

International Tax Monitor Quotes Peter Barnes on Amazon's Changing Luxembourg Strategy

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Caplin & Drysdale's Peter A. Barnes spoke with *Bloomberg BNA's International Tax Monitor* concerning Amazon's decision to no longer book European retail sales largely through its affiliate in low-tax Luxembourg. However, Mr. Barnes noted that the shift in structure won't necessarily change the company's tax bills. To view the complete article, please click on the link above to view a PDF.

Excerpt taken from the article.

Peter Barnes, of counsel with Caplin & Drysdale, agreed that Amazon's tax bills might not change much under the new structure.

"It is well known that Amazon has earned very small profits, because it chooses to reinvest for future growth. So, if expenses are properly allocated to each jurisdiction, it is quite probable that Amazon's profits in a particular country will be small," said Barnes, also a senior fellow at the Duke Center for International Development at Duke University.

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Restructuring of European Operations

But Barnes warned against drawing broad conclusions about international tax planning from Amazon's decision.

"When a company first enters a country, it is often possible to structure the operations in a way that minimizes the tax nexus," Barnes said in an e-mail to Bloomberg BNA. "But, as the company grows, it needs to have a deeper local presence in order to properly serve customers. That greater local presence will often create a greater tax liability."

Amazon's experience in the U.S. is an illustration of this pattern, he said. As the company built warehouses throughout the U.S. to improve its delivery, it increased its tax collection and reporting obligations to various states.

"Amazon is likely facing that same growth and change internationally," Barnes said. "This is an evolution, not a revolution, and many companies have faced these same tax issues as they grow internationally or will face the issues in coming years."

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European Commission Investigation

Barnes also noted that a number of factors are causing multinational companies to examine their global tax structures, including the state aid issues and country-by-country reporting.

"Successful companies are always looking at their structures to make sure they fully comply with local laws, reasonably minimize tax expense, and, most importantly, support growth and the company's business model," he said.

Given Amazon's history of minimizing profits in favor of future growth, Barnes added, "it is particularly smart of Amazon to adjust its tax structure to support its growing business, rather than constrain the business just to save a minor sum on taxes."

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