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Can BEPS Project Mitigate Double Non-taxation of Multinational Corporations?

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CAN BEPS PROJECT MITIGATE DOUBLE NON-TAXATION OF MULTINATIONAL CORPORATIONS?

By

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ABSTRACT

SAJANA MAYA TAMANG: Can BEPS Project Mitigate Double Non-taxation of Multinational Corporations (Under the direction of Christine Cheng)

The purpose of this study is to determine whether the BEPS project can mitigate double non-taxation of multinational corporations. This study performs case studies on two multinational corporations: Apple and Starbucks to figure out how they behave in order to avoid taxes and see if there are behavioral differences in response to claims by the European authorities that they did not pay their fair share. It explains and compares their tax paying strategies to figure out how they may behave with respect to new rules implemented by BEPS project in the future. Through case studies from Apple and Starbucks, the study aims to determine the challenges faced by the BEPS project to mitigate double non-taxation of multinational corporations and the recent effort of the BEPS project in tackling them.

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INTRODUCTION

The global pandemic arising from the coronavirus has impacted not only on the public health but also the global economies. Many governments responded to the economic decline and public health risks with expansionary fiscal policies. For example, the United States responded to the coronavirus pandemic with the Coronavirus Aid Relief and Economic Security (CARES) Act, which was signed on March 27, 2020. The $2 trillion stimulus bill was provided to large businesses, programs carried out by state and local governments, small businesses, individuals who make up to $75,000 annually, individuals who lost employment due to coronavirus, hospitals responding to the coronavirus, and food programs. Similarly, President Trump signed Consolidated Appropriations Act, 2021 on December 27, 2020. The $900 billion in spending included $600 payments to American citizens based on an income threshold, funding to small businesses, federal unemployment benefits for qualifying individuals, and so on. And most recently, President Biden signed the American Rescue Plan Act of 2021 into law. The $1.9 trillion package includes $1,400 stimulus checks to qualified individuals, extended unemployment benefits, housing assistance, health care coverage, and changes to tax credits: Earned Income Tax Credit and Child Tax Credit.

The amounts spent in each of these bills are important, but so is the breakout of spending appropriated by constituent category. Figure 1 shows the breakout of spending by constituent category that was appropriated by the CARES Act.

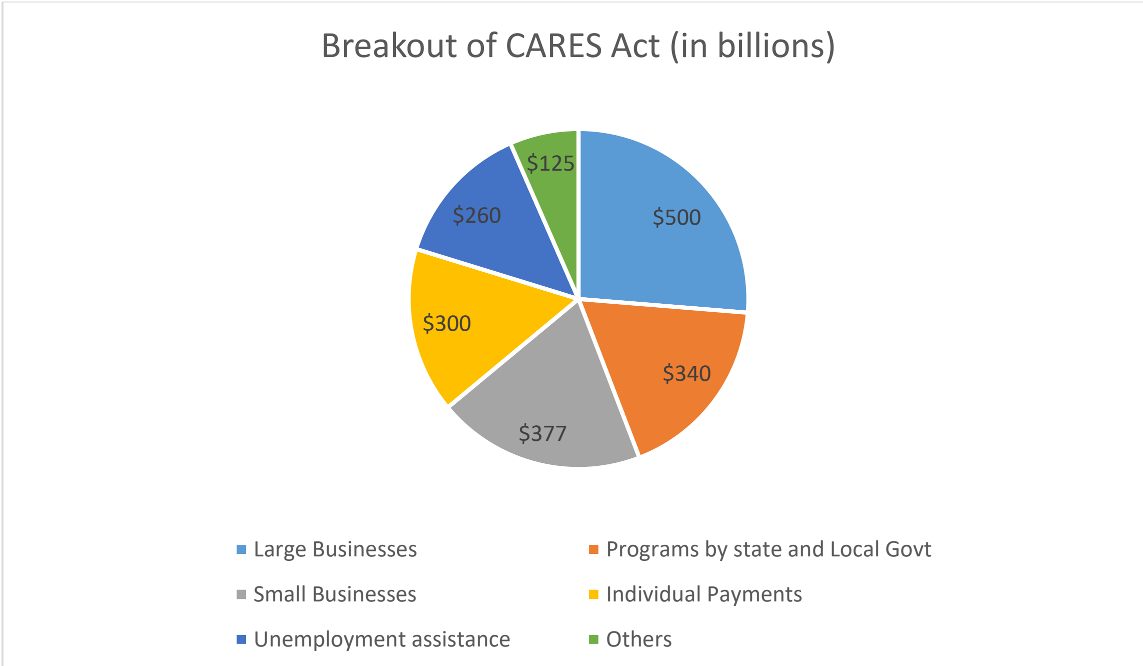

Figure 1: Breakout of CARES Act (in billions)

As we can see in Figure 1, large businesses received the single largest amount of stimulus from the CARES act. The $500 billion spent to support large businesses equates to approximately 26% of the total appropriations shown in Figure 1. The support to large businesses seems justified based on the fact that these businesses comprise a vital part of a strong U.S. economy. However, some media reports questioned whether this relief was justified based on whether the government support provided through the use of taxpayer funds was comparable to the taxes paid by these large corporations. According to Bergin and Delevingne (2020), around 110 publicly traded companies received $4 million or more in emergency aid from the CARES Act. The authors noted that 12 of the companies recently used tax havens to cut their tax bills and seven of them paid no corporate tax at all for the past year (Bergin and Delevingne 2020). The fact that some of the recipients of the CARES Act have not been paying taxes makes it unfair for some 39 million taxpaying Americans who have lost their jobs since the pandemic began.

It is possible that the media may focus on extreme cases, where companies receive significantly more in support than they pay in taxes. Another way we can summarily look at the question of whether the relief provided to large businesses seems justified is based on the relative contribution made by large businesses to the federal government through taxes. The federal government finances its operations with taxes, fees, and other receipts collected from other sectors of the economy, with the largest of these receipts coming from taxes, as shown in Figure 2 below.

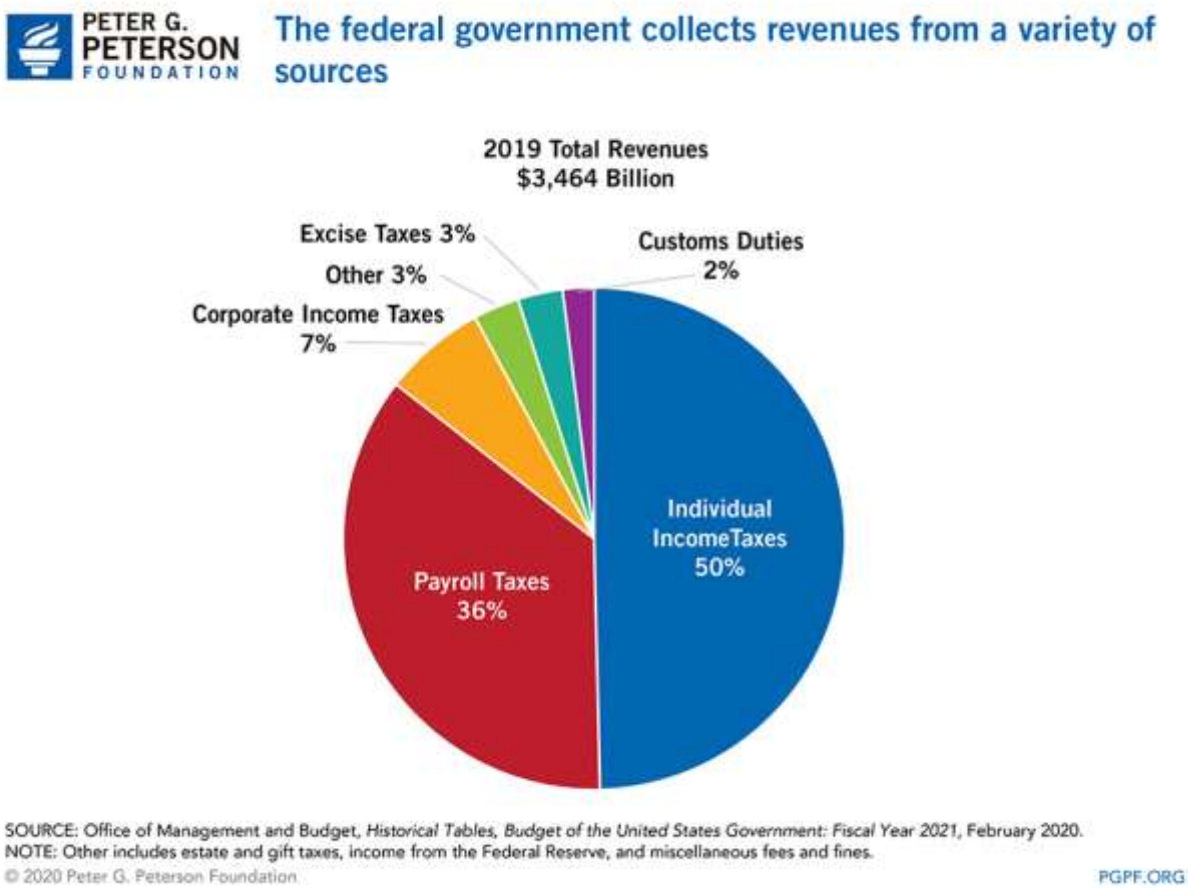

Figure 2: The federal government collects revenues from a variety of sources

As we can see in Figure 2, Individual taxpayers shoulder 86% of the burden, through individual income taxes (50%) and payroll taxes (36%). Corporations on the other hand shoulder seven percent of the burden, through corporate income taxes. Comparing the tax burden on corporations of all sizes of seven percent to the relative support provided by the CARES act to large corporations of approximately 26% may raise further questions about whether the support provided to large corporations through the CARES act was unjustified.

While Figure 2 and the media reports provide a historic context for understanding whether the relative support provided by the CARES act to large corporations seems justified, political leaders across the globe are turning their attention toward altering tax codes. This is because as William Gale, co-director of Tax Policy Center in Washington, notes in an interview, important questions surround how the government will eventually fund the expansionary fiscal policies that have been passed, “Once we’re back to normal, whatever that is going to mean in the future, it’s basically raising taxes or cutting spending” (Brune, 2020). In his speech on March 31, 2021, President Biden provided several indications that he would like Congress to consider increasing the amount of taxes paid by Corporations. Beyond proposing an increase in the corporate tax rate to 28%, President Biden also made several proposals focusing particularly on multinational corporations, such as a corporate global minimum tax of 21% (Franck, 2021). While my thesis was largely written prior to these remarks, my thesis investigated the factors largely driven by today’s global business environment that might motivate not just President Biden, but other leaders, to consider a global minimum tax as part of tax policy that seeks to increase corporate tax burdens, particularly for multinational companies.

