UASM Discussion Paper Series

University of Applied Science Mainz

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Tax planning in multinational corporations after the discussions referred to immorality of base erosion and profit shifting (BEPS)

With focus on Starbucks Corporation

Paper No 7/2018, published May 2018

Please cite as: Robles, G.: Tax planning in multinational corporations after the discussions referred to immorality of base erosion and profit shifting (BEPS) - With focus on Starbucks Corporation. UASM Discussion Paper No. 7, University of Applied Sciences Mainz, Germany.

UASM Discussion Paper Series

University of Applied Science Mainz

ISSN 2366-9578

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Abstract

Tax planning is a crucial strategy that management can display in order to increase the net profit of the companies, by reducing tax expenses (Randeberg/Selvik, 2014). This is particularly significant for multinational corporations (MNCs), due to their possibility to take advantage of the different tax rates existing in the various countries where they operate (Krens, 2013).

Even though most of the utilized practices were legal, they were increasingly discussed and accused of being immoral. Governments were urged by the public to take action. As a result, MNCs may possibly change their concept of tax planning and comportment.

As one of the public actions, the “House of Commons Public Accounts Committee” In the United Kingdom suggested in 2012 that some large MNCs were using the tax legislation in an unintended way. Through tax planning, they managed to make huge profits and still pay very low amounts of taxes.

From that moment on, base erosion and profit shifting (BEPS) has been a controversial topic in the international taxation field all around the world.

This paper uses the case of Starbucks corporation to analyze to which extent the utilization of aggressive tax planning strategies has decreased since the immorality of BEPS was stated by the “House of Commons Public Accounts Committee”. To this end, the financial statements of the years 2010 to 2015 are analyzed for four companies of the Starbucks group.

1 Introduction

In November 2012, Starbucks Corporation, Amazon.com Inc. and Google Inc. were placed under the spotlight by the UK Parliament. They were accused of being immoral in their tax behavior. It was exposed that they were doing significant business in the United Kingdom, and still payed a very low amount of taxes (Public Accounts Committee, 2012). As this was accomplished in a completely legal way, by an aggressive tax planning, the companies could not be blamed of displaying illegal comportment. However, the Committee accused them of being immoral, because they were not contributing in a proper way to the country from which they were, presumably, making huge profits (Dowling, 2013).

In the particular case of Starbucks Corporation, in which this paper will focus, the profit shifting to lower tax rate countries was suspected to be mainly achieved by intercompany loans, internal pricing and brand royalties. As a consequence of these accusations, the image of the company was severely damaged (Bergin, 2012).

Since then, 'base erosion and profit shifting' (BEPS) has been installed as a controversial topic in the international taxation field. In 2013, the Organization for Economic Cooperation and Development (OECD) published fifteen action plans to reduce BEPS (OECD, 2013), suggesting measures that the member countries were encouraged to include in their legislation.

Most of the studies conducted to the date focus on the governments and tax authorities, in relation with the attitude they should adopt towards BEPS, as well as the legislation they should implement. Just a few papers focus on the situation for multinational corporations (MNCs), and the effect that these discussions, media scandals and action plans will have in the way the companies should be led, in all the fields related to tax planning (group structure and strategy, financing, etc.).

Only one article with company focus could be found that was written after 2015 (Maisto, 2016), but it is very general and analyses exclusively the possible consequences of BEPS on tax planning, without any study of the effects that it has had so far. Furthermore, no case study has been found analyzing the situation.

Five years have already elapsed since the discussions in the English Parliament, so it is possible that some grade of decrease in aggressive tax planning can already be evidenced in MNCs, particularly in those enterprises that were involved in the initial discussions.

The aim of this paper is to analyze whether aggressive tax planning in Starbucks Corporation has decreased after the morality of these kind of practices was questioned by the "House of Commons Public Accounts Committee" of the UK in 2012. The study will be particularly focused on the analysis of the financial statements[1] of four subsidiaries of Starbucks Corporation[2], considering that it was one of the first and main companies to be questioned for BEPS reasons. By studying the evolution of some key indicators related to tax minimization strategies, the paper intends to assess whether changes in the attitude towards tax planning are exhibited. The subsidiaries under study are based in three European countries: the UK, Germany and the Netherlands,

This study should be of interest for managers and directors of multinational corporations, because it will provide them with an overview of the current situation regarding tax planning and help them to decide about the best strategy to apply, in accordance with the current context. Decisions referred to tax strategy affect the entire corporation, since they imply topics as relevant as the structure of the corporation, location of subsidiaries, distribution of the value chain, financing and transfer pricing, among others.

2 Conceptual framework

2.1 Tax planning in MNCs

A simple definition of MNC is that it is a company which operates and sells goods and services in more than one country (Shapiro/Sarin, 2010). But in reality it goes even further, being these firms based on global models, with sales, supply chains, manufacturing facilities, etc. distributed all around the world (OECD, 2013). This usually implies both horizontal and vertical integration of the companies, resulting in big groups formed by many related parties[3] (OECD, 2013).

In a scenario of exponential increase of MNCs, the relevance of intercompany trade is not surprising. Furthermore, it is assumed that more than 60% of international trade happens within, rather than between multinational corporations (Tax Justice Network, 2012). The problem of such situation for international taxation is that, since all the entities in the group share the same interests, there is a wide range of tactics that they can implement to manipulate intercompany transactions with the aim of minimizing the tax burden, thus maximizing the group's profit (OECD, 2013).

Amongst the strategies that can be employed, this paper intends to thoroughly study those related to tax expense minimization. As the tax systems and rates are different in the various countries where MNCs operate, and considering the existence of multiple double taxation

1 Fiscal years 2010 to 2015, both inclusive

2 Starbucks Coffee Company (UK) Limited (United Kingdom), Starbucks Coffee Deutschland Ltd. & Co. KG (until 2013 Starbucks Coffee Deutschland GmbH) (Germany), Starbucks Manufacturing EMEA B.V. (The Netherlands) and Starbucks Coffee EMEA B.V. (The Netherlands).
The selection was based on the entities' participation in the tax avoidance scandals, and on the availability of information. For further details, please refer to section 3 Research methodology.

3 Under international financial reporting standards, two parties are related if any of the following situations apply (IFRS, 2015): Subsidiary-the party controls the entity, with a participation of more than 50% of the shares (IFRS 10); Associate-the party has a significant influence over the entity, with a participation between 20% and 50% (IAS 28); Joint venture-the party is a joint venture in which the entity is a venture partner (IFRS 11); Key management-the party and the entity share key management personnel; Common control-the party is, directly or indirectly, either under common control with the entity or has significant or joint control over the entity; Individual control- the party is controlled or significantly influenced by a member of key management personnel or by a person who controls the entity.

agreements, MNCs can exploit tax planning in order to, without breaking the law, minimize their tax burden (OECD, 2017).

When the implemented strategies are actively pushing the limits of what is allowed, it can be said that aggressive tax planning (ATP) is being utilized. Several structures of ATP have been identified, such as hybrid financing, patent box, offshore loan, interest fee loan, etc. (European Commission, 2015a).

With the aim of better understanding the nature of tax planning, it is necessary to go deeper into the concepts of tax evasion and tax avoidance.

Tax evasion, as defined by the OECD (2017) refers to "(…) illegal arrangements where liability to tax is hidden or ignored, i.e. the tax payer pays less than he is legally obligated to pay by hiding income or information from the tax authorities." (OECD, 2017). It can be easily inferred from the definition that this practice is illegal, and severely punished by the legislation in every country.

On the other hand, tax avoidance is a more ambiguous practice. The OECD defines it as a term "(…) used to describe the arrangement of a taxpayer's affairs that is intended to reduce his tax liability and that although the arrangement could be strictly legal it is usually in contradiction with the intent of the law it purports to follow" (OECD, 2017).

Tax planning can serve as a way of tax avoidance, in cases when instead of being used to minimize the tax bill in relation to transactions usually undertaken, some transactions are entered into solely for the purpose of generating a tax benefit (Bowler, 2009). In those cases, although the "letter of the law" might be respected, it is not so clear whether it is in accordance with its spirit (Dowling, 2013).

Besides the peculiarities of each company, there are three elements that are key for tax planning: the different corporate income tax rates applicable from country to country, the double taxation agreements, which can sometimes lead to double non-taxation, and the tax havens, defined by the OECD as countries that impose a low or no tax, have a lack of effective exchange of information and have a lack of transparency in the operation of the legislative, legal or administrative provisions (OECD, 2017).

2.2 Tax minimization strategies and indicators

There is a wide range of strategies that MNCs can display to accomplish the purpose of lowering their tax burden.

One of the most common actions is to shift profit by **borrowing money from related entities** that are fiscal residents of countries with low corporate tax rate. Through this procedure, the lender in the low tax rate country will increase its income by receiving interest. At the same time, the counterparty will decrease the taxable profit in the high rate state, by interest expenses. The fact of increasing the liabilities can lead to thin capitalization, with unusually high debt to equity ratios[4].

Another possibility for base erosion in high tax rate countries is to pay royalties for **intangible assets**[5] to related parties located either in low rate countries, or in those that have unclear or beneficial legislation in this field, or are open to perform special agreements with the tax payers.

These kinds of assets usually present many loops in legislation, due to their nature. Since they have no physical substance and they can be internally generated, it is not easy to measure them, or even to be sure whether they should be recognized in the Financial Statements (IFRS, 2015b). Furthermore, intangible assets are usually related to new technologies, so the future economic benefits that the entity will obtain from their use are difficult to forecast. Additionally, in most of the cases no active market can be found for them, increasing the measurement problems (IFRS, 2015b).

Those circumstances provide advantages for MNCs in relation with tax planning, because, since nothing is so clear, they can place and price their intangible assets according to their convenience.

It is very usual then, that intangible asset holdings are disproportionately concentrated among affiliates in low rate jurisdictions or where special agreements can be negotiated with the tax authorities (Auerbach/Smetters, 2017). The right to use such assets is then licensed to other group members in exchange for a royalty which is usually relatively high, in order to increase the base erosion and profit shifting generated by the maneuver.

Due to the difficulty to determine a fair price both for the assets and for the royalties, as well as to identify ownership, the tax authorities cannot do much in this respect (Evers/Miller/Spengel, 2015)

Finally, but possibly the most important, is **strategic transfer pricing**. This concept refers to the allocation of costs in transactions between related parties. Based on the arm's length principle[6], such transactions have to be done in the same conditions that would take place if the parties were independent. The aim of the wide legislation regarding this topic is to reduce the possibility of base erosion and profit shifting by manipulation of transfer prices (Smit, 2015).

Originally, transfer pricing was designed as a way of allocating costs between different affiliates and departments, being an important tool in management control and performance

4 Debt to equity ratio = Total liabilities / Total equity (Randeberg/Selvik, 2014)

5 According to IAS 38 (IFRS, 2015b), an intangible asset is an identifiable non-monetary asset without physical substance. Furthermore, an item is identifiable if it is separable or arises from contractual or other legal rights. Patents, copyrights, franchises, goodwill, research and development, trademarks and tradenames, among others, are included in this category (IFRS, 2015b).

6 The arm´s length principle establishes that: "the transactions between affiliated firms must be made purely on commercial basis, both firms trying to maximize their advantage, and neither firm accommodating or favoring the other in any way" (Fryzel/Dembinski, 2010).

management that helped MNCs to detect which members of the group were more profitable and which of them experienced difficulties (Sandslatt, 2008).

Nevertheless, there is another side of it: transfer pricing has grown to be one of the most important parts of multinational enterprises' tax-saving strategies. Since the open market lacks on regulation regarding transactions between related parties, tax saving possibilities for the MNCs are created, denying governments around the world huge amounts of tax income every year (Randelberg/Selvik, 2014).

Even though transfer pricing per se is not illegal, it can give place to abusive transfer pricing, which occurs when income and expenses are improperly allocated for the purpose of reducing taxable income (OECD, 2017). Internal pricing can be used for profit shifting involving tangible goods, intangible goods and/or services.

2.3 The presumed immorality of aggressive tax planning and its consequences

Around five years ago, the morality of aggressive tax planning started to be a subject of controversy and discussion (Dowling, 2013). The public opinion began to doubt whether it was fair that a company that was making profit in a certain country, did not contribute to it appropriately through taxes, even if their activities were within the loyal frame.

Amongst the arguments that criticize this behavior are: the fact that the governments have to cope with lower revenues, which causes that individual tax payers and corporations operating in domestic markets have to compensate by bearing a greater share of the burden (OECD, 2013); companies are entities that enjoy certain privileges granted by the state (e.g. safety), thus they should pay a fair amount of corporate tax to reciprocate (Avi-Yonah, 2008); if companies avoid paying taxes, the state has less funds to fulfill its social obligations (Dowling, 2013); a company cannot claim to be socially responsible if it is not transparent in its tax practices (Dowling, 2013); tax avoidance shifts the tax burden to less mobile (and often less wealthy) tax payers. This leads to social inequality and a general feeling of less confidence in tax law (Dowling, 2013); finally, tax avoidance can be covering illegal activities such as money laundering, hiding corruptly acquired assets or evading sanctions, due to the non-transparent behavior that it requires in order not to be detected, and due to the tax havens and accounting schemes used (Dowling, 2013).

On the other hand, those who defend the morality of tax avoidance claim that: many companies do this, and if one does not, it will be in economic disadvantage (Dowling, 2013); payment of tax reduces wealth that could be employed to fulfill other social responsibilities of the enterprise (Dowling, 2013); there is a generally spread social aversion to paying tax, thus such behavior is not seen as socially irresponsible (Davis et al, 2012); tax paying can be seen as a way for managers to defraud the shareholders, by taking wealth from them to give it to the State (Avi-Yonah, 2008); tax avoidance is a signal that implies that governments do not abuse their monopoly tax raising power (Dowling, 2013).

