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US tech giants launch fierce fight back against global tax avoidance crackdown

Lobbyists representing firms including Google, Amazon and Apple claim 'fundamental flaws' in G20-led reforms

By Simon Bowers

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Lobby groups representing Google, Amazon and other powerful US tech multinationals have launched a fierce attack on global plans to stamp out artificial corporate structures used to avoid tax.

In responses to the latest stage of a two-year, G20-led programme of international tax reform, lobbyists for the US tech industry condemned the plans as riddled with "fundamental flaws" and said parts "must be rejected".

The joint feedback submission was made on behalf of five leading US tech industry trade bodies whose members include Apple, Microsoft, Intel, Yahoo!, Facebook, Uber, Netflix, Hewlett-Packard, eBay, IBM and Twitter, as well as Google and Amazon. It claimed the changes go too far, would be too costly and would lead to confusion and dispute.

The tough language is in sharp contrast to remarks from Google executive chairman Eric Schmidt two years ago when he said: "Corporate taxation is rightly a hot topic. And we understand why Google is at the centre of that debate … International tax law could almost certainly benefit from reform."

On Thursday Schmidt will join Facebook's Sheryl Sandberg and Microsoft's Satya Nadella on the stage in Davos at the World Economic Forum to discuss how to ensure a "thriving, open and secure digital economy". Schmidt is not expected to bring up the matter of the group's controversial tax structuring in Europe.

Last April Amazon's UK boss, Christopher North, claimed the group's European business, which operates through a trading hub in Luxembourg, was set up in such a way that it could not offer the same service if required to account for trading in each country separately. "We just couldn't do that," he said. "And a single European business is going to need a single European headquarters."

Since then the European commission has begun a state aid inquiry into the generous tax treatment Amazon enjoys in Luxembourg. Amazon denies its corporate structure is artificial and insists it pays all taxes where they are due.

Last year, the Guardian revealed that – despite Schmidt's public support for reform – Google was one of a number of unnamed members of an ad hoc US lobbying body, calling itself the Digital Economy Group, which had submitted objections to earlier OECD tax reform papers.

The search engine group's wider political and lobby activities in the US have led to its forging fresh alliances with forces in Washington aligned to its commercial interests.

Some reports have suggested Google has been making concerted efforts to broaden its engagement beyond historic ties to the Democratic party, hiring Republican operatives and building campaign contributions to rightwing candidates from its political action committee. Among those receiving support from Google are the Heritage Foundation, the American Enterprise Institute and Americans for Tax Reform.

The libertarian Cato Institute, funded by the billionaire industrialist Koch brothers, said it had received support from Google in the form of free web advertising. Among the issues on which this lobby group campaigns is taxation; it expounds the virtues of tax havens and has described the G20-led efforts to reform international tax as a "global tax cartel" plot.

The latest tax changes proposed by the OECD address the question of what level of business activity a company must carry out in a country to become eligible for tax there.

Google made $5.64bn (£3.73bn) revenues, or 9.4% of its global total, from customers based in Britain in 2013, though almost all of that was booked in the accounts of the group's Irish operations. Meanwhile, the group's main British company, which sells marketing support services to Ireland, reported turnover of only £642m and paid tax of £21.6m. Despite the UK company's accounts showing only a small share of Google's sales to UK customers, this company has a large workforce of 1,835 staff, with very high average salaries.

George Osborne has already announced unilateral measures – known as the diverted profits tax, but popularly called a "Google tax" – to stop big technology companies artificially avoiding UK corporation tax. His plan wrong-footed many tax justice campaigners, though how effective it will prove in practice remains to be seen.

The Treasury has insisted the chancellor also remains supportive of OECD efforts to achieve international consensus on how to rein in aggressive tax avoidance by technology companies and others.

Google has become the most high profile example of a multinational with subsidiaries making large revenues remotely from European markets in which they have avoided tax residence it is far from alone.

Amazon attributed $7.29bn of its net sales in 2013, or 9.8% of the global total, to the UK, though almost all of that sum was website transactions booked by the group's European trading hub in Luxembourg. Amazon's main UK company, which operates its warehouses and supports sales and buying activities, had reported turnover of £449m for 2013 and a tax charge of £4.2m.

Tax authorities across Europe are also said to be facing a growing number of aggressive complex corporate structures, often designed to avoid tax residence to lower a multinational's overall tax bill. One PricewaterhouseCoopers survey in 2013 found more than a third of corporate respondents were facing a dispute with a tax authority over whether or not one of their subsidiaries was tax resident in a certain country.

While Osborne and other European politicians have been quick to point to US tech groups for their aggressive avoidance of tax residency, such strategies have long been deployed in tax planning by European multinationals in more established industries.