The news of multinational companies paying zero or less federal taxes surface each year. Given the need for governments to figure out how to pay for the expansionary public policies that were necessary during the pandemic, the question of how much should corporations pay in light of the support received becomes more salient. While this question is important, the reality is that, based on my research, the answer to how much multinational corporations will pay to the U.S. Federal government following the pandemic depends on how much a multinational corporation which operates in a global business environment is willing to pay. My conjecture is based on my investigation into: How corporations pay little to nothing in federal income taxes in the United States.

I research this question using case studies on Apple and Starbucks, both large multinational corporations (MNCs) that could have received some of the CARES act relief. I learned that because MNCs operate globally, they have opportunities to decide where to report profits and often choose corporate tax planning strategies to shift profit from high tax jurisdictions to low tax jurisdictions to avoid paying tax. This tax planning strategy of multinational corporations is known as base erosion and profit shifting (BEPS). As will be discussed thoroughly in this paper Starbucks uses corporate tax planning strategies such as transfer pricing through subsidiaries in Switzerland and the Netherlands, paying royalty fees on intellectual property and using inter-company debt. Meanwhile, Apple uses corporate tax planning strategies like taking advantage of the U.S. check-the-box rules, to shift profits into its three Irish subsidiaries which claim tax residency nowhere in the world.

While MNCs like Starbucks and Apple have the abilities to shift profits, an important related question is how the U.S. government can propose new policies, or revisit existing policies to tax MNCs to raise revenue to cover the expansionary fiscal policies passed during the global pandemic. Specifically, we could ask the question whether Biden's proposed global minimum tax will result in MNCs paying more tax to the U.S. Federal government. As suggested by the media outcry, citizens feel that it is important that the MNCs pay their fair share of taxes, particularly when the large corporations use the public services funded by the taxes paid by citizens.

The issue of raising taxes on MNCs, particularly as it relates to MNCs practice of engaging in BEPS, is not solely a U.S. problem that can be fixed by U.S. corporate tax policy changes. In fact, in response to multinational corporations' exploitation of differences in tax codes to minimize taxes, the Organization for Economic Co-Operation and Development (OECD) has been working on tax policy for international coordination. The OECD launched the BEPS project and G20 in 2013 with the goal of updating international tax rules in a coordinated way. The governments and international organizations such as OECD are not only trying to coordinate countries to change the tax rules, but they are also trying to encourage MNCs to change their tax paying habits. In this thesis, I take a case study approach to examine whether the Organization for Economic Co-Operation and Development's Base Erosion and Profit Shifting (BEPS) project can mitigate double non-taxation of Multinational Corporations. One of the proposals for the BEPS project is a global minimum tax.

I learned that there is a greater need of transparency of company tax information on a country-by-country basis because corporations are not required to provide transparency into dealings among their subsidiaries. I also learned that it is not only the multinational corporations but also the countries that are encouraging profit shifting. Over the years most of the countries have decreased their corporate tax rates to attract capital investment and jobs from MNCs. Some of the countries make low-tax negotiations so that they can attract corporations. Because countries face prisoners' dilemma, which is explained later, they tend to act alone and work for their own benefits creating a competitive tax environment instead of co-operating with others. So it is difficult for OECD to bring a consensus reform to the international tax system. The results of these case studies are important for every person who pays his/her fair share of tax so that he/she can understand how these multinational corporations are able to pay zero or little in federal income taxes and what actions governments and international organizations are taking to create more growth in tax revenue. The results are specifically important for individual taxpayers because they have to carry a bigger burden for funding government provided services because the multinational companies that make billions of dollars in a year pay little to no taxes. The results of these case studies are important to businesses as well because if the new rules of the OECD are to be applied, the businesses would have to change their tax planning strategies.

For the purpose of presenting a background on profit shifting tax strategies used by multinational corporations, the first chapter of this thesis includes an explanation of Base Erosion and Profit Shifting (BEPS), implications of BEPS for countries tax revenue, and why it is important to understand about BEPS. The second chapter explains in detail the case studies on Apple and Starbucks in order to understand the various tax strategies used by multinational corporations. The next chapter outlines in detail OECD and its contributions in tackling BEPS. The lessons learned from the case studies, OECD, and US efforts are then discussed in detail. Lastly, considering all these factors, it is concluded if BEPS project will be able to mitigate double non-taxation of multinational corporations.

BASE EROSION AND PROFIT SHIFTING

"BEPS refers to planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or non-tax locations where there is little or no economic activity or to erode tax bases through deductible payments such as interest or royalties. Although some of the schemes used are illegal, most are not." (OECD, 2021). To understand how this works, let's consider a multinational company that has offices in various countries. For instance, let us consider a US multinational company (MNC) has its offices or subsidiaries in the United Kingdom (UK) and Cayman Islands. The corporation operates and performs a lot of its economic activities and actually gains profits in the UK. The corporation has very few operations and little economic activities in Cayman Islands. A U.S. MNC has to pay 17% of its UK's total profits as corporate tax in the UK. To reduce this tax burden, this company may shift their profits so that they report very low profits in the UK and they report very high profits in the Cayman Islands, where the corporate tax rate is 0%. The important part of this process is that the company does not have to actually change their actual economic activities, instead the company can exploit gaps or mismatches in the tax rules and artificially shifting profits from high tax countries to low tax countries. This artificial shifting of profits is commonly referred to as Base Erosion and Profit Shifting.

One of the common strategies used by MNCs to reduce their domestic and foreign tax burdens and shift their profits is transferring their intellectual property (IP) assets and operations to their foreign subsidiaries in low-tax countries. Intellectual property assets constitute a major value-driver for MNCs in today's business environment. In addition to providing companies with a competitive advantage, intellectual property assets such as patents, design, trademarks or brands, and copyrights do not have a fixed geographical location and it is hard for tax authorities to objectively value intellectual property. Hence, IP is attractive for MNCs to shift their profits. As IP is mobile in nature, it can be easily moved from country to country through planned licensing structures. For instance, a multinational corporation can establish a licensing and patent holding company to acquire, license or sublicense IP rights for its foreign subsidiaries in other countries. Even though there are no economic operations in this licensing and patent holding company, profits earned from foreign subsidiaries in other countries can be effectively shifted to the licensing and patent holding company. Also, those profits are taxed very little or not at all since MNC establishes such licensing company in tax haven jurisdictions.

In the previous example of the UK and Cayman Islands, the government of UK is losing its tax revenue while Cayman Islands is not affected in terms of tax revenue by this process. This loss in revenue of the government brings a negative effect in growth of the country. According to the OECD, BEPS practices cost countries USD 100 - 240 billion in lost revenue annually, in 2014 figures. In 2014, such global loss is 0.13% to 0.30% of the global GDP and 0.88% to 2.11% of global tax revenue. This loss in revenue could have been used to fund critical government provided services, such as health programs, military, social security, interest on the national debt, veteran benefits, food and agricultural benefits, and education programs. BEPS is a set of unethical tax practices because the corporations are artificially reducing the tax bases and shifting their profits from high tax countries to low tax countries so that they can reduce their tax burden.

Furthermore, honest tax payers will be impacted if profit shifting keeps continuing. For instance, imagine that the housing committee requires X and Y to contribute the same amount of money every month for the maintenance of the road in front of their houses. X has been contributing his/her fair share every month. After a few months, X finds out that Y has discontinued paying his/her fair share. X asks Y to pay his/her fair share but he/she contributes very little to the road maintenance. Even though X feels it to be unfair, X pays the rest of the contribution every month so that there would be enough funding for the road maintenance. This creates more burden on X towards the road maintenance than before. In the same way, if multinational corporations are making huge profits but still are not paying their fair share of taxes, it undermines voluntary compliance by taxpayers, according to OECD. As a result of profit shifting, taxpayers have to bear a greater share of the tax burden. BEPS undermines the fairness and integrity of tax systems because businesses that operate across borders can use it to gain a competitive advantage over enterprises that operate at a domestic level, according to OECD. As shown in the example of X and Y, it is unfair for X, who likes to provide enough funding for the road maintenance, when Y takes very little money out of his/her pocket for the maintenance. If the roads were to be maintained using the available funding, X would be more advantaged than Y in this case. When other neighbors see this case of X and Y, they would think that the housing committee does not take any action against Y and the housing committee does not act according to its principles. This would encourage other neighbors to not pay their fair share for the funding for the road maintenance.

Before I could understand the proposals made by the Organization for Economic Co-operation and Development and President Biden’s related remarks related to a global minimum tax, I needed to understand how multinational corporations specifically engaged in BEPS and how individuals like myself might be able to see this tax planning activity using data from the U.S. financial statements. For this, I conducted a case study of two multinational corporations, Starbucks and Apple.

CASE STUDIES

APPLE INC.

Apple Inc. is a multinational technology company which is headquartered in California. It operates primarily in Standard Interpretations Committee (SIC) Code 7371 – Prepackage Software and North American Industry Classification System (NAICS) Code 511210 – Software Publishers. It designs, develops, and sells consumer electronics, computer software, and online services. The major competitors of Apple are Microsoft, Samsung Electronics, Dell Technologies, Huawei, and so on. According to its 10-K filing for the year ended September 28, 2019, the company holds a huge collection of intellectual property rights relating to certain aspects of its hardware devices, accessories, software and services. Patents, copyrights, trademarks, service marks, trade dress and other forms of intellectual property rights in the US and various foreign countries are included in that collection. The company also protects innovations arising from its research, development and design through IP rights. Many countries allow for the deductions for expenditure on research and development or on the acquisition of Intellectual Property (IP). The company recognizes its revenue through the sale of iPhone, Mac, iPad, Services and other products.

Drucker and Bowers (2017) claim that Apple is avoiding paying income taxes through the use of offshore tax shelters. In May 2013, the Senate's investigative subcommittee reported that Apple, Inc. was attributing its profits each year to three Irish subsidiaries that declared "tax residency" nowhere in the world. A corporation is not required to pay tax if it is not considered to be a resident of that country for tax purposes. It is important to determine a corporation's tax residence (i.e. if the corporation is foreign or domestic for tax purposes so that tax liabilities of the corporation and its subsidiaries are calculated). One of the subsidiaries shown in Apple's offshore organizational structure below, Apple Operations International located in Ireland, had no employees and no physical presence but kept its bank accounts and records in the United States and held its board meetings in California.

