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How to Outwit the Tax Authorities

IKEA STYLE

IKEA is an archetype of tax evasion; the company uses all contrivable tricks. The founder ***Ingvar Kamprad*** has made it clear that he viewed taxes as expenses. This is why he opted for an „optimizing framework".

At *IKEA* you can find everything that you would find in a handbook about tax evasion: deferral of profits via interest, license fees, transfer prices, a network of firms and foundations spread over many tax havens, credit transactions, insurances, real estate deals through an own financial group, dilution of company and personal assets all the way to a downright genial budget manipulation in 2012 of 9 billion Euro (i.e. "The Big Coup").

Intangible assets and tax policies

IKEA was a pioneer for many successful corporations like the IT Giants Apple and Google, for media companies, for fashion enterprises, and many more. These global companies share a characteristic in that they no longer sell products, they sell lifestyle. Who buys at *IKEA* allegedly belongs to the modern, cosmopolitan youths that naturally stand for fairness and equal rights.

This image building has a massive impact on the realization of profit and consequently on the taxation. The customer does not primarily buy a computer, shelves or magazines, the customer buys a trademark, an image, a lifestyle, a story or an app. For this, the main share of the added value is derived from a design and development studio in Sweden, the Netherlands, California or New York. It does not come from Poland's furniture industry or China's chip factory.

Considering these assets are intangible, they virtually can not be located. On paper, companies can place them in tax havens and easily shift their profits there. The classic methods, recommended by the OECD[1], to

[1] The OECD recommends the Arm's Length Principle (ALP), with which transfer prices of firms are controlled among themselves. This is the platform of tax treaties. Yet more and more experts are demanding a reform of the taxation of multinational companies. They argue for Unitary Taxation, where the profits are determined through a world wide balance sheet and then

regulate corporate taxes through double tax agreements of all participating countries, work to some extent when it comes to screws or washing machines. It does not work with intangible assets.

The other side

IKEA presents itself as an exemplary Scandinavian company, that fights for a better, sustainable, and equitable world, that is on first name terms with its customers. The truth reveals a stained image. Before the reunification of Germany, *IKEA* had GDR detainees build furniture. Millions of trees were illegally felled in the Taiga, somehow furnished with an ecological logo, and shipped through China as if to cover tracks. Traces of formaldehyde were found in several pieces of *IKEA* furniture. Although: one has to concede that *IKEA* managers tend to dispatch to such allegations quickly and correct the mistakes.

In several countries there have been allegations of spying on the employees, impeding worker's councils, discriminating female and colored employees, as well as of corruption. In 2013 *IKEA* refused to take part in a hearing in the Dutch parliament – where *IKEA* just so happens to profit from massive tax benefits.

IKEA today is a ruthless regime of cost efficiency combined with efforts to mold and uphold a charitable, beneficent image.

The Conglomerate

IKEA is the biggest furniture brand name in the world today. It also sells houses and solar panels, runs shopping malls and amusement parks, and builds whole settlements. As of late it is planning hotels, dormitories, as well as a district in London in an *IKEA* style. Firms of the conglomerate employ over 140.000 people in at least 44 countries on all continents. In 2012 *IKEA* made a sales volume of 35 billion Euro.

Presiding over the lot is the 86 year old founder *Ingvar Kamprad*. Together with his sons, he is the richest man in Europe and the 4rth richest in the world. His net worth is 40 to 50 billion Euro.

Legally *IKEA* consist of three independent groups, which are merely connected through their owners and by the operational business:

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allocated to the countries in which the company is actually operating (sales, manufacture, employment, investments).

1. The **INGKA Group**[2] – owned by the ***Stichting INGKA Foundation*** in the Netherlands. It owns over 300 furniture stores, dozens of furniture plants, warehouses, the restaurant chain, a line of service companies, including the whole logistics.
1. The ***Inter IKEA Group*** – belonging to the ***Interogo Foundation*** in Liechtenstein. Centerpiece of this multinational company is the ***Inter IKEA Systems*** in the Netherlands: a small firm which owns the trademark. Estate, asset, and money managing firms are also in the package. Since the *Inter IKEA Systems* own all rights to the trademark *IKEA,* Kamprad can indirectly control the whole conglomerate with the *Interogo Foundation*.
2. The ***Ikano Group*** in Luxembourg. Belonging to this group are the *IKANO Bank,* insurance and funding companies, and many more.

[2] The INGKA Group has a new name as of late. It is now called IKEA Group. This should not be confused with the IKEA Group which is why I chose to use the old name here.

Possible tax trickery

One aspect of the scandal is that it is almost impossible to obtain substantiated figures. The following account is based on individual sources and on widespread practice among many corporate groups with similar structures.

- *IKEA* furniture stores usually have almost no equity capital, and therefore pay interest, which they can deduct from their profit, on loans they have taken out. This interest lands – probably indirectly – tax-free or with tax concessions in other firms of the conglomerate, such as the *IKANO Bank*.

The furniture stores pay 3% of their turnover (most recently, that was about a third of their profit) as licence fees to the franchising company *Inter IKEA Systems BV*.

The latter benefits from tax concessions in the Netherlands as a research and development company, and pays an effective tax rate of only 5%.

The structuring of the transfer prices between *IKEA*-owned manufactures, the more than a thousand suppliers, middlemen, and the furniture stores leaves plenty of scope for tax optimization.

The group's own *IKANO Bank* finances low-interest loans to customers. Subsidizing the loans allows profits to be shifted to Luxembourg.

The *IKANO* insurance policies enable firms in the group to transfer additional shares in the profits in the form of insurance premiums.

The group's own investment firm is located in Switzerland, and its fund-management firm in Luxembourg; the latter has subsidiaries in other tax havens: Curaçao, the Virgin Islands, and Cyprus.

The *Kamprad*s' private assets are gathered at the *Interogo Foundation*, based in Liechtenstein. Here, they incur neither income, nor capital, nor inheritance taxes – except for a flat rate of 1200 Swiss francs. *Kamprad* is said to have saved taxes amounting to 2.3 to 3.2 thousand million Euros over twenty years thanks to the *Interogo Foundation* alone.

The *INGKA Group* is owned by the *Stichting INGKA*, which enjoys tax concessions as a foundation for the promotion of interior decoration. This is the wealthiest charitable foundation in the world, ahead of the Bill and Melinda Gates Foundation. However, publicity is always focused on the relatively small *IKEA Foundation*, which finances educational projects for children in India and Pakistan.

Ingvar Kamprad has been living in low-tax Lausanne in Switzerland since the Seventies for tax reasons.

The result of all these measures is considerable. Estimates suggest that IKEA pays on its actual profits in proportion less than half of what a medium-sized company in Germany has to hand over.

The grand coup

One of the most intriguing transactions in the entire history of *IKEA* was the sale in 2012 of the rights to *IKEA* by the *Interogo Foundation* to its subsidiary *Inter IKEA Systems BV*. In practice, *Inter IKEA Systems* already possessed these rights, since this company has been collecting franchise fees from *IKEA* stores throughout the world for years.

This sale of the *IKEA* rights to itself cost no less than nine thousand million Euros. Since the *Inter IKEA* did not have that much money, the parent company lent it 5.4 thousand million. Today, the company is worth much more than before the deal – and its debts to its parent company allow the Dutch subsidiary to send many millions of Euros in interest tax-free to Liechtenstein.

Translated from German by Harald Langen and Timothy Slater, Coorditrad