Finally, in the frame of Corporate Social Responsibility (CSR), three different approaches have been identified to determine what the expression "abide by the law" implies in relation to tax avoidance (Dowling, 2013).

The first of them is the social interpretation, which determines that the law is composed by more than the sole letter: it also includes the spirit of the law. So, if the letter establishes that the companies should pay income tax on their profits, the spirit says that the companies owe a financial return to the state. Two main implications can be derived from this approach (Dowling, 2013): a. tax avoidance is not right and just, because it imposes costs on society; and b. the principle of "giving back" is violated by tax avoidance, because companies have an obligation to structure their affairs in such a way as not to avoid paying a "fair share" of tax on their profit to the state.

The second approach is that of the "negotiated settlement", which assures that the spirit of the law is the interpretation that governmental agencies give to the letter. So, the company and the tax authorities come to a series of agreements referred to what constitutes a fair tax burden (Dowling, 2013).

The last approach is based on the principle of "taking form". It sustains that there is no spirit of the law independent of the letter of the law, and that taxes are a way that the state applies to extract wealth from the companies. So, from this point of view, tax avoidance is seen as a legitimate way of contest with the tax authorities (Dowling, 2013).

Many citizens and politicians think that the social interpretation should prevail, fact that was reflected in the parliamentary inquiries that took place in the UK in 2012.

2.4 Parliamentary enquiries and responses in legislation

In November 2012, the UK Publics Accountant Committee questioned three of the biggest multinational groups for tax avoidance through BEPS. The means that they had allegedly used went from Headquarters in Luxembourg and Ireland to the utilization of strategic transfer pricing and all other kind of accounting strategies.

In the case of Starbucks, the group had paid only £8.6 million of tax during the past 14 years, as a result of reporting losses in 13 of those years. But at the same time, they were paying royalties and interest on loans to other subsidiaries in Amsterdam, Switzerland and the Headquarters in Seattle, USA. Parallelly, the Swiss subsidiary was charging the UK large amounts for roasted coffee, generating suspicion that they were overcharging in order to shift profits. Furthermore, a secret agreement had been negotiated with the tax authorities in the Netherlands, regarding low taxes for royalty income (Ebrahimi, 2012).

Margaret Hodge, chairman of the UK Public Accounts Committee at the time, ended the accusations saying: "We are not accusing you of being illegal, we are accusing you of being immoral". It was said that the UK was losing tax income, that it was bad for economic growth, it gave overseas companies an unfair competitive advantage and it was also unfair for honest UK taxpayers (Ebrahimi, 2012).

The day after the accusations, The Telegraph published: "Amazon, Google and Starbucks were yesterday accused of being 'immoral', 'manipulative' and of 'practicing tax avoidance on an industrial scale'" (Ebrahimi, H., 2012).

2.4.1 OECD action plans to reduce Base Erosion and Profit Shifting

As a result of these discussions, the OECD released in 2013 a set of fifteen action plans (AP) that the member nations were encouraged to adopt, with the intention of reducing maneuvers of BEPS carried out by MNCs in order to avoid taxes (OECD, 2013).

These plans can be grouped into six main-aim categories: improve tax authorities' control mechanisms[7], increase transparency[8], limit base erosion via excessive deduction of interest and other financial payments (AP 4), control corporate arrangements that facilitate BEPS[9], prevent treaty abuse, that could lead to double non-taxation (AP 6), assure that transfer pricing outcomes are in line with value creation[10].

After these action plans were published, many authors agreed that the concept of tax planning would radically change. Not only due to the new regulations arising from the implementation of the plans, but also because of the desire and need of the corporations to keep an unpolluted image in front of their customers and the society in general (Maisto, 2016).

One of the main forecasted implications of the current situation for tax planning in MNCs is that there will be no more space for pure tax driven operations. Therefore, if the managers want to reduce the tax burden, they will have to analyze the transactions that result in tax savings by substance over form (Tozzini Freire, 2014).

As regards intra group financing, many limitations are already applied by the jurisdictions. However, it is presumed that the regulations will become harder in matters such as debt/equity ratio, disallowance of interest related to the acquisition of shares from related companies, minimum rate and interests only deductible when paid, etc. (Cinnamon, 2013).

In relation to the transfer price of intangible property (IP), it is expected to switch from the criteria of "current market value" to one based on adjustments of the price by reference to subsequent income generated by the IP (Cinnamon, 2013).

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7 Methodology for data collection and analysis (AP 11), more effective dispute resolution mechanisms (AP 14), development of multilateral instruments (AP 15)

8 focus on transparency and substance in tax practices (AP 5), require tax payers to disclose their aggressive tax planning arrangements (AP 12), re-examine transfer pricing documentation (AP 13)

9 hybrid instruments and entities (AP 2), Controlled Foreign Companies (AP 3), artificial avoidance of Permanent Establishment status (AP 7), and challenges of digital economy (AP 1)

10 There are three action plans, each referred to a type of asset or transaction: intangibles (AP 8), risks and capital (AP 9), and other high-risk transactions (AP 10).

In addition, actions will be taken to ensure that transfer pricing outcomes are in line with value creation and the economic activities that produce it. So, the corporations may have to restructure, being especially careful about those strategies that include operations that would not be executed between independent parties (for example, import of the raw material through a low rate jurisdiction where it never arrives, and is resold to a subsidiary in another country) (Cinnamon, 2013).

2.4.2 Legislative reforms

Following the OECD-action-plan recommendations, many individual countries have adjusted their tax legislation. The main changes that occurred in the countries relevant to the present study[11] will be described in the following paragraphs.

Germany:

The last two years have been very active in the path of implementing the OECD recommendations to combat BEPS, counting the following amongst the main steps taken (PWC, 2016a):

- The OECD recommendations for country-by-country reporting and Master File/Local file concept have been adopted.
- The General Fiscal Code is being updated to follow the scope of information to be provided as prescribed by action 13.
- Amendments have been made, related to the interpretation of the arm's length principle in German tax treaties.
- Controlled foreign corporation (CFC) income was included for tax purposes.
- Application of the 5% add-back for dividends received via German fiscal unity subsidiaries for trade tax purposes.

United Kingdom:

Extensive reforms have taken place in the British tax system during the past years, following the lemma of "creating a tax system that is easy to understand, simple to engage with, and hard to evade, [and] successfully supports investment in business, as well as those who work hard and save" (HM Treasury, 2015). The main reforms related to the fight against tax evasion through BEPS are (KPMG, 2016b):

- New rules for hybrid mismatch arrangements applying to payments made on or after 1/1/2017.
- Reformed patent box regime, effective 1/7/2016, compliant with OECD recommendations.

11 The countries considered relevant to the present study are: Germany, the UK and the Netherlands, because this is where the subsidiaries under study are based (see section 3 Research methodology for further details about motivation of the selection).

- Adoption of the revised OECD transfer pricing guidelines as of 1/4/2016, including transfer pricing documentation and country-by-country reporting, but remaining silent about master file and local file transfer.
- Incorporation of the amended definition of PE, following the recommendations of the OECD, into bilateral double taxation conventions (PWC, 2016b)

The Netherlands:

The main actions recently taken by Dutch legislation conducive to alignment with the OECD criteria for BEPS, they can be summarized as follows (KPMG, 2016a):

- Amendments in treaty policy to include anti-abuse provisions in treaties with developing countries.
- Agreement signed with Germany in 2015, to increase tax transparency by spontaneous exchange of information on advanced tax rulings and Advanced Price Agreements (APAs).
- New chapter added in January 2016 to the Dutch Corporate Income Tax, covering country-by-country reporting and transfer pricing documentation.
- Commitment to implement the OECD's action 5 approach to patent regimes.
- Revision of the definition of PE to be included in the newly negotiated tax treaties, based on the OECD action 7: "preventing the artificial avoidance of Permanent Establishment status" (PWC, 2016b).
- Alignment of the innovation box regime with the modified nexus approach as described in the OECD report on Action 5 (PWC, 2016b)
- Related to interest deduction restriction and with the aim of combating abusive situations, it is proposed to extend the term 'related entity' to include entities that form a collaborating group (PWC, 2016b).

Additionally, it is worth devoting a few lines to describe the features of this country's tax system that make it well known for providing an attractive investment climate.

Dutch laws contemplate many promotion regimes, among which the most important are: exempt investment fund regime, fiscal investment fund regime, tonnage tax regime, and finally the one that is most meaningful for this paper, because it has been actively utilized for base erosion and profit shifting, the innovation box regime (PWC, 2016b).

Such regime was firstly introduced in January 2007, applying only to patents, providing a special tax rate of 10%. On January 1st, 2010 it was expanded to include a much wider range of Intellectual Property and the rate was reduced to 5% (Kalloe, 2014).

In 2016, the regime was revised due to BEPS initiatives. Since 2017, it applies with respect to profits, including royalties, derived from self-developed intangible assets. The benefit provided for the tax payers is that they may opt, under certain conditions, for the application of a much lower effective rate (5%) on taxable profits derived from these intangible assets. In addition, the lower tax rate is only applicable to positive income, while innovation losses can be fully considered (PWC, 2016b).

3 Research methodology

The methodological model to be utilized in the present research will be a case study, defined as "…the in-depth study of a bounded entity." (Quinlan, 2011).
Most of the literature agree that case study methods have several strengths (George/Bennett, 2004).

One of them is that they give conceptual validity, defined as the possibility to identify and measure the indicators that best represent the concepts under study (George/Bennett, 2004). For the purpose of this paper, it would not have been possible to carry on a massive statistical research, due to the lack of availability of data, and because indicators are not necessarily comparable from one corporation to another. For that reason, the fact of focusing only on one case, deeply reading the financial statements, allows the researcher to identify the best indicators for aggressive tax planning, measure and finally interpret them.

Furthermore, within a single case it is easier to observe a larger number of intervening variables and explore the causal mechanisms (George/Bennett, 2004). In this paper, the key indicators under study will not be isolated. Instead, they will be analyzed in relation to all the other significant lines of the balance sheet and the income statement.

As regards the limitations of case-study methodology, the main of them would be that it allows to reach only tentative conclusions on to which extent modifications of a particular variable affect the outcome in a class or type of cases (George/Bennett, 2004).

The present case study will be based on Starbucks Corporation, and most precisely four European subsidiaries of the group: Starbucks Coffee Company (UK) Limited (United Kingdom), Starbucks Coffee Deutschland Ltd. & Co. KG (until 2013 Starbucks Coffee Deutschland GmbH) (Germany), Starbucks Manufacturing EMEA B.V. (The Netherlands) and Starbucks Coffee EMEA B.V. (The Netherlands).

These companies have been chosen based on their participation in the tax avoidance scandals, and on the availability of information (Switzerland was also implicated, but in that country companies do not have to publish financial statements). It is due to mention that the core subsidiaries for this study are Starbucks Coffee Deutschland and Starbucks Coffee Company (UK), while the Dutch entities have been included because they are presumed to represent a support for the profit shifting maneuvers of the group.

Since most of the information regarding management of the corporations is kept confidential, it is unlikely to have access to data such as tax returns, agreements with tax authorities, transfer pricing and other information related to the matter. Only what is mandatory from local legislation is published, which is in most cases the financial statements. That is the reason why this research will be performed through the analysis and interpretation of the financial statements of the selected entities, corresponding to the years 2010 to 2015 (both inclusive).

With such purpose, horizontal and vertical analysis will be performed, as well as calculus and interpretation of relevant ratios and figures, considering the evolution of selected quantitative data (see Quinlan, 2011, for a general description of these methods).

Horizontal analysis is a procedure by which ratios or line items in a company's financial statements are compared over a certain period of time. Whereas, vertical analysis is a method through which each line of the balance sheet is represented as a proportion of the main category (assets, liabilities or equity) in which it is contained (Alexander/Britton/Jorinsen, 2011).

The data under revision consists of the key indicators related to tax planning behavior (Elliot/Elliot, 2013) reported in table 1.

Table 1: Key indicators related to tax planning behavior

Measure of	Indicator	Description
General situation towards taxes	Effective tax rate	It is the percentage that the tax expense represents over the pre-tax. It is not necessarily the legislative tax rate, because the income before tax may suffer adjustments originated in the tax legislation before the tax base can be calculated.
	Earnings before tax	Line item on a company's income statement, calculated as revenue minus expenses, excluding tax.
Debt shifting / thin capitalization	Interest expense	Non-operating expense that shows the cost incurred by an entity for borrowed funds.
	Debt to equity ratio	Financial ratio that compares total debt with total equity, showing the significance of financing coming from creditors, compared to financing from shareholders.
Location of intangible assets	Intangible assets holdings	Identifiable non-monetary assets without physical substance, identifiable and potential generator of future economic benefits (IFRS, 2015).
	Royalty fees/sales	This measure indicates the relative importance of royalty fees charged to the entity.
Strategic transfer pricing	Gross Profit Margin	Ratio calculated dividing the gross profit (sales – cost of sales) by the total sales. It shows the amount earned by the company for each monetary unit sold.

Source: Own elaboration based on Elliot/Elliot, 2013

Three data collection methods will be used: internet research, archival research and documentary evidence (see Quinlan, 2011, for a general description of these methods). Internet research will be utilized to source the secondary data that will be needed, mainly papers related to international taxation and the financial reports (archives) of Starbucks Corporation Group and the subsidiaries under study. Documentary evidence is the systematic analysis that will be performed of the data contained in the financial statements and other documents. And finally, drawing on all data available, the researcher will engage in an in-depth examination of the case.

4 Case study

4.1 Introduction: Starbucks Corporation

Starbucks Corporation, founded in Seattle, USA in 1971, is the premiere roaster, marketer and retailer of specialty coffee in the world, operating in 68 countries (Starbucks Corporation, 2015). By the end of 2016, the company employed around 200,000 people across 24,395 self-operated and licensed stores.