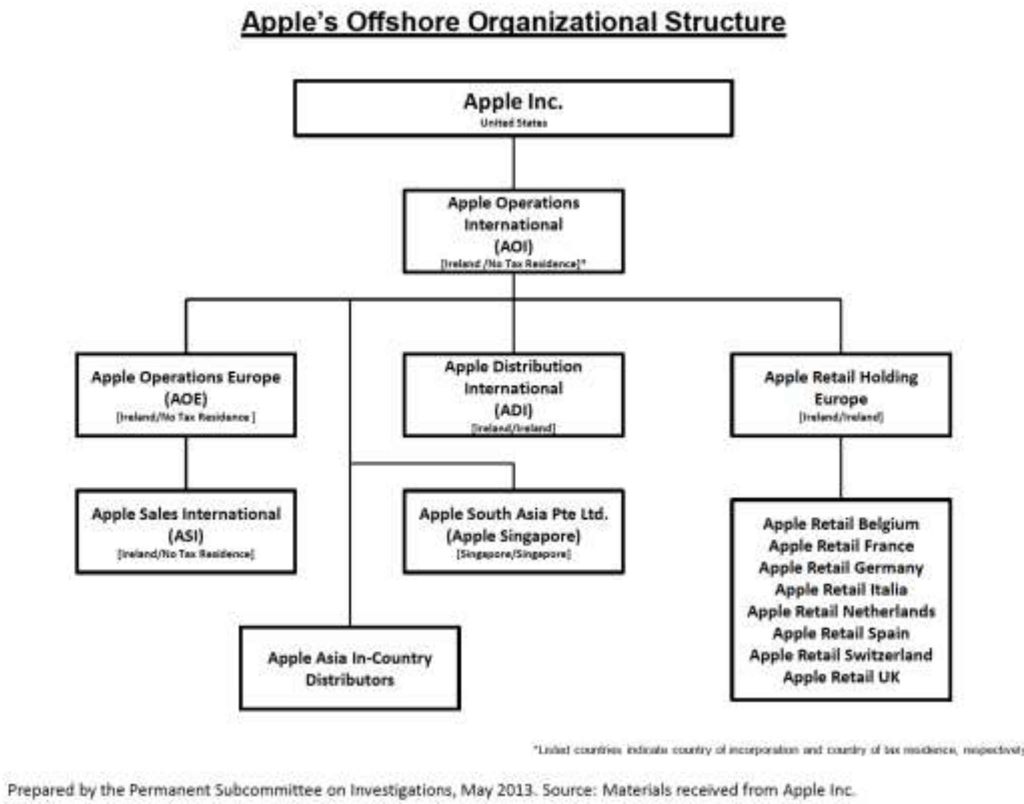

Figure 3: Apple's Offshore Organizational Structure

Ireland asks where a company is managed and controlled to determine its tax residence while US law asks where the company is incorporated to determine its tax residence for corporate income tax purposes. Since Apple Operations International (AOI) was incorporated in Ireland, the US tax law would view AOI as an Irish corporation, and thus, would not tax the profits attributed to AOI. Since AOI was managed in California, Ireland would view AOI as a U.S. entity, and thus, would not tax the profits. So, neither the U.S. nor Ireland believed that they had the right to tax profits earned by Apple Operations International. The senate's investigative subcommittee also reported that Apple Operations International had not filed an income tax return in either country, or any other country from 2009 to 2012. This is a good tax planning of Apple exploiting the tax code differences in countries. Even though it is not illegal, it is unethical of such big corporations trying to reduce their tax burden by shifting profits from high tax countries to low tax countries. The subsidiary reported a total income of $30 billion from 2009 to 2012 (Senate's Investigative Subcommittee, 2013).

According to Senate's Investigative Subcommittee (2013), another subsidiary that Apple claims not to be a tax resident anywhere is Apple Sales International, which reported a sales revenue of $74 billion from 2009 to 2012. As shown in the chart below, Apple reported total revenues of $36.54 billion in 2009, $65.22 billion in 2010, $108.25 billion in 2011, and $156.53 billion in 2012. It means that Apple Sales International reported almost 20% of total revenues from 2009 to 2012. Apple also had a third Irish subsidiary, Apple Operations Europe, with no tax residence.

The primary strategy of Apple was to transfer intellectual property rights in low-tax countries through a "cost-sharing agreement" (Sheppard, 2013). In a cost-sharing agreement, a US parent company and one or more of its subsidiaries are assigned a designated percentage of research and development expenses according to sales. In the case of Apple Inc., the products are developed in the United States. According to Sheppard (2013), Apple retains legal title and all marketing rights to the developed property in North and South America, and Apple's offshore subsidiaries get marketing rights for the rest of the world. The cost sharing agreement enables Apple to shift profits from the United States, where the IP was developed, to Apple subsidiaries in

Ireland. Thus, Apple subsidiaries in Ireland make small annual payments to the US parent for the use of intellectual property, while collecting huge profits from most of the world. Even though the corporate tax rate of Ireland is 12 percent, Apple pays an income tax rate of less than 2 percent. It is because of the negotiation between Apple and Ireland (Levin, 2013). This is how Apple creates its intellectual property in the United States and assigns most of the profits to Ireland by exploiting differences and mismatches in tax rules in the US and Ireland. I will discuss later why some countries may provide Apple with such a low tax rate.

As mentioned earlier, the U.S. did not believe that it had the authority to tax the profits of Apple's Irish subsidiaries. This is because Apple Inc. used the U.S. "check-the-box" rules. The check-the-box rules allows a taxpayer to choose the subsidiaries taxpayer form (e.g., corporation or flow-through entity) for U.S. income tax purposes by filing Form 8832. By electing to have the Irish subsidiaries registered as C-Corporations, Apple ensured that the U.S. would view the subsidiary as a foreign corporation. Since the U.S. does not tax profits earned by foreign corporations who do business in foreign (non-U.S.) countries, Apple used the check the box rules to ensure that the profits attributed to these Irish subsidiaries would not be taxed by the US.

In October 2013, Michael Noonan, Minister for Finance in Ireland at the time, announced that Irish companies would have to declare tax residency somewhere in the world (Drucker and Bowers, 2017). In response to this change in the law, Apple Sales International and Apple Operations International became residents in Jersey while Apple Operations Europe became a resident in Ireland. The corporate tax rate in Jersey is 0% with the exception of financial services firms, which are taxed at 10%, and utilities, rentals, and development projects, which are all taxed at 20% (Tracy, 2020). While this declaration technically meets the rules set forth by the Minister for Finance in Ireland, the end result as we can see from Figure 4 below is that Apple was able to continue to enjoy the ability to pay low taxes on profits shifted to these subsidiaries.

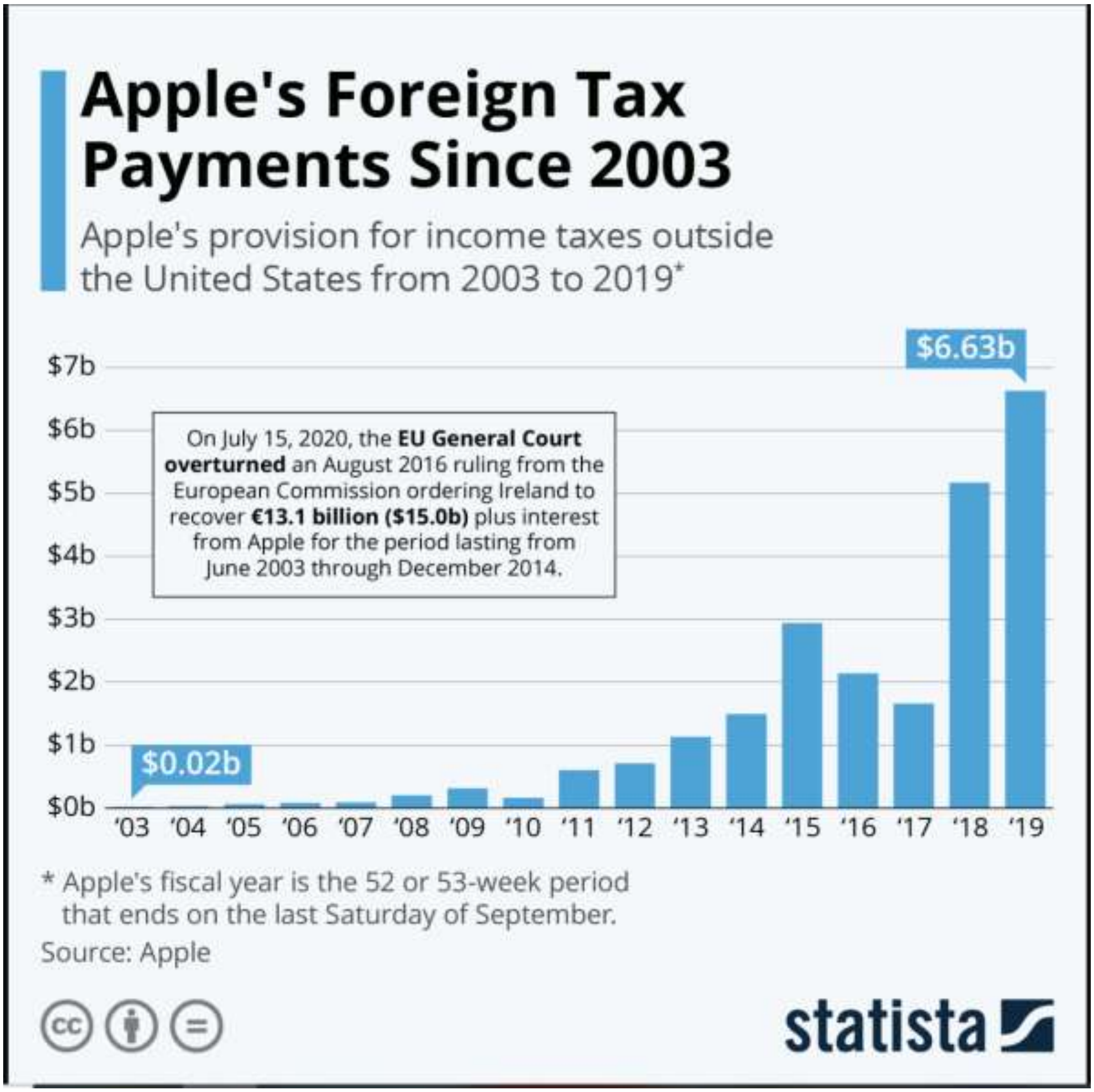

Figure 4: Apple’s Foreign Tax Payments Since 2003

Source Data: Statista, 2020

STARBUCKS

Starbucks is a multinational chain of coffeehouses and roaster reserves that is headquartered in Seattle, Washington. Starbucks generates the majority of their revenues through company-operated and licensed stores. According to its 10-K filing for year ended September 29, 2019, there were a total of 15,834 company-operated and 15,422 licensed stores in over 80 markets globally (Starbucks, 2011-2020). Starbucks owns various trademarks and service marks in the US and in other countries all over the world. Trademarks like Starbucks, the Starbucks logo, Starbucks Reserve, Seattle's Best Coffee, Teavana, Frappuccino, and Starbucks VIA are materially very important to Starbucks. Starbucks also owns various copyrights for things like product packaging, promotional materials, in-store graphics and training materials (Starbucks, 2011-2020). They also hold patents on certain products, systems, and designs (Starbucks, 2011-2020). This prevents from other companies to use similar designs and solutions.

Multinational corporations like Starbucks, Amazon, Apple, Google, and so on legally shift their profits from high tax countries to low tax countries or tax havens. One of the income shifting strategies adopted by Starbucks is transfer pricing. A transfer price is the price charged when goods or services are transferred between entities under common ownership. Starbucks reduces its income taxes by locating a subsidiary in a country with low tax rates and using this subsidiary as a supplier to other subsidiaries located in high-tax countries. Starbucks then deducts the profit reported by the purchasing subsidiaries in high-tax countries, and increases the profits of the supplier subsidiary located in a low-tax country by charging the highest price possible for supplies.

