Starbucks Corporation

Tax-Avoidance Controversies in the UK
October 12, 2012

- Reuters publishes special report:
  - “How Starbucks avoids UK taxes”
- Starbucks has only paid £8.6M in corporate taxes on over £3B in coffee sales, approximately 0.3%.
- Boycotts and sit-ins planned by activist group.
- Starbucks CFO summoned to Parliament.
Company History

- Founded in Seattle in 1971:
  - Rapid expansion starting in 1987
  - Average of two stores opened *per day*
- Expanded into the UK market in 1998.
Company Statistics

- Largest coffeehouse company in the world:
  - Over 18,000 locations
  - More than 87,000 different drink combinations
- Global revenue of $13.3B in FY2012.
- 151,000 employees in 60 countries.
Howard Schultz

• Chairman, CEO, President and founder of Starbucks.
• ‘Soul of the Company.’

Forbes

“... has cultivated the image of a more modern, progressive executive in recent years.”
Starbucks Social Responsibility

“We’ve been building a company with a conscience for more than four decades, intent on the fair and humane treatment of our people as well as the communities where we do business, and the global environment we all share.”

- Howard Schultz, 2012 Global Responsibility Report
Starbucks Social Responsibility

- “Let’s Create Jobs” campaign.
- “Your Special Blend” benefits for all “partners.”
- Coffee and Farmer Equity (C.A.F.E.) Practices:
  - Ethically sourced coffee: 93% in 2012.
International Taxation

- Governments limit the scope of their income taxation in some manner territorially.
- Tax only the profits that are generated within the territory.
Tax “Avoidance”

- Have overseas units pay fees to subsidiaries in other countries:
  - For use of intellectual property such as brand and business practices.

- Transfer-pricing regulations:
  - Allocate profits to the markets where they happen.
  - Subsidiaries can mark up products to each other.
Starbucks Money Trail

- Interest on loan from Hq in Seattle.
- Payments to Switzerland for coffee beans.
- Royalties to the Netherlands.
Coffee Shop Market

• Starbucks is global leader in stores and revenues:
  o Market Capitalization of $40B.
  o FY2012 revenues of $13.3B.
  o Second largest restaurant chain globally behind McDonald’s Corporation.
UK Coffee Market

● Competition from Costa Coffee:
  ○ Costa surpassed Starbucks for total number of UK locations in 2007.

● Starbucks reports 1-in-4 UK stores are operating at a loss:
  ○ Costa reports UK store operating margin of 14.3%.

● Smaller competitors:
  ○ Caffe Nero, Pret a Manger, independent coffee shops.
HMRC Role and Power

- Responsible for administration and collection of direct taxes from individuals and businesses.

“...you'll only have to pay Corporation Tax on any taxable profits arising from your UK activities.”

- 2011: 26%
- 2012: 25%
HMRC Role and Power

- Public Service Agreement Targets:
  - “Improve the extent to which individuals and businesses pay the tax due . . . .”

- Starbucks, Amazon and Google come under fire from media reporting:
  - *Guardian* report on Amazon: no corporate taxes paid on £3.3B in sales.
Negative Buzz Sticking

- YouGov BrandIndex:
  - Starbucks in 2011 at +3.1.
  - At peak of controversy reached -28.6, still at -16.7 one month after the Reuters story breaking.
  - Google and Amazon ratings barely affected.

“A brand’s buzz score typically recovers quite quickly following a spate of bad press, but we aren’t seeing that with Starbucks, which is quite unusual. Its scores started to level out around the end of last month, but whatever modest recovery Starbucks has made could well be in jeopardy if this story flares up again in the media.”

~ UK BrandIndex director, Sarah Murphy
UK Uncut

- Grassroots anti-austerity movement.

- Stage protests and boycotts of tax dodgers.
“This House congratulates UK Uncut for the role it has played in drawing attention by peaceful demonstrations to tax evasion and avoidance and to the need for firm action to secure tax justice.”

~ Early Day Motion 1146 proposed by John McDonnell, MP and signed by 24 MPs across 5 parties

Green Party MP Caroline Lucas's support
UK Uncut Actions

- Marches and protests immediately following Reuters article in October.

- November 2012: Announces plan to use dozens of Starbucks locations as creches, refuges, and homeless shelters to highlight Starbucks tax avoidance.
What Next?

- How should CFO Troy Alstead testify before Parliament?
- What actions, if any, should Starbucks take in order to minimize the impact of the public outcry and actions planned by UK Uncut?
- How can Starbucks or other companies avoid these situations in the future?
- Does Starbucks, or other companies, have a responsibility to the community to obey the spirit of corporate tax laws?
(B) Case

- December 2012, Starbucks decides to make an “above and beyond” payment of £20M over 2 years to HMRC.
- Permanent FAQ of UK Tax Policies on website.
- Some MPs declared it ‘inadequate,’ activists saw it as admission of guilt.
- Will Starbucks set a precedence of obeying the spirit of corporate tax laws permanently and in all markets?
- How will this impact their profitability and responsibility to shareholders?