems that every tax system faces is tax avoidance. In order to prevent avoidance of tax many countries have strategies about this issue. In the UK obstructive precautions contrary to tax avoidance are taken by Her Majesty's Revenue & Customs (HMRC). The law about avoidance of tax by multinational companies is made vigorous, so the companies will be more careful in their actions. According to this law; buyers have to be informed about company's policy of avoidance, company's operational reaction to avoidance should be optimised, and economics of avoidance is altered to make it unattractive. As a result of these precautions, the anticipated probable achievements were overcome by anticipated charges, hardships and risks of performing avoidance (Tax Avoidance, 2013).

Key Words: Tax avoidance, international companies, starbucks, consumer behaviour

ÖZ

Her vergi sisteminin karşı karşıya olduğu en büyük sorunlardan biri de vergi kaçınmadır. Vergi kaçınılmasını önlemek için birçok ülke bu konuda stratejiler geliştirmektedir. İngiltere'de vergiden kaçınmaya aykırı olan engelleyici önlemler Majesteleri Gelir ve Gümrükleri (HMRC) tarafından alınır. Çokuluslu şirketlerin vergi kaçakçılığı ile ilgili kanunlar yoğun bir şekilde yapılır, bu nedenle şirketler faaliyetlerinde daha dikkatli olacaklar. Bu yasaya göre; alıcıların firmanın kaçınma politikasından haberdar edilmesi gerekiyor, kaçınma konusundaki şirketin operasyonel tepkisi optimize edilmeli ve kaçınma ekonomisi çirkin hale getirmek için değiştiriliyor. Bu önlemlerin sonucu olarak, beklenen muhtemel başarılar, öngörülen masraflar, zorluklar ve kaçınma riskleri (Vergi Kaçınma, 2013) ile aşılmıştır.

Anahtar Kelimeler: Vergi kaçakçılığı, uluslararası şirketler, starbucks, tüketici davranışı

1. INTRODUCTION

Every company, including international companies have to pay tax in the UK. Approximately several billion pounds were lost due to both straightforward and unstraightforward taxes. Although the HMRC has preventive strategies, global firms such as Amazon, Starbucks and Google have come under fire for avoiding paying tax on their British sales and naturally the consumer's affected by this issue. One must not underestimate the importance of consumer behaviour in these Multinational Companies, because customers have the ability to affect their business. In order to minimize customer reaction, Amazon, Starbucks and Google should revise their tax avoidance policies.

This essay aims to investigate how these three companies involved in tax avoidance practices while they claim to have high levels of Corporate Social Responsibility. The first aim of this research project is to describe the nature of tax avoidance according to HMRC. The second aim is to explore the character of multinational companies from the article by Tony Edwards and Paul Marginson, about another Corporate Social Responsibility Policy in Multinational Companies. Finally to look at consumer behavior depending on the results of the research conducted in this project.

2. LITERATURE REVIEW

Daunton (2002) identified that over the years there has been concerns about "tax avoidance", so it is not a new issue for the media and for the parliament attention. In recent years, it has once again come under the political

and public spotlight. Most probably this is due to international companies such as Amazon, Starbucks and Google's tax avoidance practices. As in the past, wealthy individuals and large companies have been accused of these practices, as have popular public figures, politicians and public sector employees. These relations lead to understandable anger during tight public finances, comprehensive economy precautions, and a struggling economy (Oxford University Centre for Business Taxation, 2012).

In the essay on the meaning and definition of multinational company it is stated that a multinational company (MNC) is an organization or enterprise carrying on business in not only the country where it is registered but also in several other countries (Shyam, 2012). The latest advice (Department of Management, 2007) is that the MNCs are under growing pressure to display socially responsible behavior in their global operations. Starbucks came under criticism last year after Reuters revealed that the coffee chain paid only 8.6 million pounds (\$13 million) in taxes on 3.1 billion of revenues since 2000. Accounts filed for its British, German and French units, which make up 90 per cent of European revenues, show a loss of \$60 million in 2011, hence very little tax.

On the other hand Corporate Social Responsibility Annual Report by Blair Taylor, chief community officer states that on a global level they are trying to be innovative in how they think about communities. As it is stated in this report Global month of service is great example, with more than 230000 hours of service and 2100 projects completed in April 2012. The Internet retail company runs the bulk of its European operations out of Luxembourg, allowing it to minimize the amount of tax it has to be pay on revenue generated in other European countries. But the tax avoidance mechanism has also allowed Amazon to dramatically cut its U.S. tax bill; an investigation by Reuters has shown, with the company paying a tax rate of around 5.3 per cent over the past 5 years. The U.S. tax authorities have asked Amazon to pay back taxes totalling \$1.5 billion, a demand that the company has said it will "vigorously contest". In the official website of Amazon it is stated that Amazon company reducing packaging waste, most Amazon.co.uk orders are dispatched in corrugated containers which are produced from 100% recovered fiber content, once used, these containers are 100% recyclable for use in the manufacture of other paper products. Also, Amazon's corporate headquarters in Seattle is made up of eleven sustainable eco-friendly buildings. The U.S. Green Building council has awarded four of the eleven buildings with LEED Gold certification for the project's sustainable design and construction methods.