Another strategy, explained later in detail, adopted by Starbucks to avoid tax is through royalty payments. This strategy is used by many other corporations like McDonalds, Amazon, Google, etc. Starbucks places its intellectual property in low tax countries and charges its subsidiaries a royalty fee of six percent of total sales for the right to use intellectual property like the Starbucks brand, products, systems, designs, etc. Another strategy Starbucks uses in tax avoidance is inter-company debt. Starbucks finances its subsidiaries in high-tax countries with inter-company debt and charges the subsidiaries interest on the debt. The interest payments reduce the profit for subsidiaries located in high-tax countries, while increasing profits recognized by subsidiaries located in low-tax countries.

Starbucks' tax avoidance in the UK came into the spotlight in 2012 after Reuters published a "Special report: How Starbucks avoids UK taxes" on October 15, 2012 by Tom Bergin. Bergin (2012) reported that Starbucks has made over 3 billion pounds in coffee sales in the UK since it opened in 1998 and opened 735 outlets. However, Starbucks paid only 8.6 million pounds in income taxes until 2012 (Bergin, 2012). On top of that, Starbucks did not report any profit from 2009 to 2012 and paid zero income taxes in the UK (Bergin, 2012). As mentioned above, Starbucks avoided tax in the UK through three strategies: transfer pricing, royalties on intellectual property, and inter-company debt. I will detail each of these strategies below.

Transfer pricing: Starbucks stores in the UK bought coffee beans from a Switzerland-based Starbucks Coffee Trading Co. called Lausanne. The coffee beans were roasted in the Netherlands by a Starbucks company. It is not sure if the coffee beans ever passed through Switzerland, but Switzerland was the legal address for the trading company. The Starbucks stores in the UK would pay higher prices for coffee to other subsidiaries in Switzerland or the Netherlands. Thus, subsidiaries in the UK would report very small profits or no profit at all after increasing their costs. On the other hand, subsidiaries in Switzerland or the Netherlands would report higher profits. At that time, corporate income tax rates were 24 and 25 percent in the UK and the Netherlands respectively, however, the profits from international commodity trades were taxed at 5 percent in Switzerland (Campbell and Helleloid, 2016). Starbucks had a special tax agreement with the Netherlands so that it could locate its roasting facilities there. Hence, Starbucks was taxed at a lower corporate rate than the standard corporate rate (Campbell and Helleloid, 2016).

Royalties on Intellectual Property: Starbucks stores in the UK would pay a royalty fee of 6 percent of sales for the right to use intellectual property like the Starbucks brand and other various business operations. These payments are deductible, reducing the taxable income in the UK. The royalty fees from Starbucks' European units were paid to Amsterdam-based Starbucks Coffee, which was its European headquarter at that time as per the company.

Inter-company debt: Starbucks' stores in the UK were financed by inter-company debt. They were charged an interest rate (LIBOR plus 4%), which was higher than its corporate bond rate (LIBOR plus 1.3%) and the rate that other US multinational restaurant chains charged their subsidiaries (LIBOR plus 2%) (Campbell, Helleloid, 2016). As mentioned earlier, these interest payments are deductible from taxable income in the UK. In fiscal year 2012, Starbucks UK paid 2 million pounds in interest payment to other Starbucks subsidiaries (Campbell, Helleloid, 2016).

As a response to the criticism, Starbucks announced that they would voluntarily not claim UK tax deductions that helped reduce its tax bill to zero in the UK over the last three years (Pfanner, 2012). Kris Engskov, then managing director of Starbucks in the UK, said that Starbucks would not make the royalty payments and other transfers in 2013 and 2014 (Pfanner, 2012).

While my discussion above focuses on Apple and Starbuck, the aggressive tax planning discussed for each of these companies has become standard for multinational companies around the world. Both Apple and Starbucks have similar underlying patterns while avoiding taxes.

They both shift profits so that income is earned in a low tax country, instead of being earned in a high tax country. They share the tax planning techniques of transfer pricing and royalty payments in common. Both firms create artificial expenses by mere transfers on paper between a parent company and a subsidiary to offset against the income.

Multinational companies such as Apple and Starbucks had come under fire in June of 2014 for avoiding paying tax on their British sales. The companies were named and shamed for not paying their fair share of taxes. European regulators launched their inquiries into the tax affairs of Apple and Starbucks in 2014. They claimed that Apple and Starbucks allegedly negotiated with governments in the Netherlands, Ireland, and Luxembourg to avoid paying taxes in the UK. Even though Apple and Starbucks were both called out by the European Commission in 2014 for not paying their fair share of taxes, the firms have behaved differently in response to this. Starbucks considered that part of corporate social responsibility includes paying their fair share of taxes. Apple, on the other hand, seems to view tax planning as a part of their responsibility to maximize shareholder wealth.

FINANCIAL STATEMENT DATA

My discussion above relied heavily on details revealed during hearings on the company's tax planning strategies. In looking at the outcome, it appears that Apple and Starbucks took very different approaches. I wanted to see whether the information reported in financial statements would reflect the differences. As such, I complied and analyzed data from both firm's financial statements from 2011 through 2020. The financial statements are publicly available at the Securities Exchange Commission.

Since the U.S. corporate tax rate is a fixed percentage (35% before 2018, and 21% after 2017) of taxable income, we might expect that Starbucks and Apple would have total income tax expense that increases or decreases with total earnings before income taxes. Thus, I plotted the income tax expense and earnings before income taxes for both companies in Figure 5 and Figure 6 respectively below.

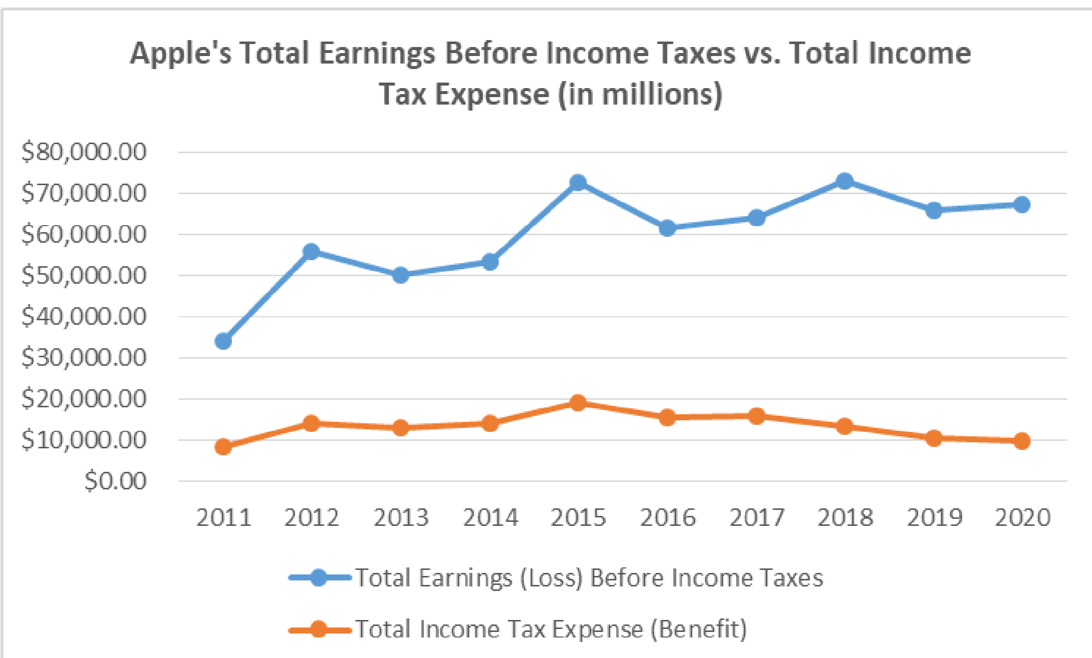

Figure 5: Apple's Total Earnings Before Income Taxes vs. Tax Expense (in millions)

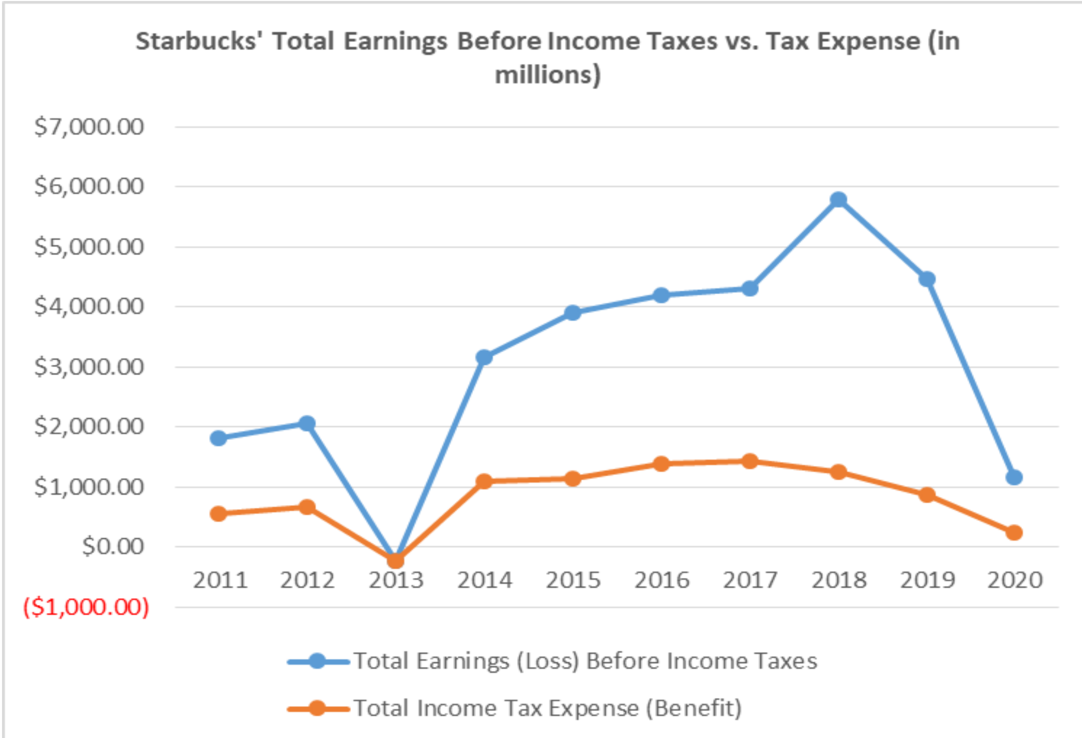

Figure 6: Starbucks' Total Earnings Before Income Taxes vs. Tax Expense (in millions)

The plots for Starbucks and Apple look different. As presented in the graphs above, it appears that for Starbucks the increase or decrease in total earnings before income taxes coincides with increases and decreases in total income tax expense for tax years 2013 through 2018. This is consistent with Starbucks paying more taxes when they had higher income and few taxes when they had lower income. On the other hand, this is not the case for Apple because when it had higher income, it did not pay high taxes. As we can see from the charts, in the case of Apple, it appears that their total earnings before income taxes increases between 2011 and 2018, while their income tax expense remains relatively unchanged, or decreases between 2011 and 2020.

