

MCDONALD'S ACCUSED OF RE-ROUTING ROYALTY PAYMENTS TO AVOID BILLIONS IN EUROPEAN TAXES

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Labor unions are accusing McDonald's of avoiding €1 billion in tax by re-routing revenue through Swiss and Luxembourg units.

McDonald's apparently asked its various franchises to pay it royalty revenue for using the McDonald's brand. These deductible payments were then subject to low tax rates when the payments were re-routed to the McDonald's Luxembourg S.à.r.l. The union report found that while the Luxembourg branch registered revenues of £2.7 billion over five years, it only paid less than £12 million of tax.

McDonald's moved its corporate headquarters from the U.K. to Switzerland in 2009, indicating that the relocation was due to reducing redundancies in its European divisions. However, critics allege that this was mostly done for tax reasons, as the Swiss rate for royalty payments at that time was 9% lower than the effective U.K. tax rate.

As mentioned in previous editions, the Organisation for Economic Co-operation and Development's ("O.E.C.D.'s") Base Erosion and Profit Shifting initiative ("B.E.P.S.") seeks to force multinational companies to report on a country-by-country basis their number of employees and sources of revenue, among other information, which will then be shared with treaty countries.¹ This reporting may force multinationals like McDonald's to stop engaging in such practices unless they can prove that there is economic substance to support the business decision other than tax avoidance.



¹ See *Insights* Special Edition [B.E.P.S. Retrospective: The Global Approach to Combatting Base Erosion and Profit Shifting in 2014.](#)