The first store in the Europe, Middle East and Africa (EMEA) region was opened in 1998 in the United Kingdom. Since then, the Firm expanded to 40 countries, counting in 2016 with more than 2,500 stores, including both licensed and co-operated (Starbucks, 2016). The Headquarters of the EMEA operations were located in Amsterdam (The Netherlands) until 2014, when the center of European's operations was moved to London. Starbucks operations in EMEA are supported by the roasting plant in Amsterdam, which roasts, packages and distributes all the Starbucks coffee in the EMEA region, and is the only roasting plant outside of the United States (Starbucks newsroom, 2009).

Starbucks operates in the retail coffee and snacks store industry, which experienced constant growth since the beginning of the XXI Century, until a major slowdown in 2009 due to the World Financial Crisis. Later it slowly recovered, increasing the growth rate from 0.9% in 2009 to around 4% in 2013 (IBIS, 2013). The demand is primarily driven by disposable income, per-capita coffee consumption, attitude towards health, world pricing of coffee and demographics, being highly sensitive to the macroeconomic factors that affect disposable income in households (Geereddy, 2014). Coffee beans are the primary input in the value chain, and their prevailing volatile prices determine market costs and profitability margins of the companies operating in the industry (Geereddy, 2014).

4.2 The subsidiaries under study

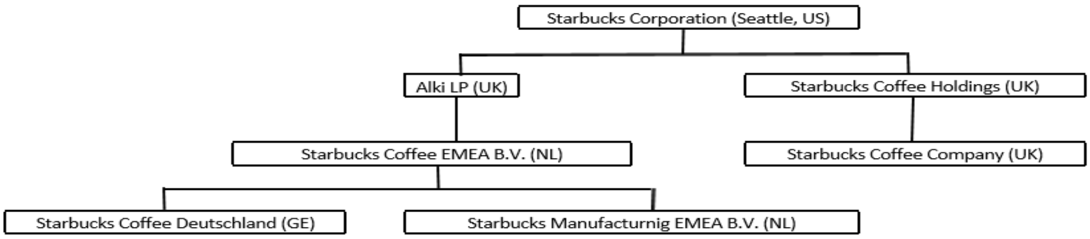
For this case study, four European subsidiaries have been chosen, based on their participation in the tax avoidance scandals, and on the availability of information[12]:

- Starbucks Coffee Company (UK) Limited, incorporated in the United Kingdom in 1998 (hereinafter referred to as SUK)
- Starbucks Coffee Deutschland Ltd. & Co. KG (until 2013 Starbucks Coffee Deutschland GmbH), incorporated in Munich, Germany, in 2005 (hereinafter referred to as SCD)
- Starbucks Coffee EMEA B.V., incorporated in Amsterdam, The Netherlands (hereinafter referred to as SCE). Head of EMEA operations until 2014.
- Starbucks Manufacturing EMEA B.V., incorporated in The Netherlands in 2001 (hereinafter referred to as SMBV). Only roasting plan in EMEA region.

12 See section 3 Research methodology for further details about motivation of the selection

In Figure 1, an organizational chart is presented, showing the relationship between the subsidiaries under study and their parent entities.

Figure 1: Starbucks group structure (relevant subsidiaries)



Source: Own elaboration based on information extracted from the financial statements of Starbucks Coffee Company (UK), SCD, SCE and the European Commission, 2015b

4.3 Financial statement analysis

4.3.1 Starbucks Coffee Company (UK) Limited

SUK was in the spotlight of the Public Accounts Committee accusations in 2012, because there was a contradiction between the profitability that they communicated to the shareholders, and the losses that they consistently reported to the tax authorities (Bergin, 2012). According to the 2015 directors' report in the financial statements, that year the company made profits for the first time, after 17 years operating in the UK (SUK, 2015).

Since its opening in 1998, until 2012, the sales had been over £3 billion and 735 outlets had been opened, but only £8.3 million in income taxes had been paid. Over the three years before 2012, no profit had been reported, thus no income tax had been paid on sales of £1.2 billion. During the same period, their main competitors had faced large tax bills. McDonalds had incurred £80 million over £3.6 billion of sales, and Kentucky Fried Chicken had paid 36 million on £1.1 billion UK sales (Bergin, 2012).

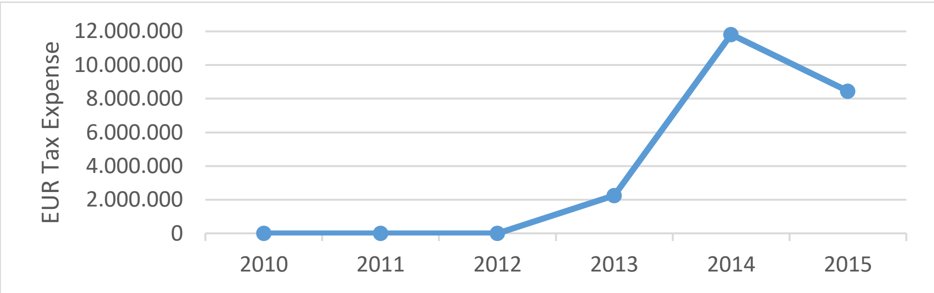
SUK was suspected of avoiding UK taxes using three different strategies. The first of them was by paying very high royalties to SCE (Netherlands), in concept of intellectual property, such as brand and business processes (Bergin, 2012). Since the UK subsidiary didn't make profits during the years prior to the accusations of tax immorality, it was questionable whether it made sense to pay royalties for intellectual property that generated no benefits to the company (Bergin, 2012). In addition, the percentages charged to the UK subsidiary of Starbucks were much higher than the benchmark, reaching 6% of total sales, while the competitor McDonalds, paid between 4% and 5% to related entities for the same concept (Bergin, 2012).

Another presumed strategy for tax avoidance was transfer pricing of raw material. The roasted coffee beans were acquired from SMBV at presumably inflated prices, because of a maneuver performed earlier in the production chain, when SMBV bought the green beans from a Swiss subsidiary, instead of directly from the producers. This operation, apparently designed to avoid taxes, will be explained in more detail in the section devoted to SMBV (European Commission, 2015b).

Finally, the third strategy that was presumably utilized to avoid taxes was the interest expense related to intercompany loans. SUK had paid in 2011, £2 million of interest to other members of the group (SUK, 2011). For comparison McDonalds, having 465 more branches, had paid only £1 million of interest to group companies (Bergin, 2012). As regards the interest rate for these loans, SUK was charged at Libor (one-year rate) plus 4 percentage points (SUK, 2010), while the competitors Kentucky Fried Chicken and McDonalds paid Libor plus 2%, and below Libor rate respectively (Bergin, 2012).

The formerly described strategies that SUK presumably applied to avoid taxed, and the way in which the situation evolved in the period going from 2010 to 2015, can be analyzed through the study of the yearly financial statements published by the company (see Appendix I). By simply going through the evolution of the income statement, it can be evidenced that the **tax expense**, which had been zero in 2010 to 2012, made a shift in 2013 to £2.2 million and astonishingly increased to £11.8 million in 2014 (see graph 1 and appendix I).

Graph 1: SUK - Taxation



Source: Built with data extracted from the annual reports of SUK, available in the route https://beta.companieshouse.gov.uk/company/02959325/filing-history?page=2

It is explained in the financial statements that in December 2012, right after the accusations of immorality in tax behavior, the company made a public commitment to pay £20 million of corporate income tax, despite the lack of taxable income. This would result in corporation tax payments in the years 2013 and 2014, and would be achieved by not deducting certain related party expenditure for tax purposes (SUK, 2012).

Nevertheless, when analyzing the financial statements, no significant increase of the tax adjustment for non-deductible expenses can be evidenced (see Appendix I). Such adjustments only increased by 0.9 million from 2012 to 2013, and in 2.8 million from 2013 to 2014 (see Appendix I), which is not significant considering that the goal was to pay £20 million in taxes. Instead of the tax adjustments, it is the profit/loss before tax what shows an enormous variation, directly in the income statement of the company and regardless of any tax adjustments. From 2013 onwards, a dramatic change in some components of the income statement can be observed, all of which appear to be related to the accusations of tax avoidance and profit shifting. Such modifications can be identified as the main drivers of the reduction of losses in 2013, and of the fact of having profit before taxation for the first time during the studied period in 2014, which was multiplied by 17 in 2015 (see Appendix I).

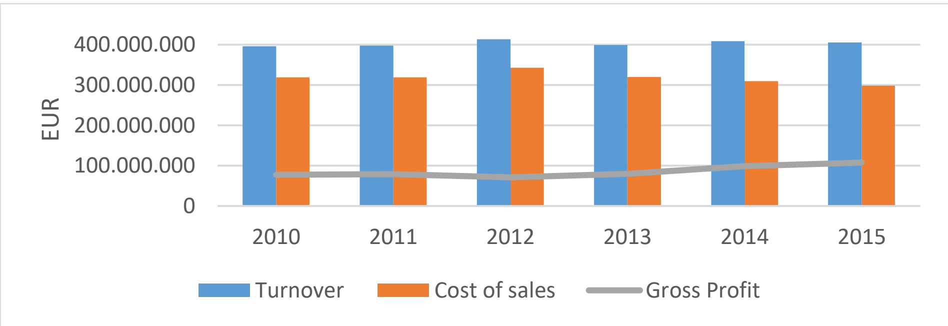
The components that evidenced such a dramatic change are: 1- Cost of sales, 2-Interest payable to group companies and 3- Administrative expenses. In the following paragraphs, they will be individually analyzed in further depth.

The **cost of sales** represented between 80% and 81% of the turnover during the first two years under study. In 2012, it increased to almost 83%, reducing the gross profit margin from 19.72% to 17.07% (see Appendix I). From 2013 onwards, the relative importance of the cost of sales gradually decreased to 80%, 75.83% and finally 73.57%, causing the profit margin to increase, reaching a percentage of almost 20% again in 2013, which was already higher than the three former years, and increasing to 24.17% in 2014 and 26.43% in 2015, more than 9 percentage points higher than in 2012. It is due to consider that during the same period, the market price of the coffee arabica beans increased from \$2.69/kg in November 2013 to \$4.97/kg in October 2014 (YCharts, 2017).

As it has been mentioned before, one of the ways in which Starbucks was accused of shifting profits was through transfer pricing, paying to the Swiss and the Dutch subsidiaries such high prices for the coffee beans, which would possibly not have been paid if the companies had been independent. It is then possible that, after the accusations, these aggressive tax planning maneuver was intentionally diminished, resulting in a lower cost of sales, thus a greater profit margin, that lead to higher taxable profit in the UK.

Graph 2 shows how the cost of sales increased more than the turnover until 2012, reducing the gross profit margin. After that, even though the sales remained around similar values, the cost kept decreasing.

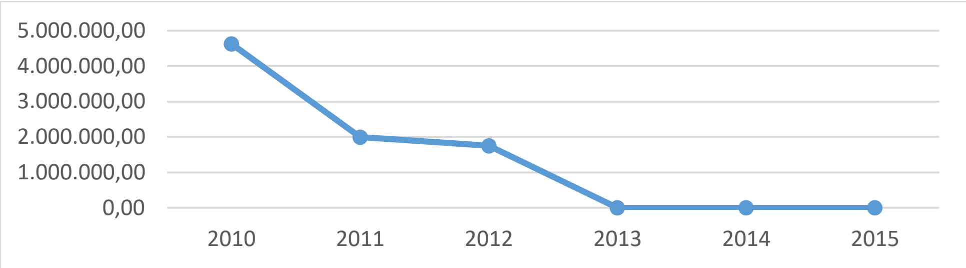
Graph 2: SUK - Gross profit, turnover and cost of sales



Source: Built with data extracted from the annual reports of SUK, available in the route https://beta.companieshouse.gov.uk/company/02959325/filing-history?page=2

As regards the second of the aforementioned components that drove the increase of taxable profit, the decrease in **interest payable to group companies** was dramatic during the period (see graph 3). From £4,630,489 in 2010, it decreased to £0 in 2013, remaining like that until 2015. This was accompanied by a change in the composition of the passive side of the income statement, with the debt to equity ratio going from 4.73 in 2010 to 1.73 in 2015.

Graph 3: Starbucks UK – Interest payable to group companies



Source: Built with data extracted from the annual reports of SUK, available in the route https://beta.companieshouse.gov.uk/company/02959325/filing-history?page=2

In such context, there are some possible explanations to the fact that interest payable to group companies decreased so significantly:

One of them is that the financing structure might have changed, recurring to alternative ways such as external loans from banks or factoring of the receivables. Nevertheless, in such cases the cost would still be reflected in the line "interest payable and similar charges", which evidently is not taking place since the amount for non-related party interest is almost inexistent, and it even decreased from £31,364 in 2010 to £3,608 in 2015 (see Appendix I).

Another potential explanation is that the financing provided in 2010 to 2012 was intended for some special operation (e.g. investments or acquisition of fixed assets). Since fixed assets actually decreased, representing in 2011 85% of what they were in 2010 (see Appendix I), and continuing their descending path during the whole period, it can be implied that there were disinvestments in the line. This must have represented a cash inflow for the company, so it would under no circumstances explain the exaggerated need for financing in the years 2010 to 2012. At the same time, no other investments are reflected in the financial statements.

From a macroeconomic perspective, interest rates decreased significantly in the period between 2011 and 2013/2014 (Globalrates.com, 2017). LIBOR[13] USD (12 months), which is one of the most common interest rates used as a benchmark for lending rates, went from 1.128 in December 2011 to 0.583 in December 2013, and was still at the low level of 0.629 by the end of 2014 (Globalrates.com, 2017). Even though it seems likely that SUK was affected by this phenomenon, the fact that the value reached by the interest expense from

[13] London interbank offered rate.