The Mission Statement of Starbucks included phrases including "we take our responsibility to be good neighbors seriously." Starbucks portrayed itself as being a responsible citizen in the countries in which it operated and the tax shaming had a negative impact on the customers. Starbucks kept its promise to voluntarily choose not to claim UK tax deductions for inter-company royalty payments, interest charges or mark-ups for coffee included in transfer prices to restore its trust from the customers in being a socially responsible corporation. The current CEO of Apple, Tim Cook, said in an interview that "our responsibility is to pay what we owe, just plain and simple" (Owen, 2020).

We can investigate whether these differences in tax attitudes between Apple and Starbucks are apparent by comparing the statutory rate, or the tax rate imposed by law on U.S. income, to the effective tax rate, the average rate of tax paid by the corporation on its earnings before income taxes. Starbucks is shown in Figure 7 and Apple is shown in Figure 8 below.

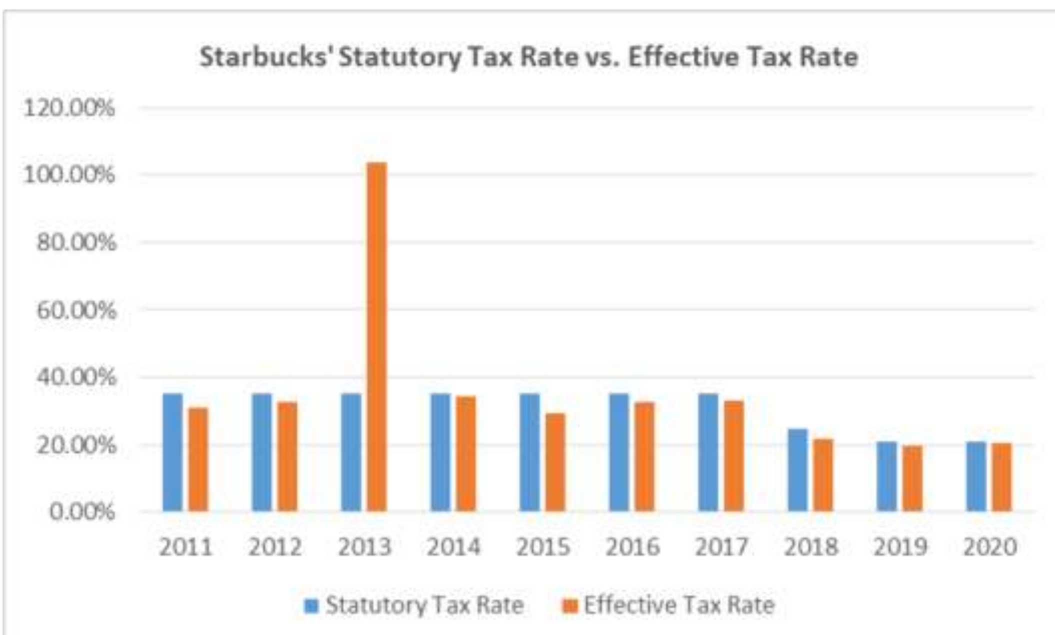

Figure 7: Starbucks' Statutory Tax Rate vs. Effective Tax Rate

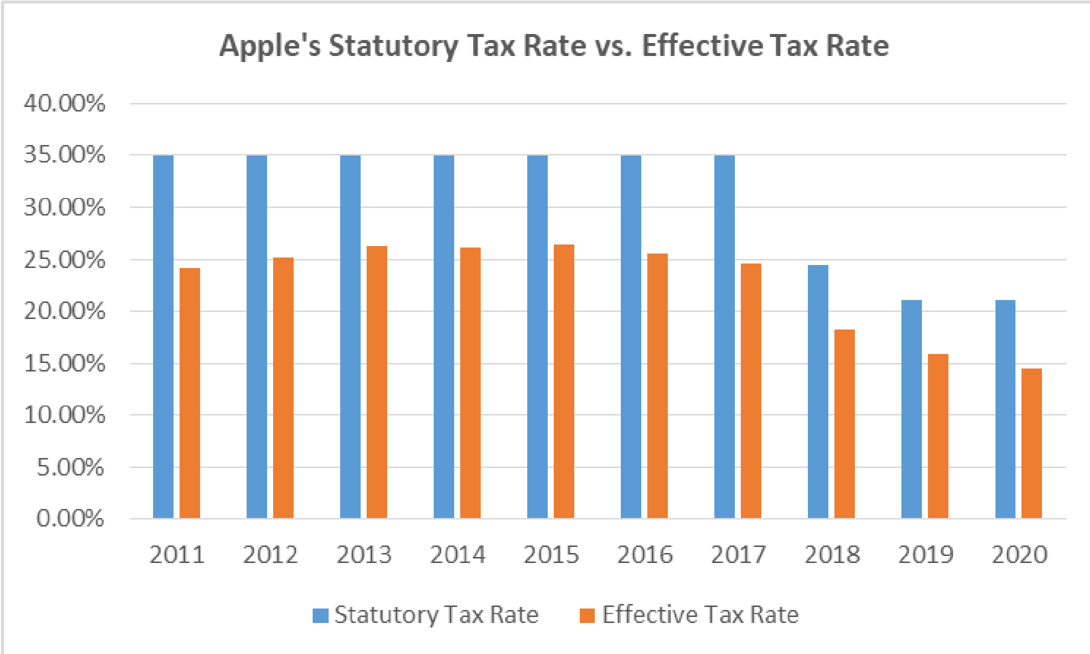

Figure 8: Apple's Statutory Tax Rate vs. Effective Tax Rate

As seen from the graphs, Starbucks has equal statutory and effective tax rates. It can be seen that Apple has a lower effective tax rate relative to the statutory rate, for all years from 2011 – 2020. Thus, Apple pays less taxes than it is required to by law and Starbucks pays almost all the required taxes. In other words, the graphs are consistent with the differences in tax attitudes between the two firms. Starbucks appears to pay taxes at the rate required by law, while Apple pays taxes owed after exploiting the tax mismatches of different countries. While these two multinational corporations are not competitors, when we compare the charts for Starbucks to Apple, and understand that each firm faces the same statutory tax rate, the differences are consistent with Apple avoiding more taxes than Starbucks throughout the years.

Another way to look at differences in tax strategies is to see whether firms choose to pay taxes today, in other words incur current tax expense, or delay the payment of taxes due to some point in the future, in other words record deferred tax expense. I provide plots of Starbucks current and deferred tax expenses in Figure 9, and Apple's current and deferred tax expenses in Figure 10 below.

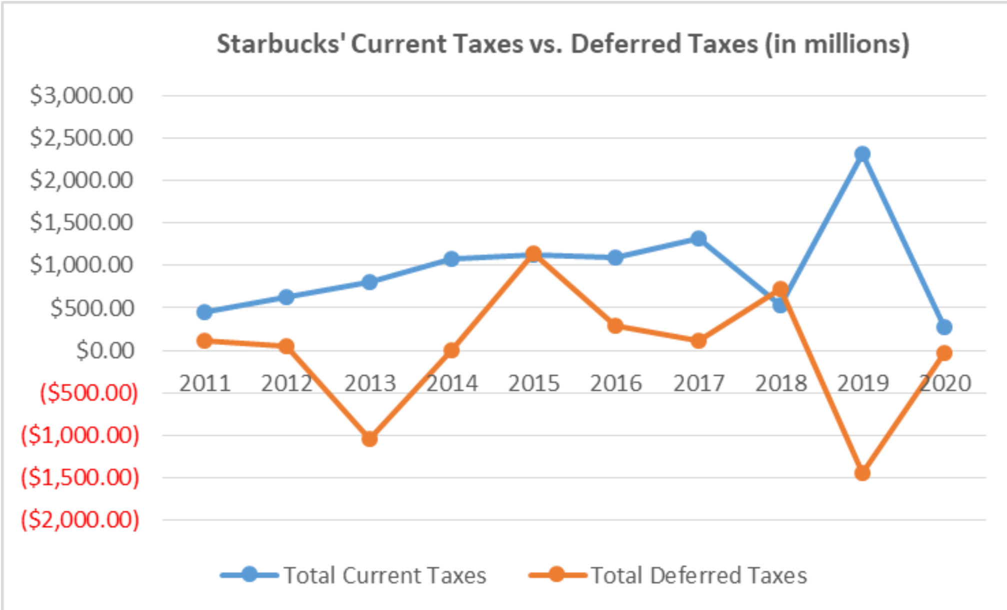

Figure 9: Starbucks' Current Taxes vs. Deferred Taxes (in millions)

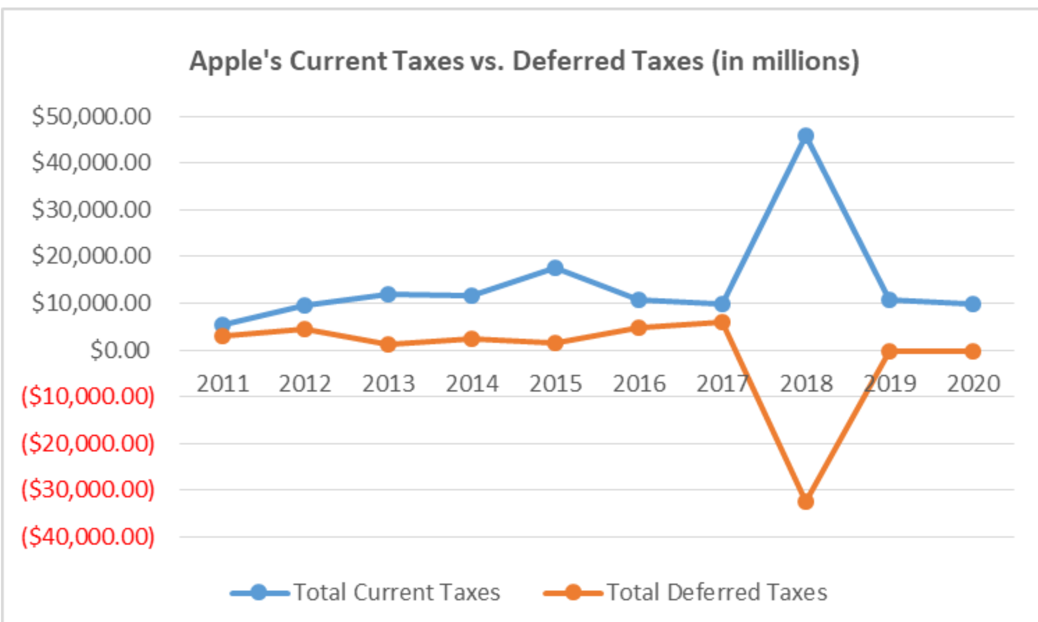

Figure 10: Apple's Current Taxes vs. Deferred Taxes (in millions)

I plotted each firms' current tax expense relative to their deferred tax expense from 2011 through 2020. In the case of Apple, the increase and decrease in current and deferred taxes have been consistent. Apple has been showing negative deferred taxes from tax years 2018 to 2020. In the case of Starbucks, total deferred taxes decreased drastically in tax year 2013. Starbucks has been showing negative deferred taxes from tax years 2019 to 2020. Both firms seem to have higher total current tax expense than deferred tax expense for most years. The spike in 2018 is likely related to the tax changes by the Tax Cuts and Jobs Act which was passed by Congress and signed into law in2017.

