

A study of tax minimization strategies in multinational companies with focus on Coca-Cola and IKEA

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Multinational companies use several strategies in order to minimize their total tax burden. We use theory and relevant literature to describe some of the strategies available, and we also confirm that these strategies are in fact being used on a global scale. By studying two of the largest companies in the world, respectively The Coca-Cola Company and IKEA, we are able to see how some of these strategies are used in real life. We find that both show signs indicating an aggressive use of tax minimization strategies.

The lack of transparency and the complicated organizational structures we have found are both clear indications that aggressive tax planning is being used. By locating the concentrate operation in a tax haven, we believe that The Coca-Cola Company is able to keep massive amounts of income outside of the United States, free of tax. This strategy is possible by having the parent located in Delaware, a high secrecy jurisdiction known for offering easy access to tax havens.

Tax havens and high secrecy jurisdictions are also common denominators for IKEA's corporate structure, which includes both a foundation and holding companies located in tax havens such as the Netherlands, The Netherlands Antilles and Luxembourg. By funneling royalty payments through shell companies and into holding companies in tax havens, as well as shifting profits away from high tax jurisdictions by using aggressive transfer pricing and internal debt; we believe that the companies are able to save massive amounts of taxes.

Successful tax avoidance is the result of a malfunctioning global tax system, where various loopholes are easy to exploit. The lack of a common understanding between all jurisdictions, where some deviate from the others in order to increase income, is a problem that needs to be solved. Several actions have been or are to be taken in order to prevent companies from dodging taxes. Most countries are now on board for a new global transparency agreement, and there is reason to believe that we will see changes in the near future, hopefully increasing the total amount of tax paid at a global scale.