2013 onwards was zero, makes it more plausible that what really occurred was that the total liability to group companies became nil.

A fourth explanation, and the most possible one considering that intercompany loans are such an effective way for BEPS, is that the loans were being inflated with tax avoidance intentions. Consequently, after the scandals, the fact that the interest expense decreased so dramatically could be considered as an evidence that such aggressive tax planning practices were being abandoned.

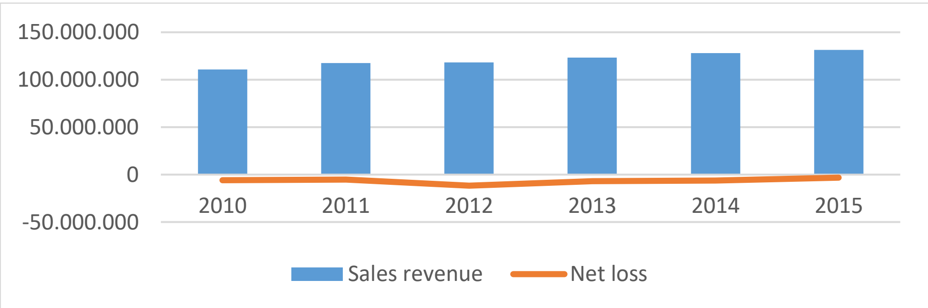
As regards the aforementioned third component that caused the increase in taxable profit, the **administrative expenses** decreased in £23 million during the studied period. Such behavior seems to be driven mainly by the operating leases of land and buildings. The value for these expenses in 2015 represented 67% of that in 2010.

A curious situation is that the **royalties and license fees** did not decrease, being constantly around 6% of the turnover, even though there were accusations of this percentage being much higher than the one paid by the competitors. Nevertheless, regardless of this last detail, it seems clear that aggressive tax planning practices were reduced in SUK, especially regarding transfer pricing of raw material and intercompany loans.

4.3.2 Starbucks Coffee Deutschland Ltd. & Co. KG (until 2013 Starbucks Coffee Deutschland GmbH)

During the period under study, SCD has been consistently reporting **losses** year after year (see graph 4 and Appendix II), even though the sale revenues have sustainably been over €100 million, and increased 18% from 2010 to 2015 (SCD, 2010/11/12/13/14/15).

Graph 4: SCD – Sales revenue and net loss



Source: Built with data extracted from the annual reports of SCD, available in the route https://www.unternehmensregister.de/

In 2012, when the tax-avoidance controversy was initiating, The Local[14] published about the German subsidiary of Starbucks. The CEO of the group, Howard Schultz, had declared that

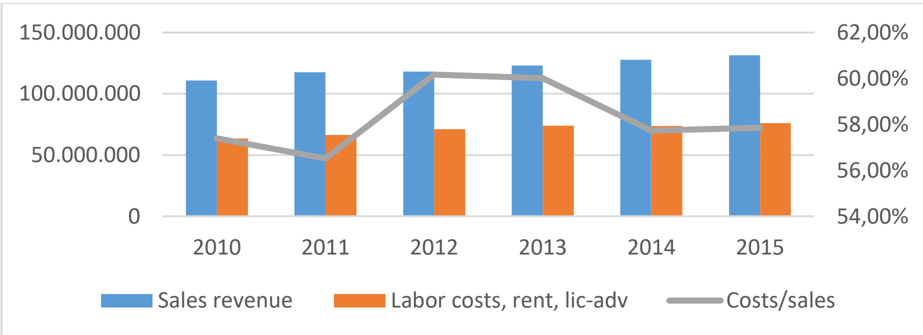
14 German newspaper that publishes in English

the reason why they were not paying corporate taxes in Germany were the high labor costs and the rent prices, that made it hard to be profitable in the country (The Local, 2012). Nevertheless, according to the Reuters research published in Handelsblatt, the main reason for the losses faced by the German subsidiary of Starbucks were the license fees that had to be paid to the Netherlands, plus an additional fee of $25,000 for each newly opened café (The Local, 2012). In the financial statements, license fees are mixed with costs of advertisement paid to SCE (SCD, 2010/11/12/13/14/15). Both concepts together represent between 7% and 8% of the sales, remaining stable along the period under study.

An interesting phenomenon is that the German subsidiary holds very large amounts **of intangible assets**, representing between 5% and 7% of the total assets (see Appendix II), and being in 2013 4.6 times higher than those held by SCE. So why is SCD paying such an enormous percentage of the sales to the Netherlands in concept of license fees? Considering the beneficial regimes existent in relation with income related to intellectual property (see section 2.4.2), it could be inferred that the maneuver is possibly related to profit shifting.

As regards the **aggregated value of the royalty fees plus rent and personnel costs** in the income statement of SCD, more than half of the amount of sales revenue is consumed every year to cover such costs (see graph 5 and Appendix II).

Graph 5: SCD – Labor costs, rent and license-advertisement fees in relation to sales



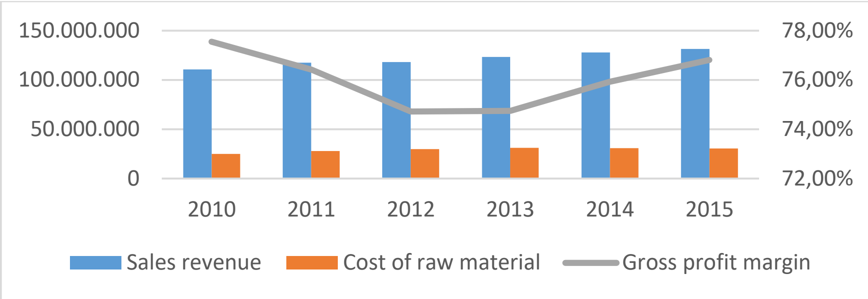
Source: Built with data extracted from the annual reports of SCD, available in the route https://www.unternehmensregister.de/

The absolute amounts of labor costs, rent and license-advertisement fees have increased year after year, and given the high percentage of sales that these expenses represent, the declarations of the CEO in relation to the reason for the losses faced by the subsidiary seem to have substance.

As a consequence to the negative results obtained during the six years under study, SCD did not have any **tax expense**. However, the net losses had a peak in 2012, decreasing from that year onwards, reaching the lowest level in 2015. The latter year, the losses were of €3 million, compared to €11 million in 2012.

In the years 2014 and 2015, while the sales revenue increased, the cost of the **raw materials** was suspiciously decreasing (even if the market price was on the rise). Such cost represented 25.29% of the sales revenues in 2012, decreasing to 23.20% in 2015 (see graph 6 and Appendix II). As a result, the gross profit margin increased from less than 75% in 2012 to almost 77% in 2015.

Graph 6: SCD – Gross profit margin

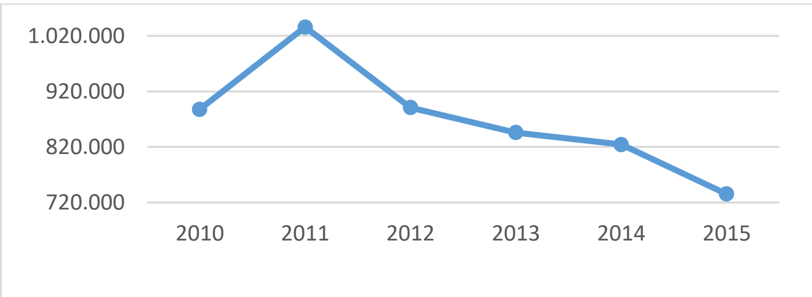


Source: Built with data extracted from the annual reports of SCD available in the route https://www.unternehmensregister.de/

Following the case of the British subsidiary, and the accusations regarding transfer pricing of coffee beans with Switzerland and the Netherlands, a highly probable explanation for this phenomenon is the adjustment of those prices, in order to lower profit shifting.

The **interest and similar expenses** reflected in the income statements correspond entirely to loans with related parties, except for a small amount in 2011 (see Appendix II). Their peak was reached that year, starting a descending path that took them to the lowest level in 2015 (see graph 7).

Graph 7: SCD – Interest expense with related companies



Source: Built with data extracted from the annual reports of SCD, available in the route https://www.unternehmensregister.de/

Nevertheless, the difference is not meaningful, representing in 2015 82% of the values of 2010. As regards the relative significance compared to the sales revenue, it decreases from 0.80% to 0.56%, reaching the highest level in 2011 at 0.92%. So, the variations are not significant, from which can be inferenced that: either profit shifting through interest expense is not used in Germany, being the liabilities genuine and only incurred to ensure the correct financing of the entity; or since Germany was not in the spot light of the accusations, and the aggressiveness is not too strong (due to low representativeness of tax expense), the practices were not abandoned. Considering that the interest rate charged to the German subsidiary (EURIBOR + 2.5-3%) (SCD, 2010/11/12/13/14/15) is considerably lower than that charged to the British subsidiary (LIBOR+ 4%) (SUK, 2010/11/12/13/14/15), it seems more probable that tax avoidance through intercompany loans is simply not occurring in the German subsidiary.

As a conclusion it can be said that the financial statements of SCD show low evidence of aggressive tax planning. Even though the tax liability has been inexistent during the period under study, it appears that the labor and rent costs played an important role in the situation. The only fields in which the existence of tax avoidance practices can be presumed is in the high license and advertisement fees and the cost of raw materials, the last one showing signs of diminishment after the accusations of immorality to the group.

4.3.3 Starbucks Coffee EMEA[15]

SCE was the group's Head Office for the EMEA region until 2014. In the end of that year, the center of European's operations was moved to London[16]. So, during most of the period under analysis, this entity was in charge of coordinating the activities for the whole EMEA region, as well as sublicensing the Intellectual Property to other subsidiaries in the area. The property rights include three main categories: trademark rights, Starbucks system rights and coffee related rights (European Commission, 2015b). Within these categories, the kind of rights that are comprised are, among others, the use and application of confidential information, technology and specific knowledge with regard to the recipes for mixing green coffee beans, the process of roasting green coffee beans and the production of other derived coffee products (European Commission, 2015b). Furthermore, the Headquarters bear all the company risks and perform the associated activities, so the royalties paid by the other subsidiaries also intend to remunerate the role as principal (European Commission, 2015b).

15 Only Financial Statements corresponding to the years 2013, 2014 and 2015 are available, with no possibility to access older ones through the tax administration of the Netherlands.

16 According to an official communication of Starbucks, this was done because closer proximity to the biggest market in Europe would allow the group to grow their business across Europe and the globe. In 2014, over half of European stores were located in the UK (Starbucks Newsroom, 2014). Nevertheless, most of the media agrees that the real reason for this move was to mitigate the negative image created after accusations of tax avoidance (Alderman, 2015).

Before 2014, the property of the intangible asset of the group in Europe was shared between SCE and Alki LP, a Limited Partnership[17] located in the UK (see figure 1). So, SCE would license the IP from its shareholder Alki LP and sublicense it to the rest of the subsidiaries. But in 2014, Alki LP transferred the ownership of the IP rights to SCE (European Commission, 2015b), which resulted in the latter doubling its **intangible asset** holdings (see Appendix III).

According to the European Commission, the IP beneficial ownership had been originally transferred from Starbucks Corporation (US) to the European subsidiaries Alki LP and SCE, in order to optimize the cost structure of the group. So, the European subsidiaries would license IP directly from the European Headquarter, with no need to license it from the mother company in the US, presumably as a maneuver to avoid taxes due to the beneficial tax regimes for IP existent in the Netherlands (European Commission, 2015b). Alki LP and SCE would, in turn, make buy-in royalty payments to the US. But the percentage of these payments strategically decreased from 65-70% in 2002 to 0.5-1% in 2010 onwards for the trademark, and from 70-75% in 2002 to 0-0.5% in 2010 onwards for the business format IP (European Commission, 2015b).

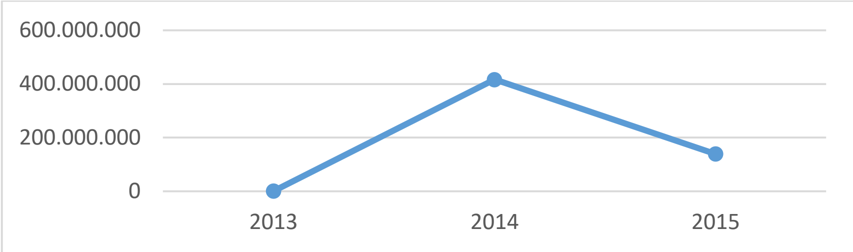
Nonetheless, a contradiction regarding the **holdings of intangible assets in the European portion of the group** arose while performing the present research. As it has been mentioned in the headland devoted to SCD, that subsidiary holds a very large amount of intangible assets. Even in 2015, that is the year in which SCE was already in possession of all the Intellectual Property that was before shared with Alki LP, the intangible assets in hand of SCD are almost twice as high as those held by SCE. As regards SUK, no intangible assets are held.

This phenomenon may lead to conclude that intangible asset holding concentration is not taking place in the group. Nevertheless, the large proportion of **royalties** that the other subsidiaries pay to SCE prove that, even if asset holdings are not concentrated, profits are being shifted to this subsidiary in form of royalty payments. Considering the tax box regime existent in the Netherlands since 2007, for which companies pay a reduced tax rate of 5% on income generated by Intellectual Property (see section 2.4.2), it is not surprising that the group is deviating profits to this subsidiary in form of royalties and license fees.

About the royalty income of SCE, it is not clear where it is included in the income statement, because there are only two lines referred to income: "Net Sales" and "**Interest and similar income**". Considering IAS 18 (IFRS, 2015a), where royalty income recognizing criteria is explained together with interest and dividends, it is most probable that it is included in the secondly mentioned line. Such line experienced a large increase in 2014, going from €164,218 to €416 million (see graph 8).