A final way that I can see whether financial data reveals useful information that would allow me to see differences in tax planning between Starbucks and Apple is by looking at the firms' future tax liabilities. In financial statements, we refer to these future tax liabilities as deferred tax assets and deferred tax liabilities. A deferred tax asset is an item on a company's balance sheet that results from overpayment or advance payment of taxes. Similarly, a deferred tax liability is a tax that is due for the current period but has not been paid. It represents an obligation to pay taxes in the future. I plot the deferred tax assets and deferred tax liabilities for Starbucks in Figure 11 and Apple in Figure 12 below.

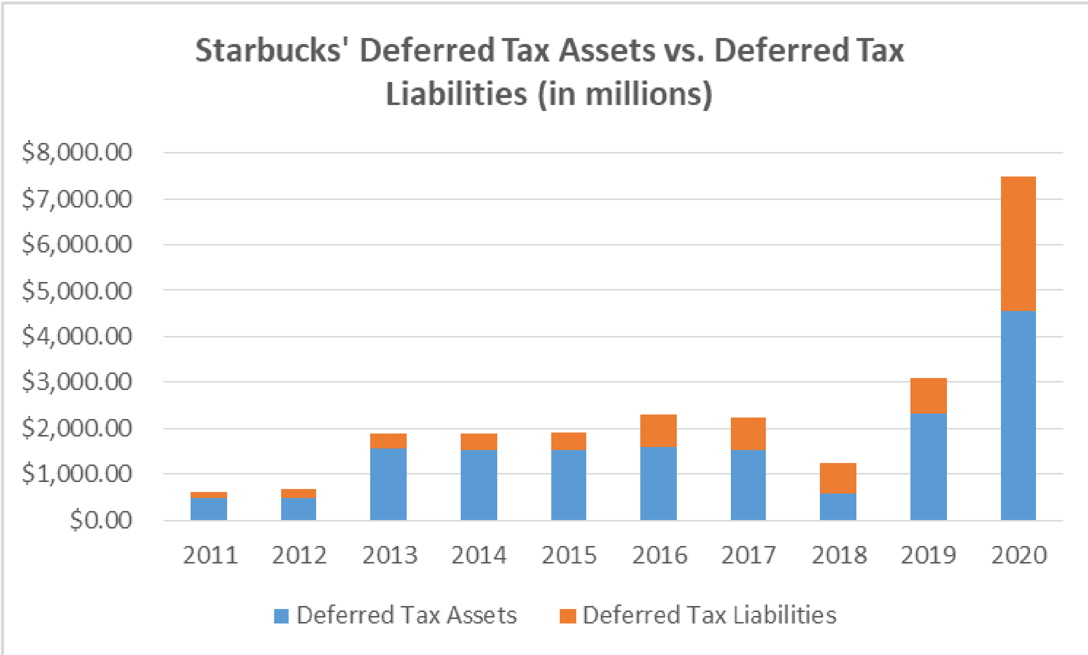

Figure 11: Starbucks' Deferred Tax Assets vs. Deferred Tax Liabilities (in millions)

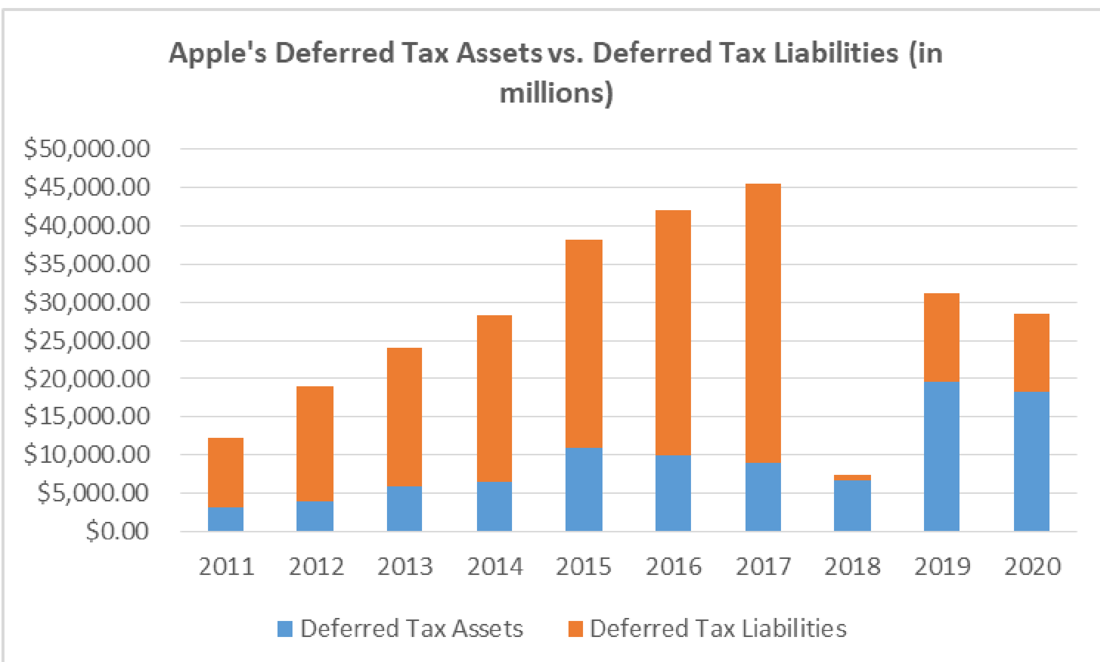

Figure 12: Apple's Deferred Tax Assets vs. Deferred Tax Liabilities (in millions)

In the case of Starbucks, deferred tax assets are greater than deferred tax liabilities from tax years 2011 to 2020 except for tax year 2018. This is consistent with Starbucks paying taxes in advance or overpaying taxes on its balance sheet. However, Apple had greater deferred tax liabilities than deferred tax assets for the tax years 2011 to 2017. This is consistent with Apple employing tax strategies that allow them to reduce their taxes in the current year, but that these tax strategies are expected to reverse resulting in Apple having to pay greater amounts of taxes in future years. Interestingly, for tax years 2018 through 2020, Apple had positive net deferred tax asset balances, which would be consistent with the Tax Cuts and Jobs Act (2017) reducing opportunities and/or incentives for companies, like Apple, to defer paying taxes in the future.

While this information focuses on U.S. reporting of tax liabilities, the ability for multinational companies to engage in tax planning depends on their ability to exploit differences in tax codes between countries. Next, I focused on international efforts to reduce multinational companies' abilities to exploit differences in tax codes between countries.

OECD

The Organization for Economic Co-operation and Development (OECD) is an international organization that works to build better policies for better lives" (OECD, 2020). The OECD was officially created on 30 September 1961, after the US and Canada joined the Organization for European Economic Cooperation (OEEC) members. The goal of OECD is to shape policies that foster prosperity, equality, opportunity and well-being for all. It works together with governments, policy makers, international organizations, business and labor, civil society, and citizens on establishing evidence-based international standards and finding solutions to a range of social, economic and environmental challenges. From improving economic performance and creating jobs to fostering strong education and fighting international tax evasion, the OECD provides a unique forum and knowledge hub for data and analysis, exchange of experiences, best-practice sharing, and advice on public policies and international standard-setting.

"In the 1990s the OECD released a series of influential reports and guidelines on transfer pricing, harmful tax practices, and e-commerce and VAT that set the groundwork for the organization's even more ambitious base erosion and profit-shifting project" (Sarfo, 2020). In 1995, the OECD modernized its transfer pricing guidance. In 1998, at the request of the G-7, the OECD released a highly cited report on harmful tax practices that suggested how OECD countries should identify and eliminate tax policies that could create tax havens or otherwise promote unfair tax competition. According to Arthur Cockfield, a tax professor at Queen's University Faculty of Law, the turning point in the OECD's leadership was when the OECD releases a major e-commerce tax reform project that addressed cross-border taxation issues. Then in 2013, the OECD decided to address Base Erosion and Profit Shifting (BEPS) through the package of 15 action plans that tackle the digital economy, transfer pricing, and more.

Central to the issues being addressed by the OECD BEPS initiatives was the recognition that many countries compete to attract capital and investment from big multinational corporations. As part of this competition, countries provide companies with tax favors and negotiated low tax rates so that they can attract capital and jobs from the companies. Since every country has their own tax regulations, they set their tax policies according to their needs. For example, the UK has reduced its corporate tax rate from 23 percent in 2013 to 19 percent in 2017. Similarly, the United States reduced its corporate tax rate from 35 percent to 21 percent in 2017 so that they could decrease the loss in revenue due to BEPS by encouraging more companies to recognize their profits in the US. Because of tax differences and mismatches, many multinational corporations such as Apple, Google, Amazon, Starbucks, and so on legally shift their profits from high tax countries to low tax countries, from worldwide to territorial tax policies, from domestic to controlled foreign corporations, and from domestic to foreign source.

The objective of OECD BEPS project is to bring the taxation of corporate profits back into the countries where the economic activities take place. In doing so, the BEPS project seeks consensus based solutions that would render the profit shifting strategies of multinational companies ineffective. In brief, businesses should consider taxes as a part of the overall strategic business decision, but taxes should not be the sole purpose of the business decision.

THE ROLE OF OTHER COUNTRIES

The need for global reform through coordination may not only be due to corporations' seeking to engage in tax planning aimed at tax minimization, but also because the governments of developing and developed countries permit these corporate activities. As shown in Figure 12 below, the corporate statutory tax rates of developed countries have started falling since the 1980s. The average corporate tax rates among the developed nations used to be around 50% in the 1980s, but now they have decreased to around 20% to 25%.

