

History of Amazon

Amazon A–Z: Tax Evasion

“After two consecutive years of paying no federal income tax on billions in U.S. profits, Jeff Bezos’s retail giant Amazon reported in a splashy press release this morning that the company is paying taxes,” comments, not without malice, Matthew Gardner from the Institute on Taxation and Economic Policy think tank.

Gardner adds, “What the release oddly fails to mention is that Amazon still appears to be beating the federal income tax code like a pinata: the company’s annual financial report, which was released with much less fanfare, shows that in 2019 Amazon paid just 1.2 percent of its \$13 billion in U.S. profits in federal income taxes.” According to the rate reduced by Donald Trump in 2017, companies should pay 21% of their profits to the federal budget. In 2017 and 2018, not only did the company not pay a dollar of this tax, but it was even refunded (about 140 and 130 million dollars respectively).

Of course, it is not the case that the company does not pay anything at all, even when it gets a tax refund. According to Stephanie Denning from “Forbes”, local, state and international taxes cost Bezos’s corporation \$1 billion in 2017 and 1.18 billion a year later. However, these are completely different taxes, and some of them are paid on wages, so they burden the earnings of the employees more than the profit of the company itself. Not to mention the numerous reliefs and incentives applied by local and state authorities willing to compete to attract Amazon’s investment.

However, Denning also enumerates specific ways in which Amazon minimizes its federal tax in the US:

- R&D expenditure that can be written off from the tax
- investments in expansion and equipment (Amazon has been reinvesting profits from the beginning, bringing formal losses for many years)
- payment of part of the remuneration in the form of shares (shares are subject to taxation only when they are fully paid off and the company can write off their value from the tax base)

In addition, it is possible to carry forward part of the liabilities to subsequent years – as Matthew Gardner adds in his commentary – or postpone losses from previous years, artificially minimising

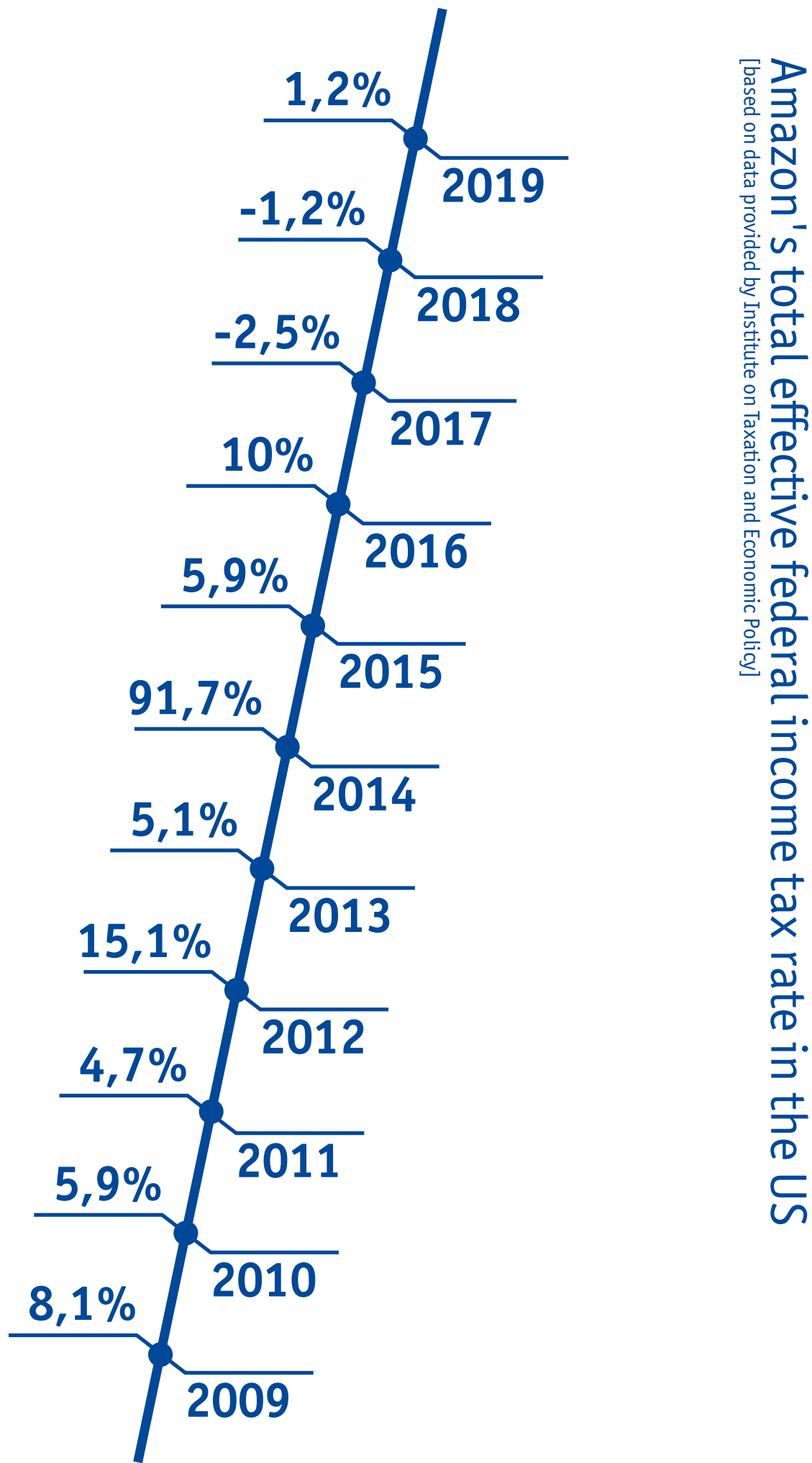
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profit. In this way, the researcher explains, instead of paying more than \$1 billion to the federal budget – as the company boasts – it actually paid only 126 million, postponing the rest to future years.

However, the structure of subsidiaries also plays a major role on a global or European scale, and allows Amazon to transfer profits where they are subject to lower taxation. This is unfortunately common practice among international technology giants, but it is Amazon that has been given the position of “leader” in this respect (out of six global technology companies) in a report prepared by the British non profit Fair Tax Mark.

David Pegg briefly describes the European tax evasion scheme in “The Guardian”: Amazon’s activities were carried out by the Luxembourg-registered company Amazon EU Sarl, which paid a giant fee for the use of intellectual property to another Luxembourg company, Amazon Europe Holding Technologies SCS – de facto transferring 90% of its profits to it. The other company, called ‘empty shell’ by the European investigators, had a special legal status thanks to Amazon’s agreement with the Luxembourg authorities, allowing for zero taxation of its profits. In this way, according to European Competition Commissioner Margrethe Vestager in 2017, Amazon avoided paying 250 million euros in tax due between 2006 and 2014.

The European Commission has instructed the Luxembourg authorities to recover commitments from the company. Amazon has appealed against this decision but has already changed its tax structure in 2014, under pressure from the European investigation. However, Mathew Gardner from the Institute on Taxation and Economic Policy adds bitterly: “There is every reason to believe that Amazon will continue its tax-avoidance ways in 2020.”



sources:

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