Despite generating \$18 billion of revenue in Britain from 2006 to 2011, the Internet search giant paid only \$16 million in taxes to British authorities (Reuters, 2013). Google says it does not have a sales presence in Britain and therefore cannot be considered resident for tax purposes, lowering its obligations. Since its founding Google has been firmly committed to active philanthropy and to addressing the global challenges of climate change, education and poverty alleviation. "Google China Social Innovation CUP for College Students" is a nationwide competition that aims to empower China's youth to become agents of social change. Also, Google Company is supporting earthquake relief efforts (Google, 2008).

3. METHODOLOGY

The research question of this paper is to what extent will tax avoidance by multinational companies' impact on consumer behaviour. Questionnaire was conducted among 20 participants who belong to different social groups in terms of age, income, gender. The questions which were closed, sought to find information about participants' motivation of buying Starbucks products and what they think about Corporate Social responsibility. The place for the research was The Mall at Cribbs Causeway which is one of the busiest shopping centres in Bristol. The interview was held at the weekend as it was the busiest time of the week, in order to be able to increase the variety of respondents. It was important because it would directly affect the result of the research done because the aim of this survey was to find the multinational companies such as Starbucks, Google and Amazon's tax avoidance practices' impact on the customers. In order to be more specific one of these three companies was chosen and the questions referred to Starbucks' tax avoidance practices and its Social corporate responsibility policy. Second reason to select Starbucks was the closure of one of its stores at Broadmead, Bristol couple of months ago. Tax avoidance survey consists of ten closed questions. In order to find the right response and information respondents were selected carefully. The people who answered the questions were in different age groups, so the survey covered various inquiries.

4. FINDINGS

In this section, the data that is found out from the research was identified by using pie chart and table.

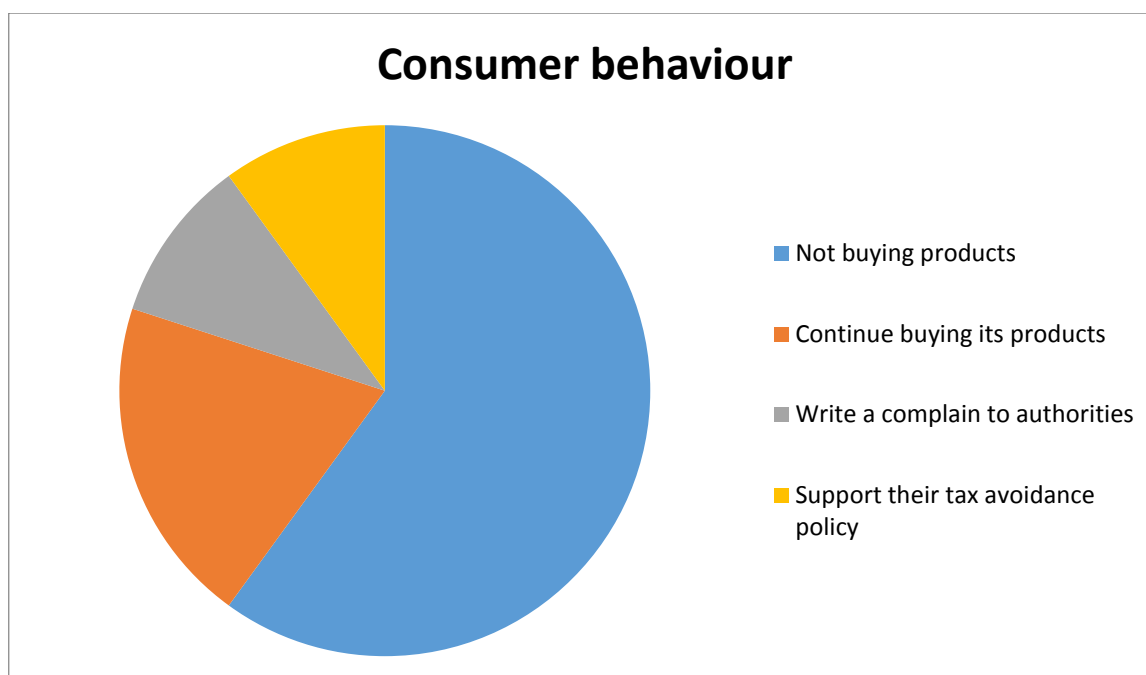


Figure 1: Behaviours of participants of the survey about Starbucks tax avoidance practices in August, 2013.

The pie chart above illustrates the response of participants to Starbucks tax avoidance practices in 2013.

There are four different preferences of the customers. The blue slice (60%) which is the dominant, indicates the people who boycott Starbucks with not buying its products anymore. The red slice (20%) shows those who continue buying its products as usual. Purple and green slices are equal (10%). Green slice indicates consumers who write complain to authorities about Starbucks tax avoidance, but it is really the small amount and the purple slice shows those who support Starbucks tax avoidance policy.