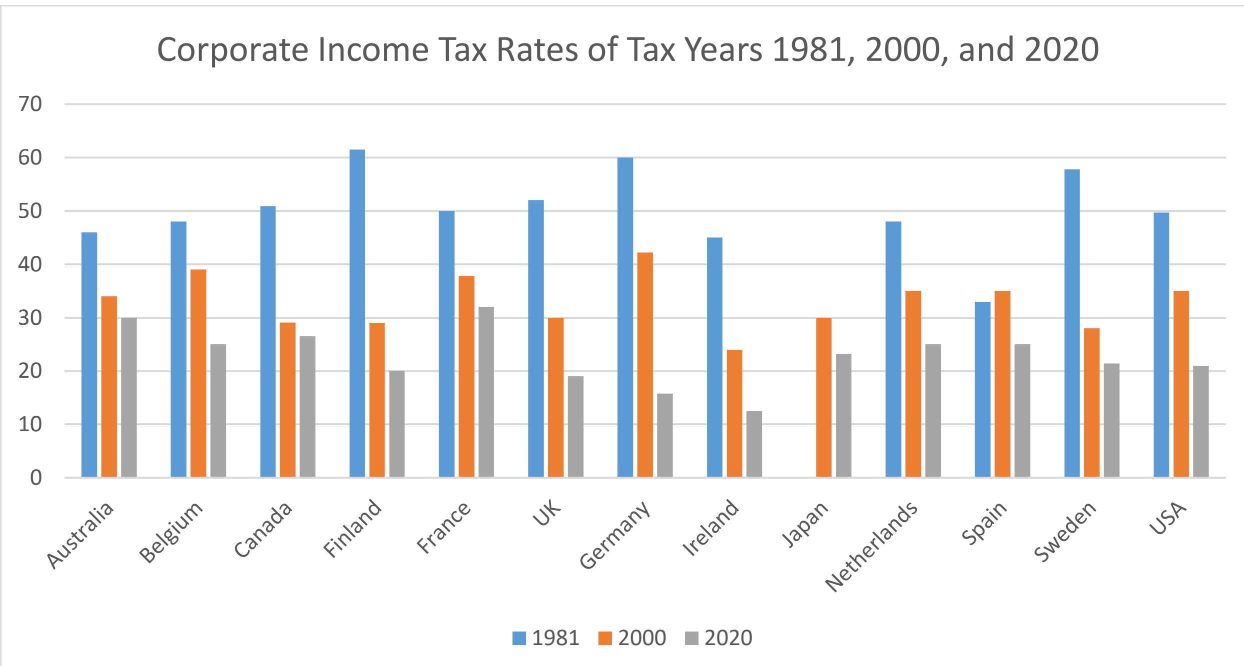

Figure 13: Corporate Income Tax Rates of Tax Years 1981, 2000, and 2020

The falling tax rates are a classic outcome of tax competition. Every country has different tax rates and different tax incentives. There are jurisdictions such as Bahamas, Bermuda, Cayman Islands, and so on that charge 0% tax rates for corporate income. There are also countries such as the United States, UK, Belgium, Australia, France, etc. which charge more than 20% in corporate income tax. President Biden has proposed raising the U.S. rate to 25% or 28%. These international tax rate differences create opportunities and incentives for multinational companies to shift their income and profits across the globe. One of the reasons governments are reducing their tax rates is to attract foreign capital and investment from multinational corporations.

"According to Mitchell (2014), tax competition exists when people can reduce tax burdens by shifting capital and/or labor from high-tax jurisdictions to low-tax jurisdictions" (Guxiejewska, Grabowski, and Bryndziak, 2014). Tax competition is defined by Krajewska (2010) as a reduction in domestic tax rates or an introduction of reliefs and exemptions in order to stimulate economic growth and improve the attractiveness and competitiveness of the country, especially for foreign investors. The tax competition has grown up as a response to the new argument that we all will be better off and grow faster with tax cuts. But in reality, it is the multinational corporations that are being better off.

The game Prisoner's dilemma helps to understand international tax competition. In the Prisoner's dilemma, two suspects from a criminal gang are arrested and imprisoned. The prisoners are kept in solitary rooms and are not able to communicate with each other. The police do not have enough evidence to convict both men on the main charge, but they believe that they can convict both to a year in prison on a lesser charge. The police offer each prisoner a bargain. Each prisoner is given the opportunity either to betray the other by testifying against his partner or to cooperate with the other by remaining silent. The one who testifies against his partner will go free while the other gets three years in jail on the main charge. However, if both of them testify against each other, both will be sentenced to two years in jail. Even though it is advantageous for both of them to cooperate with each other, it is rational for both prisoners to testify against each other. It is because testifying against each other provides a better alternative than the risk of cooperating while the other person defects.

The national governments confront the same situation as the prisoners in the game described above. Even though it is better for all the countries to follow the OECD's proposals to cooperate with each other by keeping corporate income tax rates high, the national governments have incentive to defect by lowering corporate tax rates so that they can attract businesses away from other countries. No country likes to cooperate like in the game of Prisoner's dilemma, if other country is likely to defect from the deal. So, every country lowers the tax rates over time.

Tax competition is associated with mobility of capital. The multinational corporations shift their profits through transfer pricing, royalties on intellectual property, inter-company debt, and so on. The advance of digital business environments, where profits are driven by intangible assets like intellectual property and patents accelerates multinational corporations' opportunities to shift their profits. Many multinational corporations, like Apple, are always looking for ways to reduce their profits and pay little taxes. Hence, the low tax jurisdictions have always been better homes to multinational corporations than high tax jurisdictions. In response to other countries lowering their tax rates, the high tax countries like the US and UK have lowered their tax rates too. The high tax countries face an incentive to reduce tax rates so that they can attract investment, jobs, and tax revenue. The United States lowered its corporate income tax rate from 35% to 21% in 2017 through the Tax Cuts and Job Acts. The countries think that it is better to have a little income rather than no income at all.

As mentioned in the case of Apple, Ireland and Apple had a secret negotiation that let Apple pay an income tax rate of less than 2 percent (Senate's Investigative Committee, 2013). Countries are competing against each other by making such deals with multinational corporations that let them pay very little to no tax at all. Tax competition has become more important in recent decades since multinational corporations find it easier to locate in different countries. It is because the multinational companies are transferring only their intangible services in low tax countries. There is no actual increase in labor productivity or increase in efficiency of using resources. “60 Minutes” correspondent Lesley Stahl reported that “A hundred years ago, if a company would want to relocate, you know, you'd have to pick up a factory, machinery and move everything (CBSNewsOnline, 2011). “Today, a company can move predominantly all of its assets just on paper,” as explained by Swiss tax attorney Thierry Boitelle (CBSNewsOnline, 2011).

In 2015, the European Commission decided that Luxembourg and the Netherlands had granted selective tax advantages to Fiat Finance and Trade’s financing company and Starbucks’ coffee roasting company. “In each case, a tax ruling issued by the respective national tax authority artificially lowered the tax paid by the company.” (European Commission, 2015). Even though such tax rulings are legal, the in-depth investigations conducted in 2014 found that the two tax rulings endorsed artificial and complex methods that allowed companies to shift their taxable profits to low tax countries (The European Commission, 2015). According to the European Commission (2015), such tax rulings are illegal because the profit shifting did not reflect economic reality. Therefore, the Commission ordered Luxembourg and the Netherlands to pay the unpaid tax from Fiat and Starbucks (The European Commission, 2015). But in 2019, Starbucks won its fight against this demand to pay up to 30 million euros while Fiat’s Luxembourg’s tax deal did not win the case (Chee, 2019). The court said that the commission was not able to show that Starbucks received any special tax treatment from the Netherlands while Fiat was found to have received an illegal advantage. Thus, even though the multinational corporations may be deemed to get special, illegal tax treatment by regulators, the corporation may not have to pay any penalties if the corporation can convince a court of law otherwise.

LESSONS LEARNED FROM THE CASE STUDIES/OECD EFFORTS/COUNTRY EFFORTS AND U.S. EFFORTS

There are a number of lessons to be discovered from my research and the analysis. According to OECD, the aim of the BEPS Project is to achieve consensus on significant alterations to the global framework for taxing income of multinational corporations. The OECD is trying to restore trust and ensure fair competition among all the countries. Three key factors of the BEPS project are: broad global consensus, high-level political commitment, and sound technical foundation are important in achieving this goal (Angus, 2020).

Currently, 132 jurisdictions are engaged in the work through the OECD's Inclusive Framework. It is important that all countries are at the table and all opinions are considered. As mentioned earlier in the paper, achieving coherence among countries is no easy task because of the potential Prisoner's Dilemma. It is hard for all the countries to accept changes in their rights to tax business income and in their ability to control the taxation of income earned within their borders (Angus, 2020). After the application of the new rules to any given business, there will be at least one country that will gain additional income tax and at least one country that will see reduction in its income tax collected from that business. Hence, it will be hard to achieve equal commitment from both categories of countries.

I also learned about company reactions, from investigating the behaviors of Apple and Starbucks after the European Commission called out the companies for not paying their fair share of taxes in the United Kingdom. The companies that behave like Starbucks will be affected more than the companies that behave like Apple. Starbucks considers paying fair share of taxes as part of being a socially responsible member of the society. Starbucks would pay their fair share of taxes again if new rules would be applicable. However, Apple considers that paying taxes plays a role in determining how much profits the company is going to make in a taxable year. Thus, companies that behave like Apple would likely look for ways to avoid taxes even if new rules were applied globally. Given the diversity of businesses, it is unlikely that one single formula could work for all businesses to restore trust and ensure fair competition among all businesses.

I also considered how digital transformation affects this discussion. Digital transformation is taking all over the world, especially after the global pandemic of COVID-19. The current international taxation rules are not designed to deal with the digital economy. Hence, the introduction of new concepts and rules to address the tax challenges on the digital economy is important now more than ever.

The OECD has published two pillars that extend the BEPS initiatives to address the tax challenges of the digital economy. The first pillar addresses the new business models that have developed in the broader digital economy. It intends on creating rules that would allocate business income among countries, with a particular focus on taxing the jurisdictions where revenue is sourced. As noted by the OECD, the physical presence in the jurisdiction is not important when taxing the profits of Automated Digital Services (ADS) businesses and Consumer-Facing Businesses (CFB) under Pillar one. When these companies generate revenues or use consumer data even if they are not physically present in such a country, they will be liable to pay taxes. Pillar Two, referred to as the Global Anti-Base Erosion (GloBE) Proposal, establishes the new system of global minimum tax rules for business income. President Biden proposal to impose a global minimum tax would align with Pillar Two. Pillar Two strives to ensure that a multinational corporation will pay a minimum level of tax on its profit. It is intended to further limit the incentives for businesses to locate functions and activities and profitability in low-tax countries.

What I learned collectively is that, actions that require co-ordination and co-operation are difficult under any circumstance, and it is more difficult if it involves financial matters. The OECD will require continued devotion of time and resources in order to seek consensus, foster high-level political commitment, and ensure a sound technical foundation. Hence, I conclude that the BEPS project will not be able to mitigate double non-taxation of multinational corporations in the near future.

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APPENDICIES/FIGURES/TABLES

APPENDIX A: NOTE 5 (INCOME TAXES) OF 2020 10-K OF APPLE

Provision for Income Taxes and Effective Tax Rate

The provision for income taxes for 2020, 2019 and 2018, consisted of the following (in millions):

	2020	2019	2018
Federal:			
Current	$ 6,306	$ 6,384	$ 41,425
Deferred	(3,619)	(2,939)	(33,819)
Total	2,687	3,445	7,606
State:			
Current	455	475	551
Deferred	21	(67)	48
Total	476	408	599
Foreign:			
Current	3,134	3,962	3,986
Deferred	3,383	2,666	1,181
Total	6,517	6,628	5,167
Provision for income taxes	$ 9,680	$ 10,481	$ 13,372

The foreign provision for income taxes is based on foreign pre-tax earnings of $38.1 billion, $44.3 billion and $48.0 billion in 2020, 2019 and 2018, respectively.