17 Limited partnerships are a special society figure existent in the UK in which the limited partner is transparent for tax purposes, meaning that they are not a tax subject, being the general partner or partners the ones who declare the income in their residence countries. Limited partnerships have no obligation of publishing their financial reports (Lexis PSL, 2017).

Graph 8: SCE – Interest and similar income



*Source: Built with data extracted from the annual reports of SCE, available in the route https://www.kvk.nl/handelsregister/TST%ADBIN/FP/JRWS002@?BUTT=341602910000RCT3V*DEP&kvknummer=341602910000&product=Jaarreke*

Anyway, given that almost 100% of the assets owned by this subsidiary are financial assets, the increase must be mainly explained by the income related to them, and not by royalty income. But what are these financial assets composed of? Since the other European subsidiaries under study were increasing their tax expense, apparently with the aim of cleaning their image in front of the tax authorities and the customers… it is possible that the American subsidiaries are now taking debt with SCE, in order to reduce their tax base, thus compensate the tax expense increase in Europe. The American subsidiaries are not under the scope of this paper, but it would be an interesting topic for future studies.

As regards the **interest expenses** bared by SCE, they decreased dramatically in 2014, representing only 30% of the level reached in 2013. In 2015 this trend continued, reaching a level of 22% in relation to 2013. Long term debt reached the level of 0 in 2015, compared with €29 million and €20 million in 2013 and 2014 respectively. Even though no information is available regarding to which extent the counterparty of these loans are related parties, considering the accusations of profit shifting through intercompany loans, it is possible that this large reduction of interest expense has something to do with an attempt to reduce the aggressive tax planning practices, in order to improve the company's image.

The **effective tax rate** was always very low (around 0.6%), being most of the taxable income represented by the interest and similar income, because from operating activities the company was making either losses or a very low profit. Particularly astonishing is the situation of the sales revenue in 2015, when it represented less than 30% of that of the former year. Unfortunately, there is no further information available that would give tools to conclude in this regard.

In summary, it seems clear that SCE is charging high royalty fees to the other subsidiaries for the use of intangible assets. And considering the beneficial tax policies of the Netherlands regarding Intellectual Property, it becomes certain that the intention of such a strategic operation, besides the reasons of coordination and organization of the region given by the authorities of Starbucks Corporation, is tax avoidance.

As regards interest expense, there is firm evidence of diminishment, with high probability of relation with intentions to reduce tax avoidance practices

Finally, in the case of interest income, since the information is limited it is difficult to reach accurate conclusions. But as mentioned before, further studies of the possibility of profit shifting by American subsidiaries would be of interest.

4.3.4 Starbucks Manufacturing EMEA B.V.[18]

SMBV is the only company of the Starbucks group outside of the United States that roasts coffee. It processes green coffee and sells and distributes roasted coffee to affiliated and non-affiliated parties in EMEA (European Commission, 2015b).

In October 21st, 2015, after an investigation started in 2013 related to the violation of the Treaty on the functioning of the European Union, the European Commission decided that the Netherlands "had granted selective tax advantages to (…) Starbucks" through tax ruling in form of an Advanced Price Agreement (APA)[19], which was not in compliance with the aforementioned treaty (European Commission, 2015b).

In the case of SMBV, the APA consisted on a decision that for the next ten years, it would be considered that the operations were made at arm's length when the markup was of 9-12% of the relevant cost base. The relevant cost base was defined as all personnel costs engaged in both manufacturing and supply chain activities, the cost of production equipment (i.e. depreciation) and plant overheads (European Commission, 2015b). It was also established that the royalties to be paid to related entities would be calculated as the residual value between realized operating profit and the markup on operating expenses. Additionally, the royalties would be entirely deductible from the tax base (European Commission, 2015b).

Even though tax rulings as means to give a company clarity on how corporate tax will be calculated are perfectly legal, in the case under study, artificial and complex methods to establish transfer prices were involved, which did not correspond to market conditions (European Commission, 2015b). Therefore, the APA celebrated between The Netherlands and SMBV in 2008 was declared illegal under EU state aid rules.

Most precisely, it was determined that the APA was not in compliance with the articles 107 and 108 of the Treaty on the Functioning of the European Union (TFEU, 2012)[20]. Consequently, all savings made by SMBV, estimated between 20 million and 30 million in

18 The only information available from this subsidiary are the Income Statements for the periods 2010 to 2014, obtained from the investigations of the European Commission.

19 An APA is an ahead of time arrangement between the tax administration and a tax payer on the application of law regarding future transactions (PWC, 2015). Most particularly, it determines the appropriate transfer pricing methodology to be applied to a set of transactions in a certain period of time (PWC, 2015).

20 Art. 107: "(…) any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favoring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market. (…)"

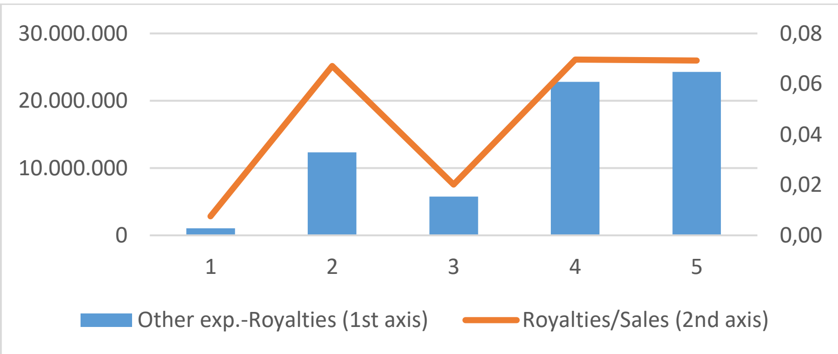
Art 108 "1. The Commission shall, in cooperation with Member States, keep under constant review all systems of aid existing in those States (…). 2. If, after giving notice to the parties concerned to submit their comments, the Commission finds that aid granted by a State or through State resources is not compatible with the internal market having regard to Article 107, or that such aid is being misused, it shall decide that the State concerned shall abolish or alter such aid (…)"

the years going from 2008 to 2015, had to be recovered by the tax authorities of the Netherlands (European Commission, 2015b). As stated in the European Commission press release, the ruling artificially lowered taxes paid by SMBV in two ways: SMBV was paying a very substantial royalty first to Alki LP and later to SCE for coffee-roasting know-how; and they were also paying an inflated price for green coffee beans to the Switzerland-based subsidiary Starbucks Coffee Trading SARL. The Commission's investigation established that the royalty was not properly justified and did not reflect market value. Furthermore, it was determined that "in the case of Starbucks Manufacturing (…) the existence and level of the royalty means that a large part of its taxable profit is unduly shifted to Alki LP, which is neither liable to pay corporate tax in the UK, nor in the Netherlands[21]." (European Commission – Press release, 2015).

Concerning the **transfer prices of the green coffee beans**, it was revealed that they were highly inflated (European Commission – Press release, 2015). Instead of SMBV directly importing the beans from the producers in Latina America, Asia and Africa, the Swiss subsidiary would act as an intermediary. Considering the tax advantages and secrecy provided by that country, the whole maneuver seemed to be intended for tax evasion (Bergin, 2012).

The **royalty expense** is registered under "other expenses" (see Appendix IV). When calculating the ratio royalties/sales, it can be appreciated how erratic its behavior is, going from 0.76% of the sales in 2010 to 6.71% in 2011, then back to 2.02% in 2012, and finally up again, close to 7% in 2013 and 2014. This is probably related to the mechanism of calculation established by the APA, which, as already explained, consisted on calculating the royalty expense as the difference between the realized operating profit and the markup on operating expenses. It is interesting to mention that the royalties in absolute values increased to be in 2014, 20 times as high as in 2010. This seems to be related both with an increase in the sales of around 150%, plus this random variation in the percentage of the royalties (see graph 9).

Graph 9: SMBV – Royalties & Royalties/sales



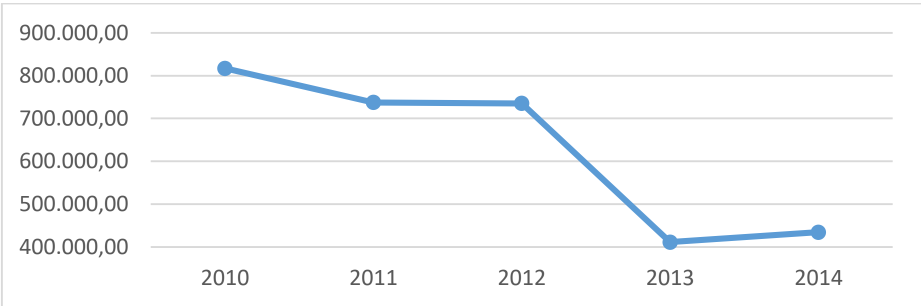
21 As it has been mentioned before, even if Alki LP is based in the United Kingdom, it is not a UK tax payer. The ones who have to pay tax for its profits are the general participants, in this case Starbucks International (Lexis PSL, 2017). No further analysis will be made in this respect, since it is out of the scope of this paper.

Source: Built with data extracted from the Income Statement of SMBV, available in Commission decision of 21.10.2015 ON STATE AID SA.38374 (2014/C ex 2014/NN) implemented by the Netherlands to Starbucks

In relation **to interest expenses**, they decreased to be in 2014 half of the amount of 2010 (see graph 10). The amounts represent between 40 and 67 percent of the net profit, so they could be considered significant. Nevertheless, it is not possible to affirm that this is related to a decrease in debt shifting, because there is no information regarding the counterparty of such liabilities, whether it is a related or an independent party.

Other than the aforementioned, the income statements do not provide further valuable information for the purpose of this paper, because the transfer prices arranged in the APA are already included in the expenses. That is the reason why the effective tax rate is around 25%, normal rate for companies in the Netherlands, for the bracket of more than €200,000 of income. Only in 2014 the tax rate became around 10% higher, but with the information available it is not possible to explain the reason. Considering the year in which this happened, it is possible that there is a relationship with the accusations of tax avoidance, in an attempt to clean their Image, but this cannot be demonstrated or inferred from the income statements.

Graph 10: SMBV – Interest expense



Source: Built with data extracted from the income statement of SMBV, available in Commission decision of 21.10.2015 ON STATE AID SA.38374 (2014/C ex 2014/NN) implemented by the Netherlands to Starbucks

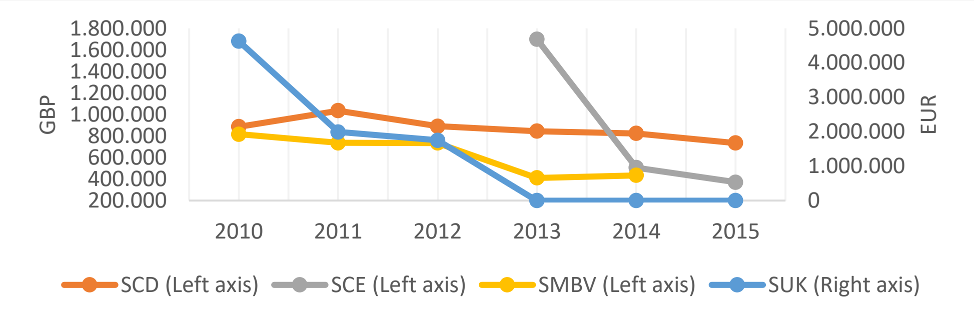
4.3.5 Conclusions

From the analysis of the financial statements corresponding to the four entities, the following conclusions could be reached. It has to be mentioned that the results differed for the various subsidiaries. In the case of SUK there was a clear and dramatic modification in all the indicators, except royalty expense. On the other hand, the German subsidiary showed lighter variations that cannot be so clearly linked with tax avoidance. As regards the Dutch subsidiaries, they were included in this study basically because they represent a support for the profit shifting maneuvers of the group: SCE being the final destination of most of the license fees paid by the analyzed entities, and SMBV. being the provider of roasted coffee beans, main raw material, for the whole EMEA region.

The most important indicator of debt shifting is **interest expense**, and most precisely interest payable to group companies (in case this information is available). In graph 11, the evolution of interest expense between 2010 and 2015, in the four companies under study is presented.

In the four analyzed subsidiaries this indicator showed an unmistakable trend downwards, particularly abrupt in the case of SUK, descending from more than £1.5 million in 2012 to 0 in 2013 onwards. Even if the indicator had been descending since 2011, the fact that the amount went abruptly to zero in 2013, and remained like that in the following years, can be interpreted as a sign that the contraction is closely related to a decrease in tax avoidance in response to the accusations of immorality.

Graph 11: Interest expense



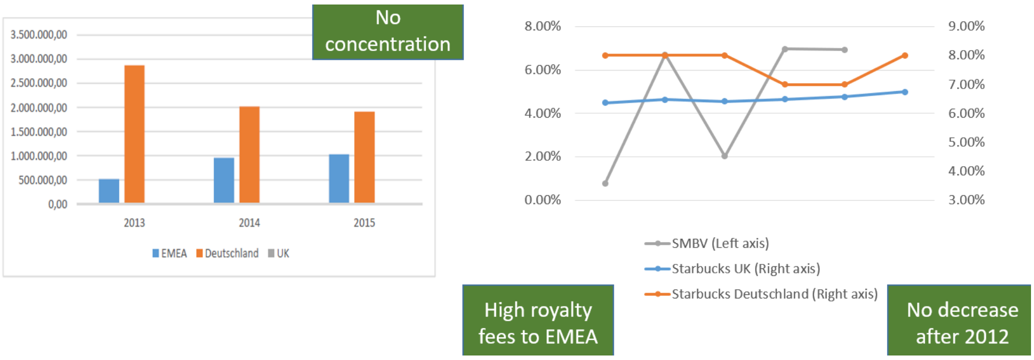
*Source: Built with data extracted from: the annual reports of SCE, available in the route https://www.kvk.nl/handelsregister/TST%ADBIN/FP/JRWS002@?BUTT=341602910000RCT3V *DEP&kvknummer=341602910000&product=Jaarreke; the annual reports of SCD, available in the route https://www.unternehmensregister.de/; the annual reports of SUK, available in the route https://beta.companieshouse.gov.uk/company/02959325/filing-history?page=2; and the income statement of SMBV, available in* Commission decision of 21.10.2015 ON STATE AID SA.38374 (2014/C ex 2014/NN) implemented by the Netherlands to Starbucks

Of the three other cases, SCE follows in order of abruptness, falling the interest expense from €1.7 million in 2013 to 370,000 in 2015. Even though it seems to be related with a decrease in profit shifting, there are some limitations in the information, mainly that no values are available for periods prior to 2013 and that the percentage of the interest expense that corresponds to intercompany loans is unknown. The last limitation applies also to SMBV, whose tax expense represents between 40% and 67% of the net profit, and decreased to a half from 2010 to 2014.