To sum up, majority of consumers are aware of the situation. Most probably they are bothered by Starbucks avoiding tax; as a result they change their attitudes. On the other hand, it can be clearly seen that there are some customers who are indifferent to this issue.

Table 1: Percentage of consumers` replies to Starbucks tax avoidance survey

Questions Age	1. Agree with boycott	2. Still drinks coffee	3. Is it legal	4. Heard about tax avoidance	5. Effects on sales	6. Belief In (CSR)*	7. Measure should be taken
Under 29	71%	71%	42%	42%	85%	85%	100%
30-39	85%	62%	100%	100%	50%	100%	100%
Over 40	80%	20%	55%	72%	80%	95%	100%
Total	80%	30%	60%	60%	70%	90%	100%

*CSR: Corporate Social Responsibility

The table above shows statistics of people in three age groups who attends the Starbucks tax avoidance survey at the Mall at Cribbs Causeway in August, 2013.

All of the participants thought that government should take measures against multinational companies` tax avoidance practices and excluding ten per cent of them, the rest of the consumers had a belief in Starbucks` Corporate Social Responsibility policy of the coffee shop. 80% of the consumers agreed with the boycott against it. There was not much difference between all the age groups reaction to this question. More than half of (70%) the people thought that avoiding tax affects Starbucks` sales. Consumers thinking tax avoidance policy is legal and those who heard about it was equal (60%).

Another noticeable feature is that the minority of the consumers continued drinking coffee after they have learnt about tax avoidance practices.

5. DISCUSSION

The relationship between a company and its customers should depend on trust and transparency, otherwise the customers can change their retailer and this will affect the business in a negative way. Nowadays there are news about global firms such as; Starbucks, Google and Amazon`s tax avoidance practices. These news draw reaction, as it can be clearly seen on the media that Starbucks` tax avoidance policy caused the boycott by customers. For example; The Starbucks store in Broadmead, Bristol was closed due to its tax avoidance practices. The closure was caused by customers` protests in front of the store in December 2012. After a careful research about this issue it is deduced that Starbucks, Amazon and Google companies avoided their taxes.

On the other hand these international companies claim that they have Corporate Social Responsibility policies. All help different communities in different places of the world, they try to do their own responsibilities, but the result of the tax avoidance survey shows that although majority of the participants believe in Starbucks CSR policy, they still agree with the boycott against its avoidance of tax. According to results of the research conducted, to meet the customer expectations, instead of hiding behind its CSR policy Starbucks needs to revise its tax avoidance policy.

6. CONCLUSION

It is possible to find several essays and articles about tax avoidance practices; this research project differs from the previous ones in terms of its aims and research question, which is to shed light on impacts of tax avoidance by global companies such as Starbucks, Google and Amazon on customers. This aim can be seen as an ordinary one, but the interesting point is their claim of having Corporate Social Responsibility policy. These two facts seem contrary to each other, because it is not normally expected both reducing paying taxes and claiming to help communities. That is why this paper is worth to read. This article not only investigates the International Companies reducing tax, but also examines the customers` reaction to these avoidance practices. The issue of avoiding tax is common thus, HMRC has set up strict rules to avoid both national and international companies avoiding paying their taxes. Because tax reduction practices causes several billion pounds loss. For the economic development of the country obeying the laws is the key, fairness and confidence comes afterwards. As the tax avoidance survey findings state, consumers has the ability to influence the flow of the business. Most of the customers believe in Starbucks Coffee Shops` Social Corporate Responsibility policy, but they still agree with the boycott. Another interesting point is that, participants of the survey, who are under 29, continue buying Starbucks products. Those who are over 40 react more strictly to Starbucks` tax avoidance policy by stopping their habits to criticize them.

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Tax Avoidance Survey

GENDER: MALE FEMALE

AGE: a) UNDER 29 b) 30 - 39 c) OVER 40

1. Do you ever drink Starbucks Coffee?

a)Yes b)No

2. How often do you drink Starbucks Coffee?

a)Everyday b) 2 or 3 times a week c)1 or 2 times a month d)Not very often

3. Have you ever heard about tax avoidance Starbucks Coffee?

a)Yes b)No

4. Do you think tax avoidance is legal or illegal?

a)Legal b) Illegal

5. Do you agree with boycott against Starbucks` tax avoidance?

a)Yes b) No

6. After you have learnt about would you like to still drink Starbucks Coffee?

a)Yes b) No

7. How do you prefer to respond to Starbucks tax avoidance?

a) Not buying products

b) Write a complain to authorities

c) Continue buying its products

d) Support their tax avoidance policy

8. Do you think avoiding tax affects multinational companies` sales?

a)Yes b) No

9. Do you believe Starbucks, which is avoiding tax, has corporate social responsibility as well?

a)Yes b) No

10. Should government take precaution against multinational companies tax avoidance practices?

a)Yes b) No