A reconciliation of the provision for income taxes, with the amount computed by applying the statutory federal income tax rate (21% in 2020 and 2019; 24.5% in 2018) to income before provision for income taxes for 2020, 2019 and 2018, is as follows (dollars in millions):

	2020	2019	2018
Computed expected tax	$ 14,089	$ 13,805	$ 17,890
State taxes, net of federal effect	423	423	271
Impacts of the Act	(582)	—	1,515
Earnings of foreign subsidiaries	(2,534)	(2,625)	(5,606)
Research and development credit, net	(728)	(548)	(560)
Excess tax benefits from equity awards	(930)	(639)	(675)
Other	(58)	65	537
Provision for income taxes	$ 9,680	$ 10,481	$ 13,372
Effective tax rate	14.4 %	15.9 %	18.3 %

Deferred Tax Assets and Liabilities

As of September 26, 2020 and September 28, 2019, the significant components of the Company's deferred tax assets and liabilities were (in millions):

	2020	2019
Deferred tax assets:		
Amortization and depreciation	$ 8,317	$ 11,645
Accrued liabilities and other reserves	4,934	5,196
Lease liabilities	2,038	—
Deferred revenue	1,638	1,372
Other	2,409	2,174
Total deferred tax assets	19,336	20,387
Less: Valuation allowance	(1,041)	(747)
Total deferred tax assets, net	18,295	19,640
Deferred tax liabilities:		
Minimum tax on foreign earnings	7,045	10,809
Right-of-use assets	1,862	—
Unrealized gains	526	186
Other	705	600
Total deferred tax liabilities	10,138	11,595
Net deferred tax assets	$ 8,157	$ 8,045

APPENDIX B: SUMMARY OF NOTE 5 (INCOME TAXES) OF 10-K OF APPLE FOR TAX YEARS 2011 - 2020

Years	Total Earnings (Loss) Before Income Taxes	US Federal Taxes	US State and Local Taxes	Foreign Taxes
2011	$34,205.00	$3,884.00	$762.00	$769.00
2012	$55,763.00	$7,240.00	$1,182.00	$1,203.00
2013	$50,155.00	$9,334.00	$1,084.00	$1,559.00
2014	$53,483.00	$8,624.00	$855.00	$2,147.00
2015	$72,515.00	$11,730.00	$1,265.00	$4,744.00
2016	$61,372.00	$7,652.00	$990.00	$2,105.00
2017	$64,089.00	$7,842.00	$259.00	$1,671.00
2018	$72,903.00	$41,425.00	$551.00	$3,986.00
2019	$65,737.00	$6,384.00	$475.00	$3,962.00
2020	$67,091.00	$6,306.00	$455.00	$3,134.00

Years	Total Current Taxes	Total Deferred Taxes	Total Income Tax Expense (Benefit)	Statutory Tax Rate	Effective Tax Rate
2011	$5,415.00	$2,868.00	$8,283.00	35.00%	24.20%
2012	$9,625.00	$4,405.00	$14,030.00	35.00%	25.20%
2013	$11,977.00	$1,141.00	$13,118.00	35.00%	26.20%
2014	$11,626.00	$2,347.00	$13,973.00	35.00%	26.10%
2015	$17,739.00	$1,382.00	$19,121.00	35.00%	26.40%
2016	$10,747.00	$4,938.00	$15,685.00	35.00%	25.60%
2017	$9,772.00	$5,966.00	$15,738.00	35.00%	24.60%
2018	$45,962.00	($32,590.00)	$13,372.00	24.50%	18.30%
2019	$10,821.00	($340.00)	$10,481.00	21.00%	15.90%
2020	$9,895.00	($215.00)	$9,680.00	21.00%	14.45%

Years	Deferred Tax Assets	Deferred Tax Liabilities	Net Deferred Tax Asset	Valuation Allowance
2011	$3,150.00	$9,168.00	($6,018.00)	$0.00
2012	$4,037.00	$14,905.00	($10,868.00)	$0.00
2013	$5,874.00	$18,156.00	($12,282.00)	$0.00
2014	$6,544.00	$21,664.00	($15,120.00)	$0.00
2015	$10,911.00	$27,171.00	($16,260.00)	$0.00
2016	$10,015.00	$31,921.00	($21,906.00)	$0.00
2017	$8,974.00	$36,562.00	($27,588.00)	$0.00
2018	$6,610.00	$776.00	$5,834.00	$0.00
2019	$19,640.00	$11,595.00	$8,045.00	$0.00
2020	$18,295.00	$10,138.00	$8,157.00	$1,041.00

APPENDIX C: NOTE 14 (INCOME TAXES) OF 2020 10-K OF STARBUCKS

Components of earnings before income taxes *(in millions):*

Fiscal Year Ended	Sep 27, 2020	Sep 29, 2019	Sep 30, 2018
United States	$ 904.6	$ 3,518.7	$ 4,826.0
Foreign	259.8	947.5	954.0
Total earnings before income taxes	$ 1,164.4	$ 4,466.2	$ 5,780.0

Provision/(benefit) for income taxes *(in millions):*

Fiscal Year Ended	Sep 27, 2020	Sep 29, 2019	Sep 30, 2018
Current taxes:			
U.S. federal	$ 49.9	$ 1,414.3	$ 156.2
U.S. state and local	36.9	447.8	52.0
Foreign	181.4	458.3	327.0
Total current taxes	268.2	2,320.4	535.2
Deferred taxes:			
U.S. federal	(8.4)	(1,074.5)	633.7
U.S. state and local	(4.8)	(322.4)	101.5
Foreign	(15.3)	(51.9)	(8.4)
Total deferred taxes	(28.5)	(1,448.8)	726.8
Total income tax expense	$ 239.7	$ 871.6	$ 1,262.0

Reconciliation of the statutory U.S. federal income tax rate with our effective income tax rate:

Fiscal Year Ended	Sep 27, 2020	Sep 29, 2019	Sep 30, 2018
Statutory rate	21.0 %	21.0 %	24.5 %
State income taxes, net of federal tax benefit	2.2	2.1	2.1
Foreign rate differential	(3.2)	(0.1)	(0.1)
Valuation allowances	10.0	—	—
Excess tax benefits of stock-based compensation	(4.2)	(2.1)	(0.9)
Change in tax rates	(2.2)	—	—
Charitable contributions	(1.7)	—	—
Foreign derived intangible income	(1.4)	(1.5)	—
Residual tax on foreign earnings	—	1.7	—
Tax impacts related to sale of certain operations	—	(1.3)	—
Gain resulting from acquisition of joint venture	—	—	(5.8)
Impact of the Tax Act	—	—	2.8
Other, net	0.1	(0.3)	(0.8)
Effective tax rate	20.6 %	19.5 %	21.8 %

Tax effect of temporary differences and carryforwards that comprise significant portions of deferred tax assets and liabilities *(in millions)*:

	Sep 27, 2020	Sep 29, 2019
Deferred tax assets:		
Operating lease liabilities	$ 2,313.0	$ —
Stored value card liability and deferred revenue	1,678.6	1,649.0
Intangible assets and goodwill	248.6	230.0
Accrued occupancy costs	—	121.6
Other	554.4	413.0
Total	$ 4,794.6	$ 2,413.6
Valuation allowance	(239.4)	(75.1)
Total deferred tax asset, net of valuation allowance	$ 4,555.2	$ 2,338.5
Deferred tax liabilities:		
Operating lease, right-of-use assets	(2,191.8)	—
Property, plant and equipment	(463.3)	(400.9)
Intangible assets and goodwill	(145.1)	(209.9)
Other	(123.2)	(148.3)
Total	(2,923.4)	(759.1)
Net deferred tax asset (liability)	$ 1,631.8	$ 1,579.4
Reported as:		
Deferred income tax assets	1,789.9	1,765.8
Deferred income tax liabilities (included in Other long-term liabilities)	(158.1)	(186.4)
Net deferred tax asset (liability)	$ 1,631.8	$ 1,579.4

APPENDIX D: SUMMARY OF NOTE 14 (INCOME TAXES) OF 10-K OF STARBUCKS FOR TAX YEARS 2011 - 2020

Years	Total Earnings (Loss) Before Income Taxes	US Federal Taxes	US State and Local Taxes	Foreign Taxes
2011	$1,811.10	$344.70	$61.20	$37.30
2012	$2,059.10	$466.00	$79.90	$76.80
2013	($229.90)	$616.60	$93.80	$95.90
2014	$3,159.70	$827.70	$132.90	$128.80
2015	$3,903.00	$801.00	$150.10	$172.20
2016	$4,198.60	$704.10	$166.50	$218.50
2017	$4,317.50	$931.00	$170.80	$216.60
2018	$5,780.00	$156.20	$52.00	$327.00
2019	$4,466.20	$1,414.30	$447.80	$458.30
2020	$1,164.40	$49.90	$36.90	$181.40

Years	Total Current Taxes	Total Deferred Taxes	Total Income Tax Expense (Benefit)	Statutory Tax Rate	Effective Tax Rate
2011	$443.20	$119.90	$563.10	35.00%	31.09%
2012	$622.70	$51.70	$674.40	35.00%	32.75%
2013	$806.30	($1,045.00)	($238.70)	35.00%	103.83%
2014	$1,084.40	$7.60	$1,092.00	35.00%	34.56%
2015	$1,123.30	$1,143.70	$1,143.70	35.00%	29.30%
2016	$1,089.10	$290.60	$1,379.70	35.00%	32.86%
2017	$1,318.40	$114.20	$1,432.60	35.00%	33.18%
2018	$535.20	$726.80	$1,262.00	24.50%	21.83%
2019	$2,320.40	($1,448.80)	$871.60	21.00%	19.52%
2020	$268.20	($28.50)	$239.70	21.00%	20.59%

Years	Deferred Tax Assets	Deferred Tax Liabilities	Net Deferred Tax Asset	Valuation Allowance	Net Operating Losses
2011	$485.00	$109.70	$375.30	$137.40	$85.50
2012	$491.90	$167.80	$324.10	$154.20	$99.20
2013	$1,550.80	$317.60	$1,233.20	$160.50	$99.00
2014	$1,540.10	$330.50	$1,209.60	$166.80	$104.40
2015	$1,516.30	$378.90	$1,137.40	$143.70	$93.40
2016	$1,580.80	$710.10	$870.70	$70.30	$79.00
2017	$1,514.40	$725.30	$789.10	$80.10	$80.80
2018	$560.90	$696.40	($135.50)	$129.30	$79.20
2019	$2,338.50	$759.10	$1,579.40	$75.10	$75.60
2020	$4,555.20	$2,923.40	$1,631.80	$239.40	$0.00