In the case of the German subsidiary, it is known that interest expense is entirely represented by intercompany loans. Nonetheless, neither the amount nor the variations are significant, which could mean that either debt shifting is not being used, or it is used in such a small scale that there was no need to reduce it significantly in order to reestablish the subsidiary's image.

Regarding profit shifting through **concentration of intangible assets**, even though it has been be proven during the research that the intangible assets are not concentrated in the low rate jurisdiction (in this case the Netherlands), because a large amount is placed in Germany, it has also been demonstrated that both the German and the British subsidiary pay unusually high percentages of sales (between 6% and 8%) to SCE located in the Netherlands (see graph 12).

Graph 12: Intangible asset holdings & royalty fees/sales

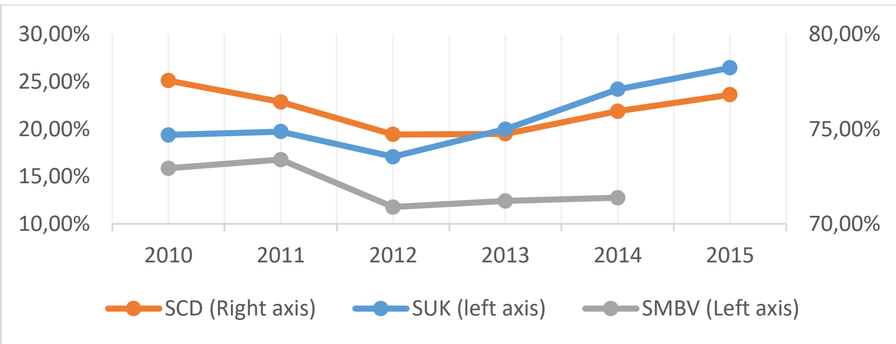


*Source: Built with data extracted from: the annual reports of SCE, available in the route https://www.kvk.nl/handelsregister/TST%ADBIN/FP/JRWS002@?BUTT=341602910000RCT3V *DEP&kvknummer=341602910000&product=Jaarreke; the annual reports of SCD, available in the route https://www.unternehmensregister.de/; the annual reports of SUK, available in the route https://beta.companieshouse.gov.uk/company/02959325/filing-history?page=2; and the income statement of SMBV, available in* Commission decision of 21.10.2015 ON STATE AID SA.38374 (2014/C ex 2014/NN) implemented by the Netherlands to Starbucks

This can be interpreted as an attempt to shift profit to that country, where the income generated on intellectual property is benefited by a special regime that lowers income tax to a particularly low rate of 5%, when the average income tax rate in the UK and Germany is higher than 15%. Nonetheless, neither SUK nor SCD showed signs of decreasing the percentage paid in this concept after the tax avoidance scandals in 2012.

The opposite situation occurred with relation to the **internal pricing of raw material**, given that the profit margin significantly increased in three of the four subsidiaries after 2012 (see graph 13). In some cases, the absolute expense in raw material even decreased with relation to previous years, even if the sales were increasing.

Graph 13: Gross profit margin



Source: Built with data extracted from: the annual reports of SCD, available in the route https://www.unternehmensregister.de/; the annual reports of SUK, available in the route https://beta.companieshouse.gov.uk/company/02959325/filing-history?page=2; and the income *statement of SMBV, available in* Commission decision of 21.10.2015 ON STATE AID SA.38374 (2014/C ex 2014/NN) implemented by the Netherlands to Starbucks

Such phenomenon can be very possibly seen as an adjustment of internal pricing of raw materials, with the aim of clean the group's image after the accusations of immorality in tax behavior.

The only subsidiary whose gross profit margin remained low during the whole period SMBV, being one of the reasons why they were accused by the European Commission (European Commission, 2015b).

5 Final considerations

The discussions about BEPS have represented a milestone in the field of international taxation, because for the first time generalized questioning and analysis of the morality of this kind of practices is taking place.

The main aim of the present paper, as presented in the introduction, was to determine whether this new conception of international taxation has so far caused an impact on the way MNCs structure their operations with regards to aggressive tax planning.

This has been achieved through the case study of four subsidiaries of Starbucks Corporation, analyzing whether the financial statements corresponding to the period 2010 to 2015 gave evidence of decrease in the key indicators of aggressive tax planning.

The results of this study produced evidence for changes in the behavior of the four Starbucks subsidiaries, implying that they reduced the aggressiveness of the group's tax planning in Europe. However, these results are still preliminary. First, some of the conclusions are tentative due to the lack of detailed information. A large part of the data related to tax issues is internal and confidential and not shared with researchers. Second, even though there seems to be evidence for the Starbucks case, one may not just generalize and transfer the results to other MNCs.

Given the political importance of the topic, further research – for example similar studies on other MNCs- is necessary.

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Appendix I: Starbucks Coffee Company (UK) Limited

Periods ending 30.09

Balance Sheet

Fixed assets	2010	2011	2012	2013	2014	2015
Tangible fixed assets	77.887.451,00	66.297.159,00	64.631.316,00	62.696.567,00	48.181.743,00	45.030.069,00
Current assets						
Deferred tax assets	0,00	0,00	0,00	0,00	1.669.379,00	1.345.485,00
Stocks	2.046.876,00	2.559.319,00	1.965.984,00	2.181.197,00	1.575.777,00	1.585.099,00
Debtors						
- due within one year	30.827.593,00	25.445.379,00	30.110.434,00	34.117.946,00	35.511.310,00	34.374.351,00
- due after one year	2.489.903,00	2.309.642,00	1.991.037,00	3.046.770,00	1.294.542,00	1.531.507,00
Cash in bank and in hand	25.281.432,00	17.507.230,00	36.553.217,00	28.748.280,00	37.355.537,00	73.603.577,00
Total Assets	**138.533.255,00**	**114.118.729,00**	**135.251.988,00**	**130.790.760,00**	**125.588.288,00**	**157.470.088,00**
Creditors: amounts falling due within one year	-110.120.743,00	-112.246.016,00	-81.134.290,00	-83.625.489,00	-87.028.057,00	-84.037.783,00
Creditors: amounts falling due after one year	-4.216.240,00	-3.153.089,00	-2.142.184,00	-3.327.211,00	-9.033.347,00	-15.726.656,00
accruals and deferred income						
Total liabilities	**-114.336.983,00**	**-115.399.105,00**	**-83.276.474,00**	**-86.952.700,00**	**-96.061.404,00**	**-99.764.439,00**
Capital and reserves						
Called up share capital	307.235,00	307.685,00	315.785,00	316.985,00	316.985,00	316.985,00
Share premium account	233.298.774,00	237.798.324,00	318.790.224,00	330.789.024,00	330.789.024,00	330.789.024,00
Profit and loss account	-209.409.737,00	-239.386.385,00	-267.130.495,00	-287.267.949,00	-301.579.125,00	-273.400.360,00
Shareholders' funds	**-24.196.272,00**	**1.280.376,00**	**-51.975.514,00**	**-43.838.060,00**	**-29.526.884,00**	**-57.705.649,00**
	0,00	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*

HORIZONTAL ANALYSIS BS

Fixed assets	2010	2011	2012	2013	2014	2015
Tangible fixed assets	100,00	85,12	82,98	80,50	61,86	57,81
Current assets						
Deferred tax assets	100,00	100,00	100,00	100,00	166.937.900.000,00	134.548.500.000,00
Stocks	100,00	125,04	96,05	106,56	76,98	77,44
Debtors						
- due within one year	100,00	82,54	97,67	110,67	115,19	111,51
- due after one year	100,00	92,76	79,96	122,37	51,99	61,51
Cash in bank and in hand	100,00	69,25	144,59	113,71	147,76	291,14
Total Assets	**100,00**	**82,38**	**97,63**	**94,41**	**90,66**	**113,67**
Creditors: amounts falling due within one year	100,00	101,93	73,68	75,94	79,03	76,31
Creditors: amounts falling due after one year	100,00	74,78	50,81	78,91	214,25	373,00
accruals and deferred income						
Total liabilities	**100,00**	**100,93**	**72,83**	**76,05**	**84,02**	**87,25**
Capital and reserves						
Called up share capital	100,00	100,15	102,78	103,17	103,17	103,17
Share premium account	100,00	101,93	136,64	141,79	141,79	141,79
Profit and loss account	100,00	114,31	127,56	137,18	144,01	130,56
Shareholders' funds	**100,00**	**-5,29**	**214,81**	**181,18**	**122,03**	**238,49**

VERTICAL ANALYSIS	2010	2011	2012	2013	2014	2015
Fixed assets						
Tangible fixed assets	0,56	0,58	0,48	0,48	0,38	0,29
Current assets						
Deferred tax assets	0,00	0,00	0,00	0,00	0,01	0,01
Stocks	0,01	0,02	0,01	0,02	0,01	0,01
Debtors						
- due within one year	0,22	0,22	0,22	0,26	0,28	0,22
- due after one year	0,02	0,02	0,01	0,02	0,01	0,01
Cash in bank and in hand	0,18	0,15	0,27	0,22	0,30	0,47
Total Assets	**1,00**	**1,00**	**1,00**	**1,00**	**1,00**	**1,00**
Creditors: amounts falling due within one year	0,96	0,97	0,97	0,96	0,91	0,84
Creditors: amounts falling due after one year	0,04	0,03	0,03	0,04	0,09	0,16
accruals and deferred income						
Total liabilities	**1,00**	**1,00**	**1,00**	**1,00**	**1,00**	**1,00**
Capital and reserves						
Called up share capital	-0,01	0,24	-0,01	-0,01	-0,01	-0,01
Share premium account	-9,64	185,73	-6,13	-7,55	-11,20	-5,73
Profit and loss account	8,65	-186,97	5,14	6,55	10,21	4,74
Shareholders' funds	**-1,00**	**-1,00**	**-1,00**	**-1,00**	**-1,00**	**-1,00**
Debt to equity ratio	4,73	-90,13	1,60	1,98	3,25	1,73

Income Statement

	2010	2011	2012	2013	2014	2015	
Turnover	396.288.137,00	397.716.437,00	413.392.826,00	399.405.183,00	408.721.070,00	405.641.634,00	
Cost of sales	-319.529.635,00	-319.275.744,00	-342.810.112,00	-319.645.430,00	-309.915.802,00	-298.449.490,00	
Gross Profit	**76.758.502,00**	**78.440.693,00**	**70.582.714,00**	**79.759.753,00**	**98.805.268,00**	**107.192.144,00**	
Administrative expenses	-102.495.588,00	-107.233.203,00	-98.200.023,00	-100.532.748,00	-96.874.936,00	-79.314.661,00	**
Operating profit/loss	**-25.737.086,00**	**-28.792.510,00**	**-27.617.309,00**	**-20.772.995,00**	**1.930.332,00**	**27.877.483,00**	
Profit/loss on disposal of fixed assets	-3.870.988,00	-1.358.260,00	-1.831.339,00	245.764,00	-13.660,00	6.209.990,00	
Interest receivable	33.593,00	50.163,00	802.721,00	70.425,00	75.173,00	132.874,00	
Interest payable and similar charges	-4.661.853,00	-2.753.352,00	-1.757.980,00	-8.317,00	-3.512,00	-3.608,00	*
Profit/loss before taxation	**-34.236.334,00**	**-32.853.959,00**	**-30.403.907,00**	**-20.465.123,00**	**1.988.333,00**	**34.216.739,00**	
Taxation	0,00	0,00	0,00	-2.250.656,00	-11.806.381,00	-8.443.687,00	
Profit/loss on ordinary activities after taxation	**-34.236.334,00**	**-32.853.959,00**	**-30.403.907,00**	**-22.715.779,00**	**-9.818.048,00**	**25.773.052,00**	
Operating leases-land/buildings (Notes 3/4)	69.032.107,00	59.397.678,00	62.491.658,00	53.008.337,00	51.724.357,00	46.732.768,00	**
Royalties and license fees (Notes 3/4)	25.259.040,00	25.774.242,00	26.481.849,00	25.917.670,00	26.871.574,00	27.343.682,00	**
* Of which (Note 6):							
Interest payable to group companies	4.630.489,00	1.995.089,00	1.751.460,00	0,00	0,00	0,00	
Third party interest payable	-31.364,00	-758.263,00	-6.520,00	-8.317,00	-3.512,00	-3.608,00	
Royalties/turnover	6,37%	6,48%	6,41%	6,49%	6,57%	6,74%	
Cost of sales/turnover	-80,63%	-80,28%	-82,93%	-80,03%	-75,83%	-73,57%	
Turnover variation		0,36%	3,94%	-3,38%	2,33%	-0,75%	
Effective Tax Rate	0,00%	0,00%	0,00%	-11,00%	593,78%	24,68%	
Gross profit margin	19,37%	19,72%	17,07%	19,97%	24,17%	26,43%	

