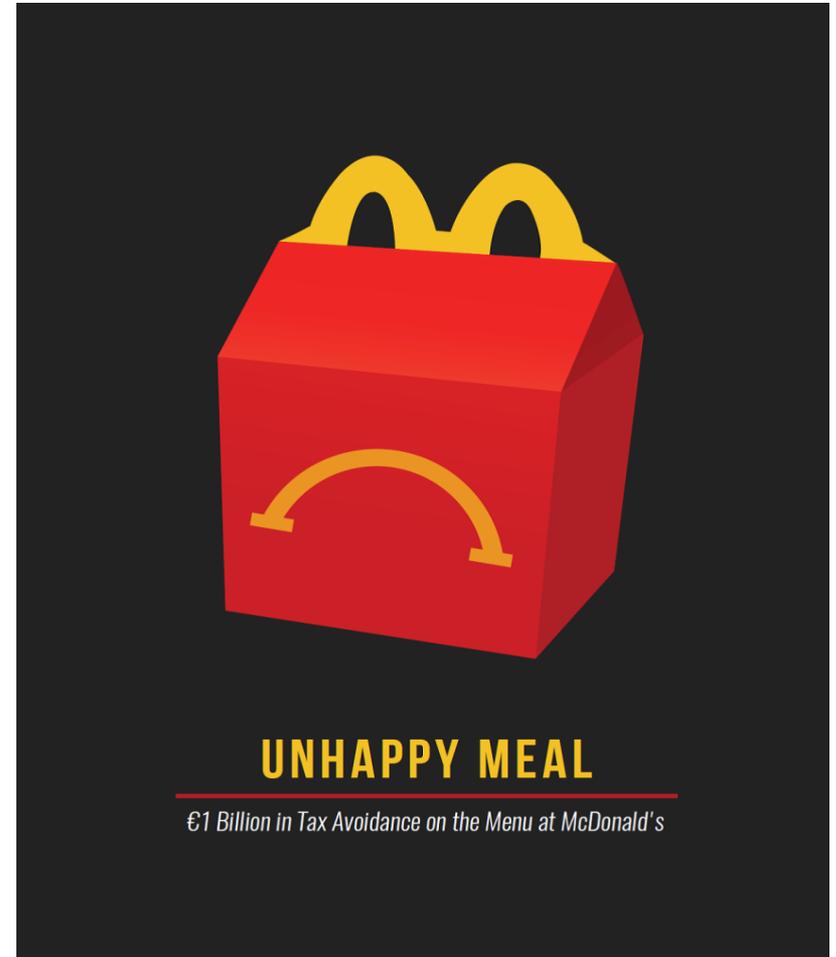


McDonald's tax avoidance scheme in Europe

- Report by International tax justice coalition: EPSU, EFFAT, SEIU, War on Want/change to win
- Case of social & tax dumping business model
- Sources: Company reports, where available, press reports + investigation by French tax authorities (2013), French works council complaint
- Not a complete report but hopefully useful as it stands



Situation in McDonald's Europe: SOME FACTS

- First European restaurant opened in 1971 (in Netherlands)
- 7 850 restaurants
- Europe market: 40% of income -Biggest markets: France, Germany, UK
- 75% of restaurants are franchised, in some countries up to 99%



Situation in McDonald's: SOME FACTS

- 1.9 million employees worldwide (2nd largest private sector employer in the world)
- Students, women, migrants
- Very young workforce, e.g. UK: 42% under 21; Europe: 75% under 30
- High degree of part-time, fixed term jobs
- Majority of workers on zero-hours contracts in the UK, de facto exclusivity clause
- Low wages
- High staff turnover
- Poor record on trade union rights/collective bargaining
- Public subsidies recipient (e.g EU youth employment in Belgium; food stamps in the US)
- Yet McDonalds presents itself as a good employer

McDonald's is the largest and most profitable fast food corporation in both Europe and the world

- In Europe, the 7.850 McDonald's stores generated more than 20.3 billion in 2013 sales
- McDonald's profitability depends on its franchising model
- Complex opaque business model

McDonald's has altered its European corporate structure to one that is widely understood to have the purpose of

MINIMIZING TAXES

In 2008-09 McDonald's restructured its business. This restructuring involved:

- In late 2008 transferring European intellectual property rights to newly created McD Europe Franchising Sarl in Luxembourg (Swiss and US branch)
- Routing billions in royalties from its European operations to McD Europe Franchising Sarl which has become one of McD's largest subsidiaries in Europe
- Artificial structure
- No indication of investment in R&D
- Luxembourg's IP box reduces tax rate on royalties from 29.2% to 5.8%
- In 2009 Shifting McDonald's European headquarters from London to Geneva – 0-12% effective corporate tax rate

