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IKEA flat pack tax avoidance

new episode

- **Previously in Taaks Avoyd**

You may remember that in February, the Greens published a report demonstrating how IKEA companies were avoiding €1 billion across Europe over the last six years. Six weeks later, we finally got a reply from Inter-IKEA Group - one of the 2 IKEA companies.

While we appreciate the reply (we haven't received anything so far from the IKEA Group), we still disagree with what they report as "incorrect assumptions and misunderstandings, leading to false conclusions". And here is why.

- **Inter IKEA response, addressed to the European Parliament Special Committee on tax issues**

Inter-IKEA makes a number of criticisms, which we will summarise in six points below. But as an introduction, we thank Inter IKEA for its response, which clarifies a few small issues but still leaves the most important questions unanswered. We welcome Inter IKEA's statement that they want to simplify their business to avoid misunderstandings. Inter-IKEA admits *'we can therefore not blame anyone else but ourselves for the misunderstandings'* because *'the structure has been complex and we haven't been clear enough in explaining'*.

Our suggestion to Inter IKEA is that they start implementing public country-by-country reporting as soon as possible, as major European banks do. This will put their commitment to greater tax transparency in action and will make them become a real leader of tax transparency, something their customers will be proud of.

Responding to Inter IKEA two main critics on our report

1. 'IKEA is paying royalties to itself"

- What Inter IKEA says: they explain that franchise fees are paid by IKEA stores (mostly owned by the IKEA group) to Inter IKEA, via its subsidiary Inter IKEA Systems BV in the Netherlands. Their argument is based on the following assumption: Inter IKEA and the IKEA Group are two different companies, there is not "payment to itself".

- What the Greens reply: First, we have never criticised the franchise system. We may not entirely like it but we recognise this is a widespread business model. Our argument however is that while on paper Inter IKEA and the IKEA Group are two distinct entities, in reality, the groups are owned by private foundations controlled by members of the Kamprad family and their close associates. If money goes from one family member to another, it's kind of paying fees to itself we argue.

2. "Inter IKEA is using a Dutch conduit company to avoid paying tax"

- What Inter IKEA says: Inter IKEA Systems BV is genuine company conducting substantial business in and from the Netherlands. They employ 1000 full time employees. It is the end receiver of the franchise fee and it is fully subject to corporate income taxes in the Netherlands.
- What the Greens reply: We never pretended that Inter IKEA Systems BV is a shell companies and this raises the issue of transactions that can be done for real business purpose and at the same time facilitate tax avoidance. A franchise system can be used simultaneously for legitimate business purposes and aggressive tax avoidance.

Inter IKEA Systems BV may be the end receiver of the franchise fees on paper, but this subsidiary does not publish annual accounts or disclose how much tax it pays on this income in the Netherlands. We provide evidence indicating that, over time, a large part of this franchise fee income has left the Netherlands (in various forms) untaxed and ended up in tax havens, where it likely faces little or no tax. Inter IKEA Systems BV may comply with the corporate tax regime in the Netherlands – but paying taxes on a reduced cake doesn't mean you pay what you ought to pay in reality.

Inter IKEA also raises a few more criticisms:

3. The payment of "other charges"

- What inter-IKEA says: Inter IKEA has paid a lot (several billions euros since 1991) of 'other charges' to undisclosed recipients, and Greens suggested the money could end up in Liechtenstein (a low-tax jurisdiction). Inter IKEA addresses only a small portion of these tax deductible charges (€587 million since 2012) and states that they are payments to unrelated parties for legitimate operating expenses. Inter IKEA also suggests that we mischaracterised these particular charges as interest and royalty payments.
- What Greens reply: Well, we do question the 'other charges' from 2012-2014 but we never specifically claimed that they were interest and royalties. Again Inter IKEA Systems BV does not publish annual accounts and the category 'other charges' (a characterisation used in the accounts of Inter IKEA's Luxembourg parent company) is pretty vague. The best remedy here would be full transparency so that Inter IKEA could affirm its position with concrete evidence. We would also call upon Inter IKEA to explain the additional billions characterised as "other charges" since 1991.

4. Tax rulings in Luxembourg

- What Inter IKEA says: it claims it got a ruling in Luxembourg to check its interpretation of the changed law in the country at the time and that it never reaped a benefit from it.
- What Greens reply: while we understand that rulings are necessary sometimes to get a clear interpretation of the law, inter IKEA here doesn't mention which law in Luxembourg was amended or which organisational changes they were operating, that would justify getting a legal interpretation. In fact, the letter asking for the ruling cites a change to the law in Belgium (the elimination of the coordination centre regime, under pressure from the EU) as a motivating factor. Moreover, the ruling they requested in 2009 concerned a complex operation including loans funded by a subsidiary in the Netherlands Antilles, owned by a subsidiary in Cyprus with both of these subsidiaries exempt from having to publish their accounts. Again, best remedy would be public transparency to independently assess the tax impacts of this complex structure.

5. Every company needs financial treasury

- What Inter IKEA says: They need a well-functioning treasury function and the ability to lend to their subsidiaries. This is why they have a subsidiary in Luxembourg (with a branch in Switzerland).
- What the Greens reply: Of course all large companies have some kind of internal financing structure. Such structures may simultaneously serve a legitimate purpose and facilitate aggressive tax avoidance. Inter-IKEA recognises itself that their subsidiary in Luxembourg is taxed at a rate below 2%. We claim that it is not random that the financing structure is based in Luxembourg.

6. The Interogo Foundation

- What Inter IKEA says: the Interogo Foundation is a self-owned entity with no individual beneficiary. It only exists to secure the independence and longevity of the IKEA concept
- What the Greens reply: We welcome the clarification and we never said otherwise. However, we regretted that the Interogo Foundation is exempt from any requirement to publish the legal and financial documents which would allow independent verification of Inter IKEA's claims. Moreover, Inter IKEA does not comment on the potential use of the Foundation to facilitate profit shifting and tax avoidance. Our report specifically mentions an arrangement that seems to allow Inter IKEA to shift profits to Interogo through interest payments on a €5.4 billion loan used to acquire the IKEA trademark from Interogo (in 2011). We would have welcomed further details on our precise claim.

So in the end, we welcome the Inter IKEA response but it falls short of many crucial points we make in our detailed report. We would like to receive a more detailed answer and see Inter IKEA's commitment for greater transparency turn into concrete action.

Especially, when specialist reporters at Tax Analyst recently went through the alleged tax avoidance strategies by Inter IKEA and - while slightly challenging our calculation of the tax lost - tend to agree with the Greens that there is a significant tax loss across Europe due to these practices.

- **See the Tax Analysts report**

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