	HORIZONTAL ANALYSIS IS					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Turnover	100,00	100,36	104,32	100,79	103,14	102,36
Cost of sales	100,00	99,92	107,29	100,04	96,99	93,40
Gross Profit	**100,00**	**102,19**	**91,95**	**103,91**	**128,72**	**139,65**
Administrative expenses	100,00	104,62	95,81	98,08	94,52	77,38
Operating profit/loss	**100,00**	**111,87**	**107,31**	**80,71**	**-7,50**	**-108,32**
Profit/loss on disposal of fixed assets	100,00	35,09	47,31	-6,35	0,35	-160,42
Interest receivable	100,00	149,33	2.389,55	209,64	223,78	395,54
Interest payable and similar charges	100,00	59,06	37,71	0,18	0,08	0,08
Profit/loss before taxation	**100,00**	**95,96**	**88,81**	**59,78**	**-5,81**	**-99,94**
Taxation	100,00	100,00	100,00	-225.065.600.000,00	-1.180.638.100.000,00	-844.368.700.000,00
Profit/loss on ordinary activities after taxation	**100,00**	**95,96**	**88,81**	**66,35**	**28,68**	**-75,28**
Operating leases-land/buildings (Notes 3/4)	100,00	86,04	90,53	76,79	74,93	67,70
Royalties and license fees (Notes 3/4)	100,00	102,04	104,84	102,61	106,38	108,25

Tax computation (Note 7)

	2010	2011	2012	2013	2014	2015
Profit/Loss on ordinary activities before tax	-34.236.334,00	-32.853.959,00	-30.403.907,00	-20.465.123,00	1.988.333,00	34.216.739,00
Standard UK tax	*28,0%*	*27,0%*	*25,0%*	*23,5%*	*22,0%*	*20,5%*
Tax at standard UK tax	**-9.586.173,00**	**-8.870.569,00**	**-7.600.977,00**	**-4.809.304,00**	**437.433,00**	**7.014.431,00**
Adjustments for tax purposes	9.586.173,00	8.870.569,00	7.600.977,00	8.540.392,00	11.368.948,00	1.429.256,00
TAX	**0,00**	**0,00**	**0,00**	**3.731.088,00**	**11.806.381,00**	**8.443.687,00**

Sources:

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Appendix II: Starbucks Coffee Deutschland

Periods ending 30.09

Balance Sheet

	2010	2011	2012	2013	2014	2015
Assets						
A. Fixed assets						
I. Intangible assets	3.413.858,56	2.888.161,19	2.542.845,45	2.869.552,03	2.017.037,76	1.910.414,71
Concessions, industrial property rights and licenses						
II. Tangible assets						
1. Land, leasedhold and built, including built on leased land	23.434.054,18	22.808.622,92	21.236.595,46	29.978.147,97	19.235.255,43	18.109.579,02
2. Other equipment, operating and office equipment	7.900.648,41	7.451.612,62	6.849.742,51	0,00	6.730.663,00	6.657.337,16
3. Prepayments and equipments in construction	919.046,32	736.872,26	1.988.428,00	0,00	2.501.226,42	1.146.899,55
	35.667.607,47	*33.885.268,99*	*32.617.611,42*	*32.847.700,00*	*30.484.182,61*	*27.824.230,44*
B. Non fixed assets						
I. Supplies						
1. Raw, auxiliary and operating materials	177.500,00	262.500,00	294.350,00	300.050,00	294.350,00	283.100,00
2. Accruals	846.586,37	847.557,29	932.689,03	915.356,75	663.567,38	943.460,73
II. Receivables and other assets						
1. Receivables from delivered goods and services	150.604,18	124.396,81	150.513,22	173.246,34	86.176,19	273.803,15
2. Receivables from associated companies	0,01	0,01	0,01	163.036,04	9.716,38	0,00
3. Other assets	268.505,47	553.248,81	351.273,37	1.570.881,51	869.477,25	829.757,83
	1.443.196,03	*1.787.702,92*	*1.728.825,63*	*3.122.570,64*	*1.923.287,20*	*2.330.121,71*
III. Cash in hand and balances with banks	8.264.040,77	9.079.273,71	10.932.210,97	13.825.730,80	15.703.086,51	11.174.263,88
	8.264.040,77	*9.079.273,71*	*10.932.210,97*	*13.825.730,80*	*15.703.086,51*	*11.174.263,88*
C. Accrued income	1.863.456,40	2.001.362,30	2.156.090,61	2.445.314,42	2.185.677,64	267.860,07
D. Loss not covered by equity					885.963,69	0,00
TOTAL ASSETS	**47.238.300,67**	**46.753.607,92**	**47.434.738,63**	**52.241.315,86**	**51.182.197,65**	**41.596.476,10**
Equiy and liabilities						
A. Equity						
I. Capital	6.100.000,00	6.100.000,00	6.100.000,00	6.100.000,00	6.100.000,00	6.100.000,00
II. Capital reserves	72.100.000,00	79.100.000,00	91.100.000,00	99.100.000,00	99.100.000,00	106.100.000,00
III. Loss carried forward	-70.126.222,83	-76.080.622,93	-81384411,23	-93.011.256,43	-99.844.962,55	-106.085.963,69
IV. Net loss	-5.954.400,10	-5.303.788,30	-11626845,2	-6.833.706,12	-6.241.001,14	-3.233.270,89
	2.119.377,07	*3.815.588,77*	*4.188.743,57*	*5.355.037,45*	*-885.963,69*	*2.880.765,42*
Loss not covered by equity					885.963,69	
B. Povisions						
Other provisions	10.053.562,06	8.240.560,42	8.529.919,64	10.065.559,64	11.045.682,27	11.416.123,54
	10.053.562,06	*8.240.560,42*	*8.529.919,64*	*10.065.559,64*	*11.045.682,27*	*11.416.123,54*
C. Liabilities						
1. Liabilities from delivered goods and services	3.542.262,59	2.819.085,52	3.103.166,65	3.143.245,58	6.024.716,64	1.874.666,80
2. Liabilities to affiliated companies	29.974.263,60	30.436.921,84	30.733.351,88	30.639.723,53	30.831.716,53	20.762.985,51
3. Other liabilities	1.548.835,34	1.441.451,36	879.556,88	3.037.749,66	2.880.082,21	4.211.934,83
	35.065.361,53	*34.697.458,72*	*34.716.075,41*	*36.820.718,77*	*39.736.515,38*	*26.849.587,14*
D. Accounting delimitation	*0,01*	*0,01*	*0,01*	*0,01*	*400.000,00*	*450.000,00*
TOTAL EQUITY AND LIABILITIES	**47.238.300,66**	**46.753.607,91**	**47.434.738,62**	**52.241.315,86**	**51.182.197,65**	**41.596.476,10**
	0,01	*0,01*	*0,01*	*0,00*	*0,00*	*0,00*
Debt to equity ratio	21,29	11,25	10,32	8,76	-57,32	13,28

	HORIZONTAL ANALYSIS BS 2010	2011	2012	2013	2014	2015
Assets						
A. Fixed assets						
I. Intangible assets	100,00	84,60	74,49	84,06	59,08	55,96
Concessions, industrial property rights and licenses						
II. Tangible assets						
1. Land, leasedhold and built, including built on leased land	100,00	97,33	90,62	127,93	82,08	77,28
2. Other equipment, operating and office equipment	100,00	94,32	86,70	0,00	85,19	84,26
3. Prepayments and equipments in construction	100,00	80,18	216,36	0,00	272,15	124,79
	100,00	*95,00*	*91,45*	*92,09*	*85,47*	*78,01*
B. Non fixed assets						
I. Supplies						
1. Raw, auxiliary and operating materials	100,00	147,89	165,83	169,04	165,83	159,49
2. Accruals	100,00	100,11	110,17	108,12	78,38	111,44
II. Receivables and other assets						
1. Receivables from delivered goods and services	100,00	82,60	99,94	115,03	57,22	181,80
2. Receivables from associated companies	100,00	100,00	100,00	1.630.360.400,00	97.163.800,00	0,00
3. Other assets	100,00	206,05	130,83	585,05	323,82	309,03
	100,00	*123,87*	*119,79*	*216,36*	*133,27*	*161,46*
III. Cash in hand and balances with banks	100,00	109,86	132,29	167,30	190,02	135,22
	100,00	*109,86*	*132,29*	*167,30*	*190,02*	*135,22*
C. Accrued income	100,00	107,40	115,70	131,22	117,29	14,37
D. Loss not covered by equity						
TOTAL ASSETS	**100,00**	**98,97**	**100,42**	**110,59**	**108,35**	**88,06**

Equiy and liabilities						
A. Equity						
I. Capital	100,00	100,00	100,00	100,00	100,00	100,00
II. Capital reserves	100,00	109,71	126,35	137,45	137,45	147,16
III. Loss carried forward	100,00	108,49	116,05	132,63	142,38	151,28
IV. Net loss	100,00	89,07	195,26	114,77	104,81	54,30
	100,00	*180,03*	*197,64*	*252,67*	*-41,80*	*135,93*
Loss not covered by equity					41,80	
B. Povisions						
Other provisions	100,00	81,97	84,84	100,12	109,87	113,55
	100,00	*81,97*	*84,84*	*100,12*	*109,87*	*113,55*
C. Liabilities						
1. Liabilities from delivered goods and services	100,00	79,58	87,60	88,74	170,08	52,92
2. Liabilities to affiliated companies	100,00	101,54	102,53	102,22	102,86	69,27
3. Other liabilities	100,00	93,07	56,79	196,13	185,95	271,94
	100,00	*98,95*	*99,00*	*105,01*	*113,32*	*76,57*
D. Accounting delimitation	100,00	100,00	100,00	100,00	4.000.000.000,00	4.500.000.000,00
TOTAL EQUITY AND LIABILITIES	**100,00**	**98,97**	**100,42**	**110,59**	**108,35**	**88,06**
	0,00	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*

Assets	VERTICAL ANALYSIS BS					
A. Fixed assets						
I. Intangible assets	0,07	0,06	0,05	0,05	0,04	0,05
Concessions, industrial property rights and licenses	0,00	0,00	0,00	0,00	0,00	0,00
II. Tangible assets	0,00	0,00	0,00	0,00	0,00	0,00
1. Land, leasedhold and built, including built on leased land	0,50	0,49	0,45	0,57	0,38	0,44
2. Other equipment, operating and office equipment	0,17	0,16	0,14	0,00	0,13	0,16
3. Prepayments and equipments in construction	0,02	0,02	0,04	0,00	0,05	0,03
	0,76	*0,72*	*0,69*	*0,63*	*0,60*	*0,67*
B. Non fixed assets	0,00	0,00	0,00	0,00	0,00	0,00
I. Supplies	0,00	0,00	0,00	0,00	0,00	0,00
1. Raw, auxiliary and operating materials	0,00	0,01	0,01	0,01	0,01	0,01
2. Accruals	0,02	0,02	0,02	0,02	0,01	0,02
II. Receivables and other assets	0,00	0,00	0,00	0,00	0,00	0,00
1. Receivables from delivered goods and services	0,00	0,00	0,00	0,00	0,00	0,01
2. Receivables from associated companies	0,00	0,00	0,00	0,00	0,00	0,00
3. Other assets	0,01	0,01	0,01	0,03	0,02	0,02
	0,03	*0,04*	*0,04*	*0,06*	*0,04*	*0,06*
III. Cash in hand and balances with banks	0,17	0,19	0,23	0,26	0,31	0,27
	0,17	0,19	0,23	0,26	0,31	0,27
C. Accrued income	0,04	0,04	0,05	0,05	0,04	0,01
	0,00	0,00	0,00	0,00	0,00	0,00
D. Loss not covered by equity	0,00	0,00	0,00	0,00	0,02	0,00
	0,00	0,00	0,00	0,00	0,00	0,00
TOTAL ASSETS	**1,00**	**1,00**	**1,00**	**1,00**	**1,00**	**1,00**

Equiy and liabilities						
A. Equity						
I. Capital	0,13	0,13	0,13	0,12	0,12	0,15
II. Capital reserves	1,53	1,69	1,92	1,90	1,94	2,55
III. Loss carried forward	-1,48	-1,63	-1,72	-1,78	-1,95	-2,55
IV. Net loss	-0,13	-0,11	-0,25	-0,13	-0,12	-0,08
	0,04	0,08	0,09	0,10	-0,02	0,07
Loss not covered by equity	0,00	0,00	0,00	0,00	0,02	0,00
B. Povisions	0,00	0,00	0,00	0,00	0,00	0,00
Other provisions	0,21	0,18	0,18	0,19	0,22	0,27
	0,21	*0,18*	*0,18*	*0,19*	*0,22*	*0,27*
C. Liabilities	0,00	0,00	0,00	0,00	0,00	0,00
1. Liabilities from delivered goods and services	0,07	0,06	0,07	0,06	0,12	0,05
2. Liabilities to affiliated companies	0,63	0,65	0,65	0,59	0,60	0,50
3. Other liabilities	0,03	0,03	0,02	0,06	0,06	0,10
	0,74	*0,74*	*0,73*	*0,70*	*0,78*	*0,65*
D. Accounting delimitation	0,00	0,00	0,00	0,00	0,01	0,01
TOTAL EQUITY AND LIABILITIES	**1,00**	**1,00**	**1,00**	**1,00**	**1,00**	**1,00**