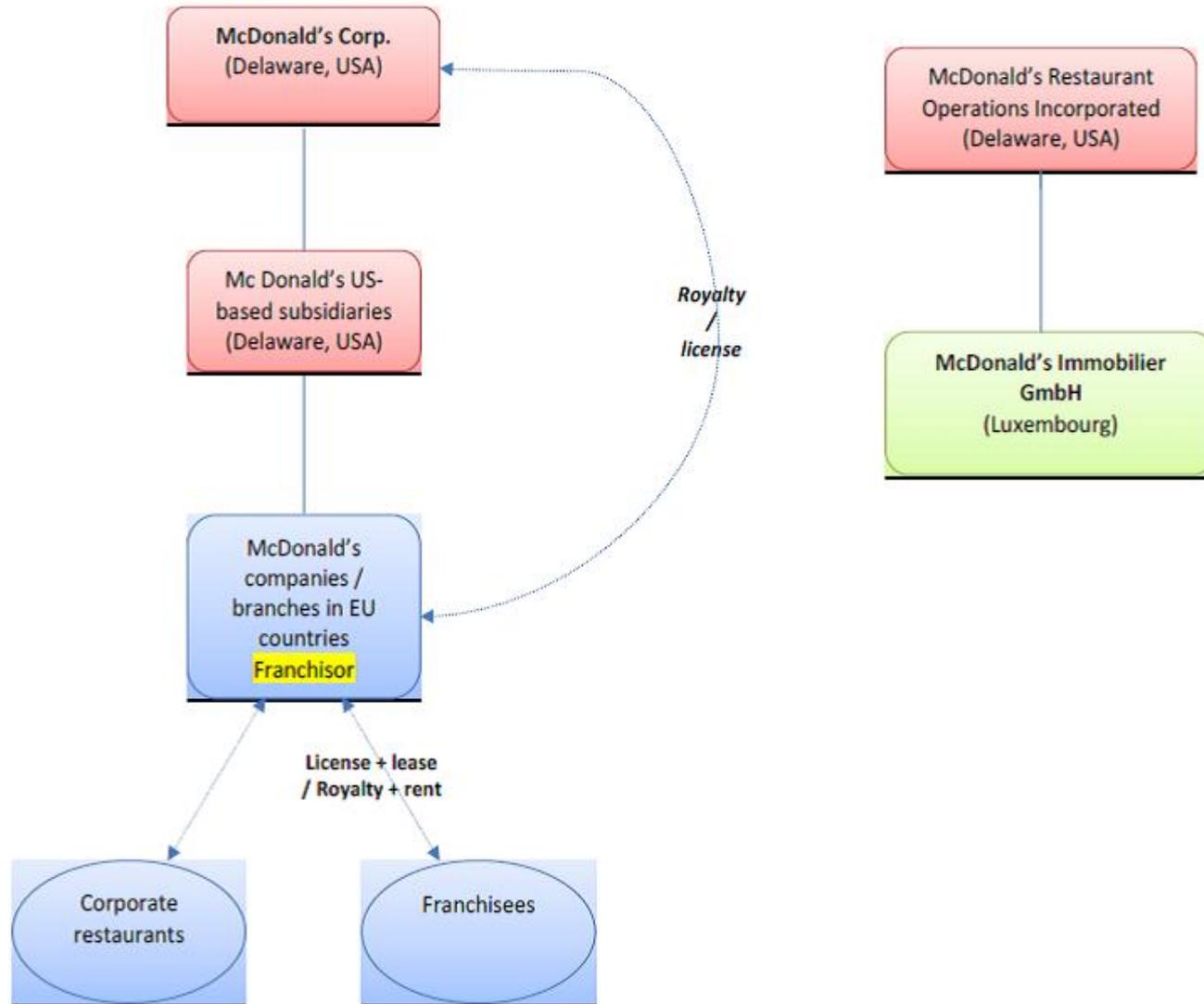
By the Numbers

2009 - 2013

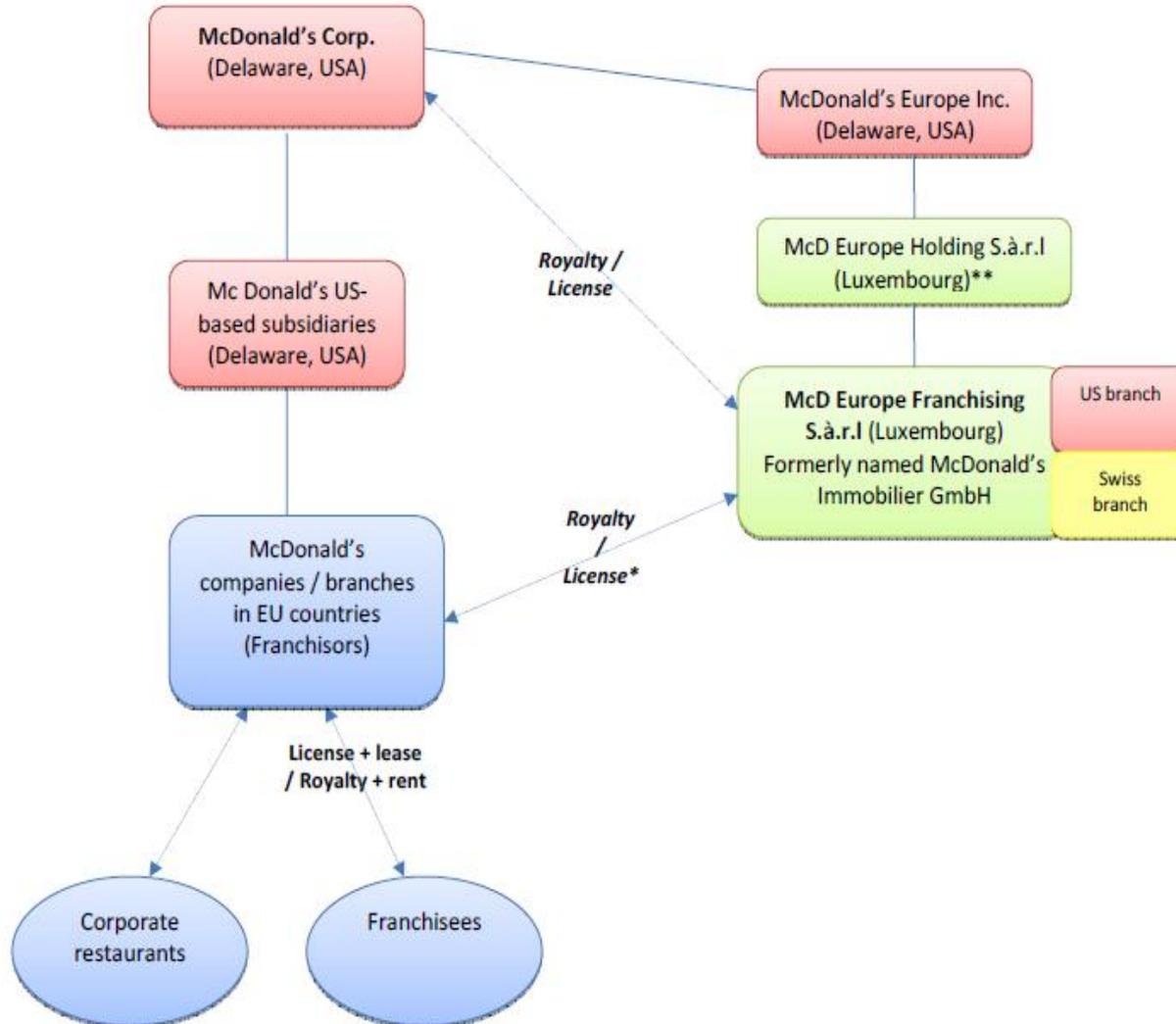
McD Europe Franchising Sàrl

- Turnover: €3,708 million
 - Estimated taxes saved across Europe: €1,060 million
 - Taxes paid in Luxembourg: €16 million
 - Employees: 13
-

TENTATIVE OVERVIEW OF McDONALD'S STRUCTURE IN EUROPE BEFORE 2009



TENTATIVE OVERVIEW OF McDONALD'S STRUCTURE IN EUROPE FROM 2009



* McD Europe Franchising S.à.r.l.'s annual accounts state that "net turnover consists of royalties received or receivable under Master Franchise Agreements in connection with the sublease of rights to use the McDonald's restaurant system and related intellectual property in connection with McDonald's franchised restaurants in Europe". McDonald's France SA's annual accounts confirm that a new license has been issued by McD Europe Franchising S.à.r.l

** For ease of presentation, all McDonald's intermediate holding companies are not inserted.

McDonald's tax optimisation strategies have potentially cost European governments

- Over 1 billion euros in tax revenue between 2009 and 2013
- In 10 largest markets (80% of European sales):
France Germany UK Italy Spain Netherlands
Sweden Austria Poland Denmark
- Based on average corporate tax rate