Income Statement

INCOME STATEMENT

1. Sales revenue	110,660,987.14	117,457,205.27	118,006,793.00	123,127,652.27	127,852,598.73	131,369,165.48	
2. Other income	1,718,880.65	972,654.36	341,830.65	400,458.37	647,585.37	607,194.66	
3. Cost of materials							
Raw materials and related products	-24,850,954.80	-27,700,667.72	-29,839,780.27	-31,100,573.02	-30,774,739.90	-30,471,958.22	
4. Personnel expenses							
a) Staff expense	-30,201,782.74	-31,565,349.21	-33,907,624.88	-35,447,310.58	-35,051,281.37	-36,319,484.95	
b) Social taxes	-6,007,102.24	-6,974,900.68	-7,449,204.01	-7,582,465.23	-7,698,102.30	-7,840,872.88	
5. Depreciation of intangible assets and PPE	-7,829,598.53	-7,284,517.07	-6,965,578.80	-6,983,063.69	-7,163,765.09	-7,090,769.63	
6. Other operating expenses	-48,576,821.46	-49,483,653.38	-50,969,529.33	-52,815,383.58	-53,233,155.24	-53,751,192.41	**
7. Other interests and similar income	19,545.40	95,829.00	47,072.76	4,146.60	4,035.14	0.00	
8. Interests and similar expenses	-887,553.52	-1,078,675.91	-890,824.32	-846,000.00	-824,176.48	-735,352.94	*
9. Profit/loss of ordinary business operation	*-5,954,400.10*	*-5,562,075.34*	*-11,626,845.20*	*-11,242,538.86*	*-6,241,001.14*	*-4,233,270.89*	
10. Extrordinary income	0.01	263,787.01	0.01	4,409,556.00	0.01	1,000,000.00	
11. Extrordinary loss	0.01	-5,500.00	0.01	0.01	0.01	0.00	
12. Extrordinary result	*0.02*	*258,287.01*	*0.02*	*4,409,556.01*	*0.02*	*1,000,000.00*	
13. Net profit/loss	**-5,954,400.08**	**-5,303,788.33**	**-11,626,845.18**	**-6,832,982.85**	**-6,241,001.12**	**-3,233,270.89**	
Interest expense/sales revenue	0.80%	0.92%	0.75%	0.69%	0.64%	0.56%	
Raw materials/sales revenue	22.46%	23.58%	25.29%	25.26%	24.07%	23.20%	
Gross profit margin	77.54%	76.42%	74.71%	74.74%	75.93%	76.80%	
Interest expense with related companies	-887,553.52	-1,035,700.00	-890,824.32	-846,000.00	-824,176.48	-735,352.94	*
Interest expense ith unrelated parties	0.00	-42,975.91	0.00	0.00	0.00	0.00	*
**Of which							
Rent costs (Note 6)	18,615,432.00	18,712,655.00	20,203,216.00	21,725,949.00	21,670,451.00	21,340,494.00	
License fees (Note 6)	8,682,796.00	9,126,345.00	9,445,170.00	9,135,014.00	9,389,633.00	10,499,188.00	
License fees/sales revenue	8%	8%	8%	7%	7%	8%	

	HORIZONTAL ANALYSIS IS					
1. Sales revenue	100,00	106,14	106,64	111,27	115,54	118,71
2. Other income	100,00	56,59	19,89	23,30	37,67	35,33
3. Cost of materials						
Raw materials and related products	100,00	111,47	120,07	125,15	123,84	122,62
4. Personnel expenses						
a) Staff expense	100,00	104,51	112,27	117,37	116,06	120,26
b) Social taxes	100,00	116,11	124,01	126,23	128,15	130,53
5. Depreciation of intangible assets and PPE	100,00	93,04	88,96	89,19	91,50	90,56
6. Other operating expenses	100,00	101,87	104,93	108,73	109,59	110,65
7. Other interests and similar income	100,00	490,29	240,84	21,22	20,64	0,00
8. Interests and similar expenses	100,00	121,53	100,37	95,32	92,86	82,85
9. Profit/loss of ordinary business operation	*100,00*	*93,41*	*195,26*	*188,81*	*104,81*	*71,09*
10. Extrordinary income	100,00	2.637.870.100,00	100,00	44.095.560.000,00	100,00	10.000.000.000,00
11. Extrordinary loss	100,00	-55.000.000,00	100,00	100,00	100,00	0,00
12. Extrordinary result	*100,00*	*1.291.435.050,00*	*100,00*	*22.047.780.050,00*	*100,00*	*5.000.000.000,00*
13. Net profit/loss	**100,00**	**89,07**	**195,26**	**114,76**	**104,81**	**54,30**

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Appendix III: Starbucks Coffee EMEA B.V.

Periods ending 30.09

Balance Sheet

	2013	2014	2015
Assets			
Intangible fixed assets	516.976,00	954.651,00	1.025.072,00
Tangible fixed assets	1.976.046,00	2.149.239,00	1.405.027,00
Financial fixed assets	269.143.913,00	359.743.651,00	345.627.650,00
Fixed Assets	*271.636.935,00*	*362.847.541,00*	*348.057.749,00*
Trade debtors	9.140.084,00	12.369.017,00	61.776,00
Other receivables	13.192.281,00	363.038.621,00	10.546.810,00
Liquid assets	13.285.008,00	75.714.725,00	10.923.956,00
Current Assets	*35.617.373,00*	*451.122.363,00*	*21.532.542,00*
Total Assets	**307.254.308,00**	**813.969.904,00**	**369.590.291,00**
Equity and liabilities			
Capital (deposited and retrieved)	19.000,00	19.000,00	19.000,00
Capital premium	269.674.502,00	376.437.240,00	376.437.240,00
Other reserves	-21.850.690,00	383.034.666,00	-36.979.890,00
Equity	*247.842.812,00*	*759.490.906,00*	*339.476.350,00*
Long term debt	29.345.931,00	20.446.505,00	0,00
Trade payables	1.255.451,00	666.501,00	2.010.116,00
Other current liabilities	28.810.114,00	33.365.992,00	28.103.825,00
Liabilities	*59.411.496,00*	*54.478.998,00*	*30.113.941,00*
Total equity + Liabilities	**307.254.308,00**	**813.969.904,00**	**369.590.291,00**
	0,00	*0,00*	*0,00*
Debt to equity ratio	0,24	0,07	0,09

	HORIZONTAL ANALYSIS		
	2013	2014	2015
Assets			
Intangible fixed assets	100,00	184,66	198,28
Tangible fixed assets	100,00	108,76	71,10
Financial fixed assets	100,00	133,66	128,42
Fixed Assets	*100,00*	*133,58*	*128,13*
Trade debtors	100,00	135,33	0,68
Other receivables	100,00	2.751,90	79,95
Liquid assets	100,00	569,93	82,23
Current Assets	*100,00*	*1.266,58*	*60,46*
Total Assets	**100,00**	**264,92**	**120,29**
Equity and liabilities			
Capital (deposited and retrieved)	100,00	100,00	100,00
Capital premium	100,00	139,59	139,59
Other reserves	100,00	-1.752,96	169,24
Equity	*100,00*	*306,44*	*136,97*
Long term debt	100,00	69,67	0,00
Trade payables	100,00	53,09	160,11
Other current liabilities	100,00	115,81	97,55
Liabilities	*100,00*	*91,70*	*50,69*
Total equity + Liabilities	**100,00**	**264,92**	**120,29**
	0,00	*0,00*	*0,00*

VERTICAL ANALYSIS			
	2013	2014	2015
Assets			
Intangible fixed assets	0,00	0,00	0,00
Tangible fixed assets	0,01	0,00	0,00
Financial fixed assets	0,88	0,44	0,94
Fixed Assets	*0,88*	*0,45*	*0,94*
Trade debtors	0,03	0,02	0,00
Other receivables	0,04	0,45	0,03
Liquid assets	0,04	0,09	0,03
Current Assets	*0,12*	*0,55*	*0,06*
Total Assets	**1,00**	**1,00**	**1,00**
Equity and liabilities			
Capital (deposited and retrieved)	0,00	0,00	0,00
Capital premium	0,88	0,46	1,02
Other reserves	-0,07	0,47	-0,10
Equity	*0,81*	*0,93*	*0,92*
Long term debt	0,10	0,03	0,00
Trade payables	0,00	0,00	0,01
Other current liabilities	0,09	0,04	0,08
Liabilities	*0,19*	*0,07*	*0,08*
Total equity + Liabilities	**1,00**	**1,00**	**1,00**
	0,00	*0,00*	*0,00*

Income Statement

					HORIZONTAL ANALYSIS		
Net sales	92.148.036,00	102.327.340,00	29.666.070,00		100,00	111,05	32,19
Operating expenses	-93.430.870,00	-101.763.750,00	-65.792.339,00		100,00	108,92	70,42
Operating profit	*-1.282.834,00*	*563.590,00*	*-36.126.269,00*		*100,00*	*-43,93*	*2.816,13*
Interest and similar income	164.218,00	416.360.530,00	138.641.805,00		100,00	253.541,35	84.425,46
Interest and similar costs	-1.700.520,00	-505.916,00	-370.639,00		100,00	29,75	21,80
Financial income/expenses	*-1.536.302,00*	*415.854.614,00*	*138.271.166,00*		*100,00*	*-27.068,55*	*-9.000,26*
EBT	**-2.819.136,00**	**416.418.204,00**	**102.144.897,00**		**100,00**	**-14.771,13**	**-3.623,27**
Income tax	-342.354,00	-2.569.848,00	-624.707,00		100,00	750,64	182,47
Share in WV HOLDINGS		-8.963.000,00			100,00		
Shareholders result after tax	**-3.161.490,00**	**404.885.356,00**	**101.520.190,00**		**100,00**	**-12.806,79**	**-3.211,15**
Extraordinary charges	-1.121.076,00	0,00	0,00		100,00	0,00	0,00
NET PROFIT/LOSS	**-4.282.566,00**	**404.885.356,00**	**101.520.190,00**		**100,00**	**-9.454,27**	**-2.370,55**

ETR	-12,14%	0,62%	0,61%
Gross profit margin	-1,39%	0,55%	-121,78%

Sources:

- SCE, 2013: 2013 annual report of Starbucks Coffee EMEA B.V. Retrieved from https://www.kvk.nl/handelsregister/TST%ADBIN/FP/JRWS002@?BUTT=341602910000RCT3V*DEP&kvknummer=341602910000&product=Jaarreke
- SCE, 2014: 2014 annual report of Starbucks Coffee EMEA B.V. Retrieved from https://www.kvk.nl/handelsregister/TST%ADBIN/FP/JRWS002@?BUTT=341602910000RCT3V*DEP&kvknummer=341602910000&product=Jaarreke
- SCE, 2015: 2015 annual report of Starbucks Coffee EMEA B.V. Retrieved from https://www.kvk.nl/handelsregister/TST%ADBIN/FP/JRWS002@?BUTT=341602910000RCT3V*DEP&kvknummer=341602910000&product=Jaarreke

Appendix IV: Starbucks Manufacturing EMEA B.V.

Income Statement

	2010	2011	2012	2013	2014
Sales	142.627.243,00	184.159.097,00	286.217.379,00	327.632.453,00	350.538.852,00
Direct cost of sales	-120.020.824,00	-153.275.834,00	-252.500.829,00	-286.969.488,00	-305.831.016,00
Thereof green beans	*(30-40 mill)*	*45-50 mill)*	*(60-70 mill)*	*(60-70 mill)*	*(60-70 mill)*
Gross margin	**22.606.419,00**	**30.883.263,00**	**33.716.550,00**	**40.662.965,00**	**44.707.836,00**
General and administrative expenses	-16.835.153,00	-14.303.059,00	-17.469.758,00	-16.626.967,00	-16.124.052,00
Foreign currency exchanges	-2.266.492,00	-2.089.448,00	-8.162.650,00	709.539,00	-2.272.582,00
Other expenses - Royalties	-1.079.817,00	-12.352.838,00	-5.786.211,00	-22.812.962,00	-24.285.088,00
EBIT	**2.424.957,00**	**2.137.918,00**	**2.297.931,00**	**1.932.575,00**	**2.026.114,00**
Interest Income	45.402,00	30.073,00	18.763,00	14.200,00	76.209,00
Interest expense	-817.041,00	-737.371,00	-735.233,00	-411.315,00	-434.454,00
Result before taxation	**1.653.318,00**	**1.430.620,00**	**1.581.461,00**	**1.535.460,00**	**1.667.869,00**
Corporate income tax	-428.611,00	-337.599,00	-395.365,00	-391.220,00	-575.812,00
Net profit/Loss	**1.224.707,00**	**1.093.021,00**	**1.186.096,00**	**1.144.240,00**	**1.092.057,00**
ETR	25,92%	23,60%	25,00%	25,48%	34,52%
Gross profit margin	15,85%	16,77%	11,78%	12,41%	12,75%
Royalties/Sales	-0,76%	-6,71%	-2,02%	-6,96%	-6,93%
Interest expense/net profit	66,71%	67,46%	61,99%	35,95%	39,78%

	HORIZONTAL ANALYSIS				
	2010	2011	2012	2013	2014
Sales	100,00	129,12	200,68	229,71	245,77
Direct cost of sales	100,00	127,71	210,38	239,10	254,81
Thereof green beans					
Gross margin	**100,00**	**136,61**	**109,17**	**120,60**	**109,95**
General and administrative expenses	100,00	84,96	103,77	98,76	95,78
Foreign currency exchanges	100,00	92,19	360,14	-31,31	100,27
Other expenses - Royalties	100,00	1.143,98	535,85	2.112,67	2.249,00
EBIT	**100,00**	**88,16**	**107,48**	**84,10**	**104,84**
Interest Income	100,00	66,24	41,33	31,28	167,85
Interest expense	100,00	90,25	89,99	50,34	53,17
Result before taxation	**100,00**	**86,53**	**110,54**	**97,09**	**108,62**
Corporate income tax	100,00	78,77	92,24	91,28	134,34
Net profit/Loss	**100,00**	**89,25**	**108,52**	**96,47**	**95,44**

Source:

- European Commission, 2015b: Commission decision of 21.10.2015 ON STATE AID SA.38374 (2014/C ex 2014/NN) implemented by the Netherlands to Starbucks.