Tax impact in Europe

Table 1: McD Europe Franchising Sàrl royalties received, tax reported, and estimated Europe-wide taxes saved 2009-2013, millions of euros³⁵

	2009	2010	2011	2012	2013	Cumulative
Total royalties received	587.8	703.4	766.8	816.1	833.8	3,707.9
Estimated taxes if royalties were retained in European countries as profit	161.8	193.6	211.1	244.6	229.5	1,060.1
Tax reported	2.8	3.8	3.5	2.6	3.3	16.0

Tax impact in selected countries

Table 3: McDonald's systemwide sales, estimated royalties, estimated taxes saved, and maximum potential penalties, 2009-2013, millions

	France	UK	Italy	Spain
2009-2013 Systemwide sales	€21,552.3	£11,067.8	€4,691.3	€4,494.3
2009-2013 Royalties	€1,077.6 - €1,987.0	£294.2	€237.8	€228.4
2009-2013 Estimated taxes owed	€386.2 - €713.6	£75.7	€74.7	€68.5
2009-2013 Maximum potential penalties	€308.9 - €570.9	No penalties	€149.3	€102.8

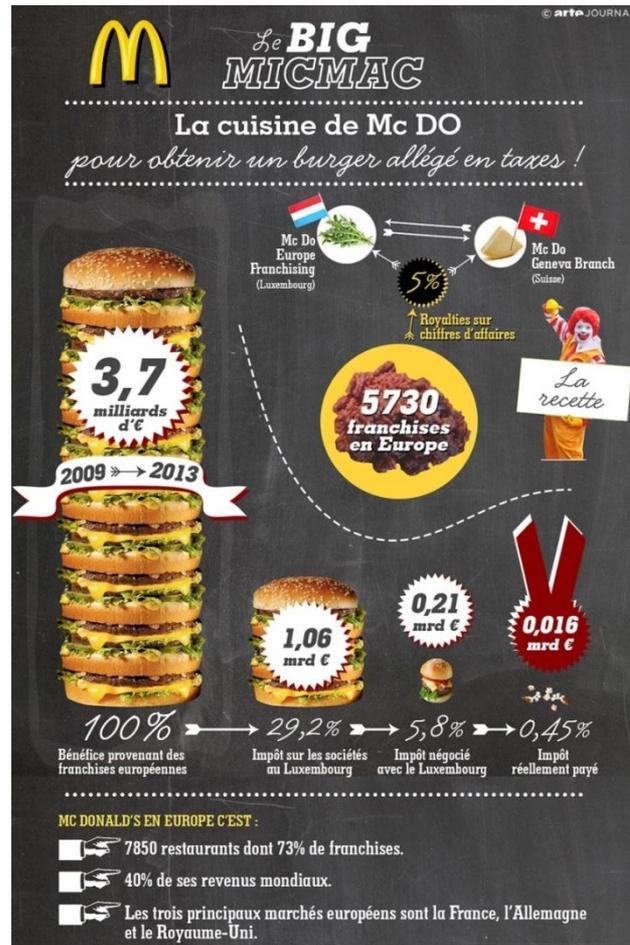
IP box, R&D, and... TAX RULING?

- By 2013, McD Europe Franchising Sarl's effective tax rate had fallen to 1.4% - below Luxembourg low standard tax regime of 5.8% on royalties and IP Income
- Combined with reduced taxable income by few costs largely intercompany payments
- Preferential treatment similar to luxleaks tax rulings?
- EC views IP tax regimes supposed to stimulate innovation and investment in new technologies – no evidence which is questionable under EC state aid rules
- Potential recovery by Luxembourg: more than Euros1 bn

RECOMMENDATIONS

- investigate lawfulness of McDonald's tax arrangements :
 - EC competition + EP special tax rulings committee
 - National tax administration (GAAR)
- Transparency (EU and G20/OECD):
 - AEoI on Tax rulings – draft directive adopted on 18 March
 - Country-by-country reporting across the economy
 - Public registry of company structures
 - AND workers rights to information and consultation
- Invest in tax administrations – EPSU report on job cuts
- Justice
 - ban of tax minimizing rulings
 - Common principles of fair progressive taxation
 - Common corporate tax – CCCTB step in right direction

It's now time to put tax justice on the menu of McDonald's!



- large media coverage
- Coalition meetings with MEPs, EC officials
- Trade union visibility
- Organising and negotiating tool
- Implications for European and Global Works Councils

**International tax justice coalition:
EPSU EFFAT SEIU WarOnWant Change to win**

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THANK YOU!